

Management Response to IED's Corporate Evaluation on Navigating through the Polycrisis: Asian Development Fund 12 and 13 Support to Vulnerable Countries

On 6 October 2023, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

A. General Comments

1. Management welcomes the corporate evaluation of Asian Development Fund (ADF) 12 and 13 Support to Vulnerable Countries over 2017–2022 conducted by the Independent Evaluation Department (IED). The evaluation report provides timely feedback to ADB as we are commencing replenishment discussions for ADF 14. We appreciate that IED has been consultative during the evaluation and responsive to our earlier inputs.

2. Management concurs with the main findings and conclusions of the evaluation. We support the conclusion that ADF played a vital role in providing life-saving assistance and supporting the economic resilience of vulnerable countries, particularly those classified as fragile and conflict affected situations (FCAS) and small island developing states (SIDS), during a time of polycrisis. Going forward, a pressing need for ADF grants remains to aid in recovery efforts in many countries, particularly FCAS and SIDS.

3. Management considers that the recommendations are relevant for the ADF 14 replenishment preparation and discussions. It will be appropriate to submit the Management Action Record System (MARS) action plan after completion of ADF 14 replenishment in May 2024.

B. Management Response to the Recommendations

4. **Recommendation 1: Revisit the country allocation framework to strengthen performance incentives while recognizing the importance of stability and predictability of allocations.**

Management agrees. The allocation mechanism for the economic vulnerability premium (EVP) will be revisited as part of the ADF 14 replenishment discussions with donors. This will include a review of the vulnerability metric used in the allocation framework. Options to enhance performance incentives for developing member countries (DMCs) that are allocated with an EVP will be considered. Maintaining stability and predictability of allocations is essential to support long-term development priorities in FCAS-classified DMCs and SIDS. The detailed proposal for ADF 14 will be set out in the replenishment papers and discussed with donors.

5. **Recommendation 2: Increase the allocation of thematic resources toward key ADF priorities.**

Management agrees. Management will propose to increase the allocation of thematic resources towards key ADF priorities—including regional public goods, climate change adaptation and disaster risk reduction, and transformative gender initiatives—in ADF 14, and to enhance access to the thematic pool for countries with more limited capacity such as SIDS. It is intended that such an increase would not come at the expense of country allocations, particularly for FCAS-classified DMCs and SIDS. The detailed proposal for ADF 14 will be set out in the replenishment papers and discussed with donors.

6. Recommendation 3: Review the PBL ceiling for concessional finance in the context of the 2024 PBL review.

Management agrees. SPD will prepare a policy paper in 2024 on policy-based loan (PBL) ceilings to apply from 2025, to follow on from the policy paper on Strategic Management of Policy-Based Lending, 2022–2024. This policy paper will review and may recommend updates to ceilings for concessional assistance PBLs. In general, Management is of the opinion that a forward-looking approach is critical for programming policy-based support to DMCs. This is particularly important as ADB expects significant increase in demand for PBLs to address climate change issues, to support the nationally determined contributions of DMCs under the Paris Agreement.

7. Recommendation 4: Establish an ADF performance assessment framework to improve monitoring of results and capture the impacts of ADF operations.

Management agrees. Management is committed to enhancing the monitoring, evaluation, and reporting on results and impacts of ADF-financed operations. Enhancements, including a potential ADF performance assessment framework, will be considered in the context of the forthcoming Corporate Results Framework update and the reporting on concessional operations in the annual Development Effectiveness Review. Proposed enhancements for ADF 14 will be set out in the replenishment papers and discussed with donors.

8. Recommendation 5: Develop institutional guidance on ADB's crisis support for conflict-related emergencies.

Management agrees. Sustained external financial support is required in the context of protracted conflict-related emergencies to protect human capital and prior development gains while taking the opportunity to build economic resilience. The ADF 14 replenishment papers and discussions with donors will cover the principles and considerations for future assistance to the people of Afghanistan and Myanmar. Institutional guidance that may be developed on the engagement and operations of ADB in conflict-related emergencies must be aligned with the existing Revised Disaster and Emergency Assistance Policy, the FCAS and SIDS Approach, and sufficiently adaptable to enable ADB to respond to context-specific and highly-complex situations.