

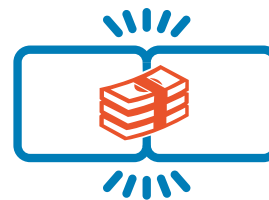
Relevance and Results of Concessional Finance

Asian Development Fund XI and 12

REALITY CHECK



Established in 1974 as a source of low-interest loans for ADB's poorest member countries, ADF has contributed significantly to poverty reduction in the Asia and Pacific region.



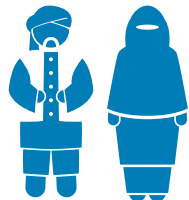
ADF was converted to a concessional loan and grant facility in 2005, and then to a grant-only facility in January 2017 after the transfer of ADF's concessional loan portfolio to ADB's ordinary capital resources balance sheet.



\$21
BILLION
(2013–2018)

The merger of ADF's concessional loan portfolio with ADB's ordinary capital resources balance sheet has tripled ADB's capital. ADB's concessional assistance amounted to nearly \$21 billion over 2013–2018, of which \$5.8 billion was provided as grants.

ADF grant recipients are among the world's poorest and most vulnerable with exceptional development challenges.



The largest of these is Afghanistan while the rest are mainly small Pacific islands.



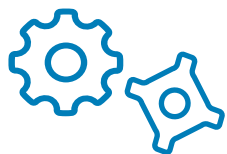
The region faces the risk of having poverty gains reversed in the medium term due to new development challenges, such as rapidly accelerating climate crisis, growing inequality, and conflict and insecurity.



Without accelerated efforts to address the new challenges, the region is unlikely to achieve any of the 17 Sustainable Development Goals by 2030.

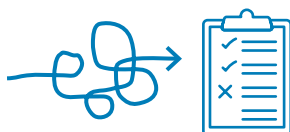
CHALLENGES

for concessional finance



Limited project implementation capacity

Since majority of the ADF grant recipient countries are small island developing states or in fragile and conflict affected situations their capacity to implement projects is much more constrained.



Complex performance-based allocation

Performance-based allocations are made using the total volume of available grants and concessional loans as the basis for making allocations, while in actuality funding sources for ADF grants and concessional ordinary capital resources lending are separate.



Fragmented set-asides

About one-third of the ADF grants is allocated through thematic set-asides, which is allocated for specific development priorities. They are fragmented across four different facilities — regional programs, disaster risk reduction, disaster response, and regional health security — and have different rules of access.



Narrow definition of crisis response

Disaster Response Facility is not available to all of the small disaster-prone Pacific island countries that are highly vulnerable to climate crisis. It can also not be used to respond to crises such as the Rohingya refugees or to respond to droughts.



Insufficient private sector development initiatives

Private sector development through nonsovereign operations is a key objective of ADB but few nonsovereign operations have been undertaken in ADF countries because of the high risk of doing so.



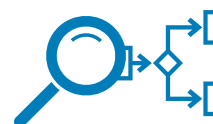
Inadequate attention to climate crisis

Sustainability challenges faced by small Island developing states as a result of climate crisis are not adequately addressed during ADF resource allocation.



Lack of institution-wide approach to conflict

ADB is not applying a comprehensive approach to conflict as a development problem in the region. Current approach does not recognize non-ADF countries with subnational conflicts as having fragile and conflict situations.



Inadequate monitoring and evaluation processes

ADB's current monitoring and evaluation processes may not be adequate for learning, accountability, and reporting purposes in the fragile and conflict affected situations and small island developing states, the main grant recipient countries.

RECOMMENDATIONS

for concessional finance



Continue to deliver concessional assistance to countries in need in the region to enhance their chances of achieving their targets under the Sustainable Development Goals.

Tailor ADB systems to match the needs of fragile and conflict-affected situations, and dedicate resources to support operations, knowledge, and systems.



Delink the allocation of grants from concessional ordinary capital resources lending to streamline the allocation process and reconsider the use of performance-based allocation in these processes.



Streamline grant set-asides by consolidating the regional health set-aside with a regional pool, and incentivizing the mainstreaming of disaster risk reduction, climate change adaptation and gender equality as part of good development practice.



Establish a crisis response window covering a wider definition of crisis response.

RECOMMENDATIONS

for concessional finance



Scale-up support for private sector development in countries eligible for concessional assistance and use a more coherent approach. Introduce a blended finance window to derisk nonsovereign operations in concessional assistance countries.



Increase ADB support and secure additional resources for adaptation to climate change in ADF countries, especially in small island developing states where adaptation costs are high due to limited economic alternatives.



Adopt targets for fragile and conflict situations and small island developing states which are differentiated from corporate targets that apply to ordinary capital resources operations, and enhance monitoring, evaluation, and reporting on results in these complex contexts.



Continue to provide a post-conflict special allocation for Afghanistan while further adapting implementation arrangements to meet the fragility and conflict situation of the country and monitoring fiduciary risks to enhance development impact.

Download the full report at bit.ly/2nidEUW



EVALUATION ILLUSTRATED is a handy, graphic reference designed to feed findings, results, and lessons from independent evaluations to broad range of clients. Readers are encouraged to refer to the main report for any discrepancies.

Follow us:

