

Legislative Council Panel on Financial Affairs**Asian Development Bank -
Hong Kong's Contribution
to the 9th Replenishment of the Asian Development Fund****Supplementary Information****Purpose**

This paper provides information on (a) the governance structure of the Asian Development Bank (ADB); and (b) the mechanism for monitoring and evaluating ADB's operations, in response to the letter dated 6 January 2009 from the Panel on Financial Affairs.

Governance Structure of ADB***Board of Governors***

2. The highest decision making tier at ADB is the Board of Governors. Each of its 67 members (**Annex 1**) nominates one Governor and an Alternate Governor to represent them at the Board. The Board meets formally once a year at the Annual Meeting, which is usually held in May¹. The Annual Meetings are statutory occasions for Governors to provide guidance on ADB administrative, financial, and operational directions.

3. The Agreement Establishing the Asian Development Bank (the Charter) vests all the powers of the institution in the Board. The Board delegates largely the day-to-day responsibilities to the 12-person Board of Directors except for those powers reserved for the Board of Governors in the Charter such as admission of new members, change of authorized capital stock, election of the Directors and the President, approval of the auditor's report, amendment of the Charter, etc.

4. Hong Kong is represented directly in the Board of Governors. The Financial Secretary (FS) is the Governor for Hong Kong, and the Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) is the Alternate Governor. FS (or CE/HKMA) exercises the voting power of Hong Kong directly.

¹ At each Annual Meeting, the Board shall elect one of the Governors to be Chairman and two other Governors be Vice-Chairman. They shall serve in their respective positions until the end of next Annual Meeting.

Board of Directors

5. The 12-person Board of Directors performs the duties full time at the ADB headquarters in Manila. Of the 12 members, eight shall be elected by the Governors representing regional members and four by the Governors representing non-regional members². The Board is responsible for overseeing and approving ADB's financial accounts, policy documents, and loans and technical assistance operations. Currently, there are five standing committees under the Board to facilitate its work, namely (a) Board Compliance Review (b) Development Effectiveness (c) Audit (d) Budget Review and (e) Ethics Committees³.

6. Each of the 12 Board members represents one constituency (**Annex 2**) and will appoint an alternate with full power to act when the member is not present. The term of office is two years and may be re-elected. The membership of the Board is determined largely on the basis of the size of shareholding of members in the ADB. Given its small shareholding and voting power in ADB⁴, Hong Kong shares the same constituency with 10 other members – Australia, Azerbaijan, Cambodia, Georgia, Kiribati, Federated States of Micronesia, Nauru, Palau, Solomon Islands and Tuvalu – and is indirectly represented in the Board by the Australian Director. The Australian Director acts on behalf of Hong Kong's interests in the Board and consults Hong Kong on matters affecting our interests.⁵

ADB management

7. The management team of the ADB is headed by the President, who conducts, under the Board of Directors' direction, the business of the ADB. He/She is responsible for the organisation, appointment, and dismissal of the officers and staff in accordance with regulations adopted by the Board of Directors. The President is also the Chairperson of the Board of Directors but is not vested with any voting power in the Board⁶. He/She is elected by the Board of Governors for a term of five years and can be re-elected.

8. Under the President, there are four Vice-Presidents and the Managing Director General, who supervise the work of ADB's operational, administrative,

² No two or more Directors/Alternates may be of the same nationality.

³ The membership of committee needs not be limited to Directors or their Alternates.

⁴ At end 2007, Hong Kong holds 0.73% of total voting power, and it ranks 17th among the 48 regional members and 25th among all members.

⁵ From time to time, Hong Kong seconded an officer to the Constituency Office to take up the position of the Director's Advisor. His/Her key role is to help safeguard Hong Kong's best interests at the ADB. Since 1977, a total of 6 civil servants have been seconded to the ADB including the current Senior Administrative Officer who was seconded in July 2008.

⁶ In the case of an equal division of votes, the Chairperson (i.e. the ADB President) is allowed to cast the deciding vote.

and knowledge departments.

Mechanism for Monitoring and Evaluating ADB's Operations

Overall effectiveness of the ADB

9. The ADB adopts a unified results framework to monitor the effectiveness in realizing its vision of an Asia-Pacific region free of poverty⁷. The framework assesses the ADB's overall performance at four levels (**Annex 3**)

- (a) **Level 1: Asia-Pacific outcomes** - To track development progress of the region through selected regional outcomes to which ADB contributes, e.g. level of poverty, GDP per capita, access to basic infrastructure;
- (b) **Level 2: Contribution to country outcomes through key outputs** - To assess contribution to operational priority areas including transport, energy, water, education and finance⁸;
- (c) **Level 3: Operational effectiveness** - To evaluate operational effectiveness in operations and portfolio performance, finance mobilization, strategic focus in operations, knowledge development and partnerships; and
- (d) **Level 4: Organizational effectiveness** - To monitor effectiveness in the use of human and budgetary resources, and business processes and practices.

10. The assessment result is reported through the "Development Effectiveness Review" published annually⁹. The review forms the basis for assessment of ADB's performance in implementing the long term strategy by management. It is also an important input into the three-year rolling work programme and budget framework, and the President's planning decisions for the subsequent year. Following management's consideration, the report will be submitted to the Board through the Development Effectiveness Committee for discussion and appropriate action.

⁷ The results framework was adopted under ADB's long-term strategic framework 2008-2020 and endorsed by the Board in September 2008.

⁸ The assessment at this level is supplemented by development effectiveness country briefs, which provide both qualitative and quantitative perspective on ADB's development role in a given country.

⁹ The first Development Effectiveness Review covering the year of 2007 was published in October 2008.

Overall effectiveness of ADF programme

11. The performance of the operations of Asian Development Fund (ADF) and their contribution to development outcomes is assessed through the same unified results framework for the ADB. Accordingly, the ADF results framework shares the common indicators with the ADB results framework. Assessment on the ADF programme will be reported annually to all members, along with the ADB-wide evaluation through the new Development Effectiveness Reviews covering the years of 2008 onwards.

12. Earlier reviews show that the ADF operations have become more successful over the decades since its start in 1973. They have generally helped achieve income growth and poverty reduction, improve education and health standards, and improve governance standards for better delivery of public services. Nonetheless, a few country assistance programme evaluations were sometimes less positive, involving problems such as inefficiencies and lack of sustainability. To address these issues, the management of ADB has adopted follow-up actions within specified time frames, such as enhancing the quality of project performance information and strengthening staff resources and skills. All donors including Hong Kong monitor these evaluations closely.

Individual ADF project

Pre-lending assessment

13. The ADB adopts a rules-based “Performance Based Allocation” (PBA) system to allocate ADF resources to eligible countries. The PBA is based on annual assessment of two aspects, namely country performance and needs. The country performance measures the extent to which the policy and institutional framework of borrowing member supports sustainable growth, poverty reduction, and the effective use of development assistance. It is divided into five parts, namely (a) policies and framework on economic management; (b) structural policies; (c) policies for social inclusion or equity; (d) public sector management and institutions; and (e) portfolio performance (**Annex 4**). The needs of members are measured by population size and per-capita Gross National Product.

14. In deriving the overall rating of the country performance assessment, a large weighting of 50% is assigned to governance as it is critical to the successful development outcomes and to the efficient and effective use of public resources. This can avoid poor governance and corruption that might deter investment, waste resources and distort their allocation.

Project completion evaluation

15. The principal evaluation framework of individual loan projects by the ADB is the “Project Performance Management System” (PPMS). The PPMS adopts a two-tier approach to evaluate the implementation performance and development effectiveness of each project. The first tier involves self-evaluation by the executing agency¹⁰ of the project, while the second tier is an independent evaluation by the Operations Evaluation Department (OED)¹¹ of the ADB.

16. Upon completion of each project, the executing agencies, together with the regional departments of the ADB, will jointly prepare a project completion report. This self-evaluation report provides a preliminary evaluation of the operation, achievements, outcomes and sustainability of benefits.

17. The project completion report will then be submitted to the OED for independent assessment. The OED evaluates the project based on several benchmarks, namely (a) performance of the borrower and implementing agency; (b) performance of the ADB; (c) relevance and effectiveness in achieving outcome; (d) efficiency in achieving outcome and outputs; (e) preliminary assessment of sustainability; and (f) impact of the project. Lastly, the OED will assign a rating for the overall performance of the project which forms part of the assessment under PBA policy. The OED will also state in the report key recommendations and lessons of the project.

18. The evaluation reports will then be reviewed and discussed by the Board of Directors. Upon clearance by the Board, these reports will be uploaded to the ADB website for public viewing.

19. In addition to evaluations at the point of completion, executing agencies are also required to provide regular progress reports to the ADB. Standard covenants are included in each loan agreement to ensure that the borrowers and executing agencies will keep transactions records, maintain accounts and provide ADB with regular updates on progress of the project.

20. In reviewing these programme evaluations, we note that in some cases the OED has identified implementation problems such as delays in loan signing and contracts awarding, as well as complaints on bureaucratic procedures that may affect the effectiveness of the loan projects. Donors would be informed

¹⁰ Executing agency is the party who is responsible for implementing or carrying out the proposed projects. In most cases, they are government agencies or public entities of the borrowing countries.

¹¹ The OED is an independent department reporting to the Board of Directors through the Development Effectiveness Committee (DEC). The DEC, a committee established under the Board of Directors, has a mandate to ensure that ADB's operations and activities are achieving their intended objectives, and resources are efficiently deployed. DEC has been instrumental in ensuring that important evaluation findings are brought to the attention of the Board of Directors.

of the follow-up actions taken by the management.

Donors' involvement in the evaluation processes

21. In every round of ADF replenishments, donors will meet to review the performance of the ADF and negotiate the details of the upcoming replenishment. In addition to the mid-term review meeting that usually takes place half-way through the replenishment cycle (e.g. the fourth quarter of 2010 for the 9th replenishment of the Asian Development Fund (ADF X)), donors have also agreed to meet annually on the sidelines of the ADB Annual Meeting to discuss the progress of ADF operations and review the effectiveness of the implementation of ADF.

22. In the case of ADF X, donors have met four times (during September 2007 to May 2008) to discuss topics such as effectiveness of ADF operations, operation priorities of ADF X, allocation of resources, the size of replenishment and the burden sharing principle. Hong Kong attended every round of the donors' meetings for ADF X and participated actively in the negotiation process. Hong Kong also attended the mid-term review meetings of previous replenishments to review and comment on the effectiveness of ADF programme.

23. As for the day-to-day monitoring of ADF operations, we are supported by the Australian Director who represents Hong Kong at the Board of Directors of the ADB. Through the Board Document System – a restricted database that opens only to ADB officials, Board members and registered users of member economies, Hong Kong can access all documents (including all ADF-related documents and policy proposals) that have been submitted to the Board of Directors for consideration. Hong Kong can relay its comments to the Board of Directors and the ADB management via the Australian Director.

Financial Services and the Treasury Bureau
Hong Kong Monetary Authority
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Annex 1

List of ADB members (Total: 67 members)

| Members | Year of Membership | Members | Year of Membership |
|---|--------------------|---|--------------------|
| Regional members (Total: 48 members) | | Singapore | 1966 |
| Afghanistan | 1966 | Solomon Islands | 1973 |
| Armenia | 2005 | Sri Lanka | 1966 |
| Australia | 1966 | Taipei, China | 1966 |
| Azerbaijan | 1999 | Tajikistan | 1998 |
| Bangladesh | 1973 | Thailand | 1966 |
| Bhutan | 1982 | Timor-Leste | 2002 |
| Brunei Darussalam | 2006 | Tonga | 1972 |
| Cambodia | 1966 | Turkmenistan | 2000 |
| China, People's Republic of | 1986 | Tuvalu | 1993 |
| Cook Islands | 1976 | Uzbekistan | 1995 |
| Fiji Islands | 1970 | Vanuatu | 1981 |
| Georgia | 2007 | Viet Nam | 1966 |
| Hong Kong, China | 1969 | | |
| India | 1966 | Non-Regional members (Total: 19 members) | |
| Indonesia | 1966 | Austria | 1966 |
| Japan | 1966 | Belgium | 1966 |
| Kazakhstan | 1994 | Canada | 1966 |
| Kiribati | 1974 | Denmark | 1966 |
| Korea, Republic of | 1966 | Finland | 1966 |
| Kyrgyz Republic | 1994 | France | 1970 |
| Lao PDR | 1966 | Germany | 1966 |
| Malaysia | 1966 | Ireland | 2006 |
| Maldives | 1978 | Italy | 1966 |
| Marshall Islands | 1990 | Luxembourg | 2003 |
| Micronesia, Federated States of | 1990 | The Netherlands | 1966 |
| Mongolia | 1991 | Norway | 1966 |
| Myanmar | 1973 | Portugal | 2002 |
| Nauru | 1991 | Spain | 1986 |
| Nepal | 1966 | Sweden | 1966 |
| New Zealand | 1966 | Switzerland | 1967 |
| Pakistan | 1966 | Turkey | 1991 |
| Palau | 2003 | United Kingdom | 1966 |
| Papua New Guinea | 1971 | United States | 1966 |
| Philippines | 1966 | | |
| Samoa | 1966 | | |

ADB Board of Directors

| Constituency | % of Subscribed Capital | Members Represented |
|----------------------|-------------------------|---|
| 1. Australia | 5.773% | Australia; Azerbaijan; Cambodia; Georgia; Hong Kong, China; Kiribati; Federated States of Micronesia; Nauru; Palau; Solomon Islands; Tuvalu |
| 2. Canada | 5.219% | Canada; Denmark; Finland; Ireland; The Netherlands; Norway; Sweden |
| 3. Germany | 4.316% | Austria; Germany; Luxembourg; Turkey; United Kingdom |
| 4. Indonesia | 5.434% | Cook Islands; Fiji Islands; Indonesia; Kyrgyz Republic; New Zealand; Samoa; Tonga |
| 5. Republic of Korea | 5.026% | Republic of Korea; Papua New Guinea; Sri Lanka; Taipei, China; Uzbekistan; Vanuatu; Viet Nam |
| 6. Philippines | 2.377% | Kazakhstan; Maldives; Marshall Islands; Mongolia; Pakistan; Philippines; Timor-Leste |
| 7. France | 2.322% | Belgium; France; Italy; Portugal; Spain; Switzerland |
| 8. Japan | 15.571% | Japan |
| 9. India | 6.317% | Afghanistan; Bangladesh; Bhutan; India; Lao People's Democratic Republic; Tajikistan; Turkmenistan |
| 10. United States | 15.571% | United States |
| 11. Malaysia | 2.717% | Brunei Darussalam; Malaysia; Myanmar; Nepal; Singapore; Thailand |
| 12. China | 6.429% | People's Republic of China |

Areas and Indicators monitored under the ADB Results Framework

| Level 1: Asia-Pacific Outcomes |
|--|
| <i>Poverty and Human Development Indicators</i> |
| <ul style="list-style-type: none"> Population living on less than \$1 a day Primary education completion rate Ratios of girls to boys in primary, secondary and tertiary education Women in nonagricultural wage employment Under-5 child mortality Women (aged 15 and above) living with HIV Urban and rural population with sustainable access to improved water source Urban and rural population with access to improved sanitation |
| <i>Other Outcome Indicators</i> |
| <ul style="list-style-type: none"> Gross domestic product per capita Regional cooperation and integration <ul style="list-style-type: none"> Intraregional trade in Asia-Pacific's total trade Access to basic infrastructure <ul style="list-style-type: none"> Access to telecommunications: fixed lines and mobile telephone subscribers Access of rural population to an all-season road Household electrification rate Governance <ul style="list-style-type: none"> Cost to start business Time to start business Governance and public sector management assessment Environment <ul style="list-style-type: none"> Carbon dioxide emissions |
| Level 2: Contribution to Country Outcomes: Key Outputs |
| <i>Indicators</i> |
| <ul style="list-style-type: none"> Transport <ul style="list-style-type: none"> Expressways built or upgraded National, provincial, district, and rural roads built or upgraded Railways constructed or/and upgraded Number of beneficiaries from road projects Energy <ul style="list-style-type: none"> Installed energy generation capacity Transmission lines installed or upgraded Distribution lines installed or upgraded New households connected to electricity Water <ul style="list-style-type: none"> Water supply pipes installed or upgraded/length of network New households connected to water supply Wastewater treated Households served with new sanitation connections |

Land irrigated or improved through drainage, floods, and irrigation works

Education

Classrooms built or upgraded

Teachers trained

Students benefiting from school improvement programs or receiving direct support through scholarships, feeding, or similar programs

Finance

Microfinance loan accounts opened

Small and medium-sized enterprise loan accounts opened

Level 3: Operational Effectiveness

Indicators

Operational quality and portfolio performance

Evaluation ratings of results-based country partnership strategy (CPS)

Average annual combined ratings of project performance evaluation reports and project completion reports

Quality-at-entry rating of CPS

Quality-at-entry rating of projects

Portfolio Performance Rating at implementation

Partnership survey results: perception of ADB effectiveness regarding reducing poverty

Finance mobilization

Overall disbursement ratio for public sector loans¹

Overall disbursement ratio for private sector loans and equity

Proportion of direct value-added cofinancing relative to ADB loans and grants approved annually

Strategic focus in operations

Proportion of lending to Strategy 2020 core operational areas²

Proportion of projects supporting private sector development

Proportion of projects supporting regional cooperation

Proportion of projects supporting environmental sustainability

Proportion of projects with gender mainstreaming

Knowledge development

Ratings of technical assistance completion reports

Annual Most Admired Knowledge Enterprises survey assessment rating

Partnerships

Proportion of public sector projects with Non-government organisation and/or Civil Society Organisation participation

New program-based approaches approved

Proportion of CPS and Country Portfolio Review missions conducted jointly with at least one other development partner

¹ Disbursement ratio is the total disbursement in a given year over the net loan amount available at the beginning of the year plus the loan amounts of newly approved loans which have become effective during the year, less cancellation made during the year.

² The five core operational areas set under the long term strategic framework (Strategy 2020) are infrastructure, environment, regional cooperation and integration, finance sector development and education.

Level 4: Organisational Effectiveness

Indicators

Use of human resources

- Budgeted professional staff and national officers in operations departments
- Budgeted professional staff and national officers in resident missions
- Representation of women professional staff in total
- Staff engagement survey results

Use of budgetary resources

- Internal administrative expenses per \$1 million of public and private sector project approval
- Internal administrative expenses per project approved
- Internal administrative expenses per \$1 million disbursement
- Internal administrative expenses per project under implementation

Business processes and practices

- Average time from loan approval to first disbursement in sovereign operations
- Average loan (sovereign operations) processing time
- Proportion of loans and grants administered by field offices

| Country Performance Criteria | |
|--|------------------|
| Items | Weighting |
| <i>A. Economic Management</i> | } |
| i. Macroeconomic Management | |
| ii. Fiscal Policy | |
| iii. Debt Policy | |
| <i>B. Structural Policies</i> | |
| iv. Trade | |
| v. Financial Sector | |
| vi. Business Environment | |
| 35% | |
| <i>C. Policies for Social Inclusion/Equity</i> | |
| vii. Building Human Resources | |
| viii. Social Protection and Labour | |
| ix. Equity of Public Resource Use | |
| x. Gender | |
| xi. Policies and Institutions for Environmental Sustainability | |
| <i>D. Public Sector Management and Institutions</i> | 50% |
| xii. Property Rights and Rules-based Governance | |
| xiii. Transparency, Accountability and Corruption in the Public Sector | |
| xiv. Quality of Public Administration | |
| xv. Quality of Budgetary and Financial Management | |
| xvi. Efficiency of Revenue Mobilisation | |
| <i>E. Portfolio Performance</i> | 15% |
| xvii. Portfolio Performance | |