



## Policy Paper

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# Mainstreaming the Results-Based Lending for Programs

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Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
DLI	–	disbursement-linked indicator
DMC	–	developing member country
IED	–	Independent Evaluation Department
MDB	–	multilateral development bank
M&E	–	monitoring and evaluation
OCR	–	ordinary capital resources
PAP	–	program action plan
PforR	–	Program-for-Results
PSSA	–	program safeguard systems assessment
RBL	–	results-based lending
SAI	–	supreme audit institution
TA	–	technical assistance

## NOTE

In this report, “\$” refers to United States dollars.

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## EXECUTIVE SUMMARY

In 2013, the Asian Development Bank (ADB) approved the Piloting Results-Based Lending for Programs policy, which introduced the results-based lending (RBL) modality for a 6-year pilot period from 6 June 2013 to 5 June 2019. In May 2018, ADB extended the pilot period until 30 September 2019 or until the date the Board of Directors approves the Mainstreaming Results-Based Lending policy, whichever occurs earlier. ADB introduced RBL in the context of broader efforts by the international development community to promote the use of results-based financing as a means of enhancing development effectiveness by linking the disbursement of financing with the achievement of results. RBL aims to strengthen incentives and accountability for delivering and sustaining results, improve the efficiency and effectiveness of government-owned programs, promote institutional development, enhance development effectiveness, and support development coordination.

As of 30 June 2019, ADB had approved 19 RBLs in 11 developing member countries, with a total commitment of \$4.8 billion. ADB has taken a cautious approach to mitigate and manage risks during the pilot period. It did not include activities that are classified *category A* for environment under ADB's Safeguard Policy Statement (2009) or those that would require the procurement of high-value contracts. ADB also maintained the resource allocation for RBLs below the ceiling of 5% of the combined total of the ordinary capital resources and Asian Development Fund resource allocation during the first 3 years of the pilot period and below the ceiling of 10% during the last 3 years.

Two major reviews of RBL were conducted to review progress, identify challenges, draw lessons, and recommend measures to improve RBL. ADB Management conducted a midterm review in 2016, and the Independent Evaluation Department assessed the pilot experience in 2017. The reviews found encouraging results, with some recommendations to improve RBL design and implementation such as (i) strengthening the quality of due diligence; (ii) excluding activities that would be classified *category A* for involuntary resettlement; (iii) enhancing the independence of the verification process for disbursement-linked indicators; and (iv) investing further in client and staff capacity, including knowledge sharing and information exchange. Based on the Independent Evaluation Department recommendations, the lessons learned, and consultations with RBL program teams, ADB intensified efforts to strengthen quality assurance throughout the program cycle and updated the RBL staff guidance in December 2018. ADB also organized RBL capacity development activities for staff and developing member country clients, which included RBL modality training and participation in the World Bank Program-for-Results Academy.

Given the positive experience of the pilot period and the demand for RBL, ADB proposes that RBL be mainstreamed as a regular lending modality at the end of the pilot period. Insofar as the RBL pilot policy has demonstrated appropriate and effective guidance on RBL, ADB also proposes that the fundamental principles and provisions of the pilot policy be retained in the policy for mainstreaming RBL, with some modifications to mitigate and manage risks more effectively.

To mainstream RBL, ADB proposes the following changes to the pilot policy:

- (i) RBL will follow the procurement principles of the new ADB Procurement Policy (2017, as amended from time to time).
- (ii) Separate guidelines on fraud, corruption, and other prohibited activities in RBL reflect the detailed arrangements for applying ADB's Anticorruption Policy (1998,

as amended to date) and Integrity Principles and Guidelines (2015, as amended from time to time) in a manner suitable to the modality. ADB will update and incorporate the guidelines into internal guidance and implementation documentation for RBL programs.

- (iii) Regarding safeguards, ADB Safeguard Policy Statement will continue to apply to RBL. Specifically, RBL programs will be designed to achieve the policy objectives and adhere to the policy principles of the Safeguard Policy Statement. All activities are eligible under the RBL program unless they are assessed to be likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people. The identification of ineligible activities will be based on the overall RBL program. This will consider the type, location, scale, sensitivity, and magnitude of potential adverse impacts on the environment and affected people, while taking into consideration the broader programmatic risks of the RBL program. This process will involve classification of activities according to the Safeguard Policy Statement and relevant *Operations Manual* definitions, and additional analysis through the program safeguard systems assessment (PSSA). The PSSA process will be strengthened to include detailed consideration of broader programmatic, institutional, and contextual risks for the RBL program.
- (iv) ADB will monitor the share of RBL in the total ADB resource allocation. If it anticipates that the share of RBL will approach 10% of the combined total of the ordinary capital resources and Asian Development Fund resource allocation (on a 3-year rolling average), ADB Management will consult the Board of Directors on the best way to address the future demand for RBL to avoid any disruption of operations.

## I. INTRODUCTION

1. This paper proposes that the Asian Development Bank (ADB) mainstream results-based lending (RBL) as a regular ADB financing modality. RBL supports government-owned programs and links disbursements directly with the achievement of results under the RBL programs.<sup>1</sup> RBL seeks to enhance accountability and create incentives to deliver and sustain results, strengthen the efficiency and effectiveness of government-owned programs, promote institutional development, improve development effectiveness, and support development coordination.

## II. BACKGROUND

2. ADB introduced RBL when the international development community was expanding the use of results-based financing to enhance development effectiveness. A key feature of results-based financing is that it directly links disbursements with the achievement of results, rather than with evidence of expenditures for inputs. Since the late 1990s, multilateral development banks (MDBs) and bilateral development agencies have increased their use of results-based financing through mechanisms such as cash on delivery aid, conditional cash transfers, output-based aid, and performance-based contracts.

3. In 2011, ADB's Board of Directors approved a primary education project in Bangladesh that used a sector-wide approach and ADB financing was linked to clearly defined indicators and relied on the government's treasury system for financial management.<sup>2</sup> In 2012, the World Bank introduced the Program-for-Results (PforR) financing instrument. In 2013, ADB approved the Piloting Results-Based Lending for Programs, a policy that introduced the RBL modality during a 6-year pilot period from June 2013 to June 2019.<sup>3</sup> The Inter-American Development Bank approved a similar instrument in 2016, and the African Development Bank approved its results-based financing policy in 2017.

4. As required by the RBL pilot policy, two reviews were conducted: one by ADB Management in 2016,<sup>4</sup> and the other by the Independent Evaluation Department (IED) in November 2017.<sup>5</sup> ADB issued staff guidance for the RBL pilot policy in November 2013 and updated it in December 2018 to incorporate the recommendations of the midterm review and the IED evaluation, feedback from consultations with ADB program teams and specialists, and lessons learned during the pilot period.<sup>6</sup>

5. To mitigate risks, the RBL pilot policy set a resource allocation ceiling for RBL for the first 3 years of the pilot period, June 2013–June 2016, to 5% of the combined total of the ordinary capital resources (OCR) and Asian Development Fund (ADF) resource allocation. In April 2018, the Board approved an increase in the ceiling to 10% of the combined total of the OCR and ADF resource allocation for the last 3 years of the pilot (June 2016–June 2019).<sup>7</sup>

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<sup>1</sup> The part of a government-owned program that is supported by RBL is referred to as the "RBL program."

<sup>2</sup> ADB. 2011. *Report and Recommendations of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Third Primary Education Development Project*. Manila.

<sup>3</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila.

<sup>4</sup> ADB. 2016. *Midterm Review of Results-Based Lending for Programs*. Manila.

<sup>5</sup> IED. 2017. *Corporate Evaluation: Results-Based Lending at the Asian Development Bank—An Early Assessment*. Manila: ADB.

<sup>6</sup> ADB. 2018. *Staff Guidance for Piloting Results-Based Lending for Programs*. Manila (internal).

<sup>7</sup> ADB. 2018. *Piloting Results-Based Lending for Programs: Proposed Increase in Resource Allocation Ceiling*. Manila.

6. In May 2019, the Board approved the extension of the RBL pilot period until 30 September 2019 or until the date the Board approves the Mainstreaming Results-Based Lending policy, whichever occurs earlier.<sup>8</sup> ADB proposes to mainstream the RBL modality because of strong demand and the positive experience of the pilot period.

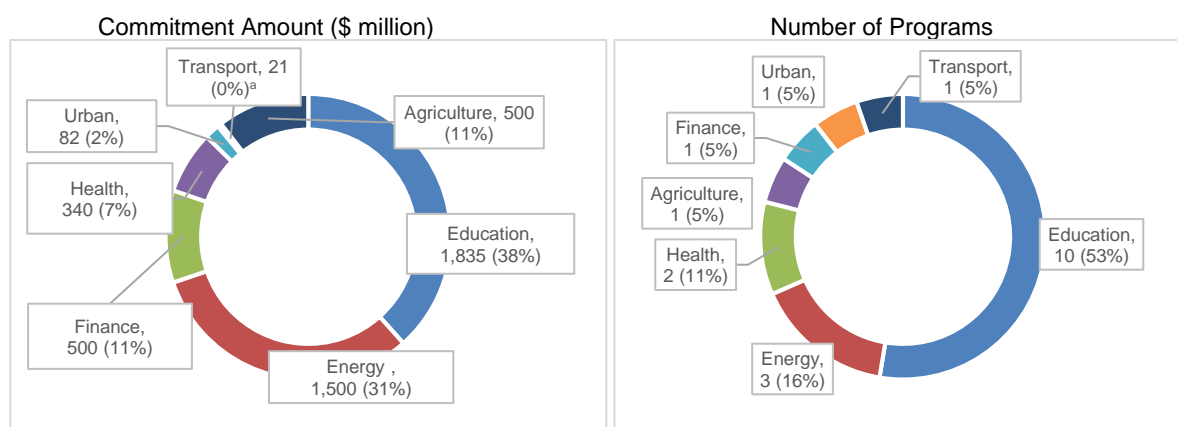
### III. RESULTS-BASED LENDING PILOT EXPERIENCE

#### A. Results-Based Lending Portfolio

7. The RBL portfolio is growing. From the beginning of the RBL pilot period in June 2013 until 30 June 2019, ADB had approved 19 RBLs in 11 developing member countries (DMCs), with a total commitment of \$4.8 billion.<sup>9</sup> During the first 3 years of implementation, nine RBLs in seven countries were approved, with a total commitment of \$1.8 billion. The pace of RBL approvals accelerated in the second 3-year pilot period. As of 30 June 2019, ADB had approved nine RBLs and additional financing for one RBL, with a total commitment of \$3.0 billion.<sup>10</sup> During June 2013–June 2019, the 19 approved RBLs mobilized \$3.1 billion of cofinancing. Appendix 1 lists the approved RBLs, and Appendix 2 provides a brief description of each program. As of 30 June 2019, one RBL closed and 17 RBLs were active; of these, two are expected to close before the end of 2019 (footnote 10).

8. The RBL portfolio has diversified and is supporting a broad range of sectors (figure 1). Education is the predominant sector in terms of the number of programs (10 RBLs, representing 53% of the total approvals) and the value of the commitment (\$1.8 billion, representing 38% of total commitments). The energy sector follows with three programs (16%) at \$1.5 billion (31%).

**Figure 1: Sector Distribution of Results-Based Lending**  
(6 June 2013–30 June 2019)



Agriculture = Agriculture, Natural Resources, and Rural Development; Urban = Water and Other Urban Infrastructure and Services

<sup>a</sup> Percentage share for transport sector is 0.4%.

Source: Asian Development Bank.

<sup>8</sup> ADB. 2019. *Proposed Extension of Pilot Period for Results-Based Lending for Programs*. Manila.

<sup>9</sup> The number of approved programs includes additional financing for the Skills Sector Enhancement Program in Sri Lanka. The Secondary Education Support Program in the Philippines was approved in May 2019 (\$300 million) and not yet committed as of 30 June 2019.

<sup>10</sup> The loan for the Skills Sector Enhancement Program in Sri Lanka closed in July 2018, but additional financing for this RBL program is ongoing.



9. All five regional departments have processed and implemented at least one RBL (table 1). The average ADB financing per RBL in terms of commitment amount was \$239 million, with the largest one in the energy sector in Indonesia in the amount of \$600 million.

**Table 1: Results-Based Lending Commitments by Regional Department**

Regional Department	Programs		Commitment Amount	
	No.	Share (%)	\$ million	Share (%)
South Asia	7	36.8	1,417.0	29.7
Southeast Asia	5	26.3	1,975.0	41.3
Central and West Asia	3	15.8	914.5	19.1
East Asia	3	15.8	450.0	9.4
Pacific	1	5.3	21.1	0.4
<b>Total</b>	<b>19</b>	<b>100.0</b>	<b>4,776.5</b>	<b>100.0</b>

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank.

10. Overall, the implementation of the RBL pilot period has been *satisfactory* based on portfolio performance ratings. As of 30 June 2019, of the 17 active RBLs, 14 were rated *on track*, two were rated *potential problem*, and one was rated *actual problem*.<sup>11</sup> According to consultations and feedback from program teams, RBL has effectively helped DMCs strengthen their institutions and achieve development objectives. The program teams reported encountering some challenges with the design of results indicators and institutional capacity, which they were able to overcome. The IED evaluation notes that disbursements during the pilot period largely followed the achievement of institutional and output targets defined by the disbursement-linked indicators (DLIs). It also points out that RBL for new sectors and new clients were more susceptible to design challenges, which may have been because of implementing agencies' unfamiliarity with ADB guidelines and processes. ADB is drawing lessons from the encouraging results and the implementation challenges, as discussed in paras. 11–19.

## B. Evaluation Results and Recommendations

11. In its midterm review of the RBL pilot policy, ADB Management examined the initial demand for RBL, identified challenges faced by ADB and DMCs, drew lessons learned during implementation, and recommended measures to strengthen the RBL modality. IED assessed the RBL implementation experience to identify issues, distill initial lessons, and provide ADB's Board and Management with recommendations to improve operations and enhance RBL's potential to add value to DMCs and ADB.

12. **Midterm review.** The midterm review found that early experience was positive, the RBL pilot policy requirements were followed, and implementation was *on track*. The review noted that under RBL, the nature of engagement focused more on technical discussions and policy dialogue rather than on procurement and contract management. RBL helped strengthen country ownership and public accountability by placing the responsibility for achieving results on government institutions rather than on program-specific management units. It supported the retention of experience and skills within DMC governments by relying on existing government-owned

<sup>11</sup> The *potential problem* rating can be attributed to issues such as delays in recruitment of consultant and unrealized disbursement targets. This obliges management and staff to promptly implement corrective measures to put implementation on track. The *actual problem* rating can be attributed to failure of the executing agency to achieve the expected targets in 2018. Related issues, however, were already addressed following the delegation of the RBL program to the concerned resident mission in February 2019. As a result of which, targets are expected to be achieved by the fourth quarter of 2019.

programs and personnel. RBL provided a platform for encouraging aggregation and coordination of development financing by aligning resources behind government-owned programs.

13. The midterm review noted that challenges encountered in early RBL implementation stemmed from the newness of the approach and the lack of operational examples to follow. To address these challenges and strengthen the pilot modality, the review suggested refining the design and implementation of RBL programs. It recommended using institutional strengthening DLIs more to capitalize on the potential of RBL to improve the capacity of borrower institutions.

14. The midterm review encouraged ADB to further strengthen coordination with development partners, particularly in sharing common results areas, assessment documents, results framework, and DLIs. The review noted that information sharing; documentation and exchange of good practices; and guidance and training programs for ADB staff, members of the Board, and government clients need to be intensified. It also recommended reviewing the procurement contract threshold for RBL. Given the strong DMC demand and limited headroom for new RBL commitments, it recommended the possibility of raising the ceiling of resource allocation for RBL.

15. **Independent Evaluation Department evaluation.** IED found that RBL was successfully rolled out during the pilot period, and DMC stakeholders and ADB's development partners considered RBL to be an appropriate vehicle to support various sector programs of the government. The design of the RBL modality was sound and demonstrated good potential for adding value for DMC clients and promoting effective development partnerships. The evaluation emphasized that RBL was likely to work best when there was extensive ADB engagement in the sector and relevant government agency, and there were strong systems in place for monitoring and evaluation (M&E), safeguards, and fiduciary controls. Most RBL programs were assessed to be *well designed* and *on track*.

16. The IED evaluation identified areas where RBL could be improved. First, IED recommended strengthening the quality of due diligence on fraud and corruption-related issues, risk assessments, and the design and monitoring of program action plans (PAPs). IED highlighted the need to update the RBL staff guidance in these areas (footnote 6).

17. Second, the RBL pilot policy excludes activities classified as category A for environment under ADB's Safeguard Policy Statement (2009).<sup>12</sup> In addition, IED recommended excluding activities classified as *category A* for involuntary resettlement from RBL programs under the pilot policy.<sup>13</sup> IED also stated the scale of safeguard impact should be documented in the report and recommendation of the President for RBL programs with legacy, ongoing, or current safeguard issues.

18. Third, IED emphasized the need to invest in developing DMC client M&E capacity and to strengthen the DLI verification process. It stressed that the M&E assessment should systematically identify the M&E gaps, skills, and resource requirements; and an RBL program should allocate sufficient resources to ensure that the DLIs, results frameworks, PAPs, and other

<sup>12</sup> The Safeguard Policy Statement specifies categories A, B, C and FI for environment categorization, but not for involuntary resettlement and indigenous peoples. Procedural requirements for categorization for involuntary resettlement and indigenous peoples are specified in the Operations Manual (OM F1/OP). OM F1/OP procedures do not cover RBL. However, the RBL staff guidance includes a classification system analogous to that in OM F1.

<sup>13</sup> Management disagreed with this recommendation. Some members of the Board's Development Effectiveness Committee expressed support for IED's recommendation, while others sympathized with the Management's view. ADB. 2017. Chair's Summary of the Development Effectiveness Committee. 4 December 2017. <https://www.adb.org/sites/default/files/institutional-document/396851/dec-chair-summary-4-dec-2017.pdf>

risk-mitigating measures are monitored effectively with adequate provisions for supervision costs. IED also noted verification of DLIs should be conducted by independent verification agents or by independent organizations different from the executing or implementing agencies and that verification by the same consultants recruited to build client capacity should be avoided because of potential conflicts of interest.

19. Finally, IED recommended investing further in staff and client capacity development, including knowledge sharing and information exchange, particularly in the following areas: (i) determining the appropriate context for using RBL, (ii) assessing program soundness, (iii) selecting DLIs, (iv) developing design and monitoring frameworks, (v) formulating results frameworks, (vi) assessing M&E, (vii) verifying DLIs, (viii) designing and monitoring PAPs, and (ix) undertaking program fiduciary assessment.

### **C. Actions Undertaken to Address Key Findings and Recommendations**

20. **Revising the results-based lending staff guidance.** ADB updated the RBL staff guidance to reflect the recommendations in the midterm review and the IED evaluation (footnote 6). Key updates include (i) highlighting the need to review actual practice, beyond laws and regulations, in the conduct of fiduciary risk assessment and clarifying the requirements in the staff instruction on integrity due diligence assessment when the executing or implementing agency is not a government ministry or agency; (ii) placing greater emphasis on the design and selectivity of priority actions for inclusion in the PAPs, including strengthening the monitoring of PAPs during program implementation; (iii) guiding the program team to strengthen the M&E assessment; and (iv) providing additional guidance and clarification about the RBL program boundary definition, DLI setting, and independent verification system.<sup>14</sup>

21. **Refraining from including category A activities for involuntary resettlement.** ADB refrained from including these activities in the RBL programs during the pilot period. This has been specified in the updated RBL staff guidance. The issues of how best to manage risks associated with involuntary resettlement in RBL programs after mainstreaming and how to achieve consistency with the approaches of other MDBs are discussed in paras. 29–36.

22. **Strengthening quality assurance.** ADB continued its efforts to enhance the quality assurance mechanisms for RBL programs. Quality assurance mechanisms included interdepartmental and peer reviews of RBL program documents as well as technical advice and support to RBL program teams from relevant departments across ADB during the processing and implementation phases. Learning from increased experience in RBL programs has helped expand ADB's knowledge base to provide focused support to RBL program teams.

23. **Enhancing staff and client capacity.** Targeted outreach and training programs are complementing the updated RBL staff guidance. In 2017, ADB introduced training programs and learning sessions to enhance staff skills in determining the most appropriate modality, designing an effective operation, and ensuring successful implementation. These activities, which incorporate taking stock of lessons learned and emphasize interaction with experienced mission leaders, reached more than 130 participants from the beginning of 2018 to mid-2019. For lending modalities training, participants are required to complete e-learning modules prior to classroom sessions to optimize learning outcomes.

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<sup>14</sup> The staff guidance will remain effective until an *Operations Manual* section and staff instruction for RBL are issued after approval of the RBL mainstreaming policy.

24. ADB is expanding training programs and knowledge sharing opportunities targeted at regional department staff and DMC government counterparts, who have been or will be involved in RBL programs. In collaboration with regional departments, ADB is strengthening training programs and learning sessions to cover topics such as (i) selecting the appropriate lending modality to achieve desired development outcomes; (ii) defining RBL program boundaries; (iii) conducting technical and system assessments; (iv) designing and monitoring PAPs; and (v) setting, verifying, and modifying DLIs. The design of training and learning activities will be continuously improved and delivered using a combination of pedagogical approaches.

#### IV. UPDATES AND CHANGES IN THE RESULTS-BASED LENDING POLICY

25. Feedback from ADB staff and results of the reviews of RBL implementation indicate that the RBL pilot policy provided appropriate guidance in the design and implementation of RBL programs. Therefore, the fundamental principles and provisions of the pilot policy can be retained in the policy for mainstreaming RBL. Three areas require modification and enhancement to ensure that risks are mitigated and managed effectively and DMC client needs are adequately met.

- (i) **Procurement policy and integrity guidance.** ADB introduced the Procurement Policy (2017, as amended from time to time) and updated the Integrity Principles and Guidelines (2015, as amended from time to time). These changes became effective after the approval of the RBL pilot policy in 2013. ADB needs to reflect the new procurement policy and integrity guidance in the mainstreamed RBL modality.
- (ii) **Safeguard and procurement exclusions.** The RBL pilot policy included specific activity exclusions covering high-value contracts and activities that would be classified *category A* for environment under ADB's Safeguard Policy Statement (2009). Since April 2018, at the time of the RBL ceiling increase, ADB has also refrained from including activities that would be classified *category A* for involuntary resettlement in RBL programs. ADB needs to review safeguard and procurement impacts to better manage risks associated with RBL programs.
- (iii) **Resource allocation ceiling.** Resources allocated to RBL are currently limited to 10% of total OCR and ADF resource allocation. ADB needs to revisit the resource allocation ceiling for RBL because of the strong demand for RBL among DMCs.

26. To address these areas, ADB proposes some adjustments (paras. 27–37). The proposed changes also reflect the differentiated and country-focused approach that ADB has adopted under Strategy 2030.<sup>15</sup> This approach recognizes that the differing capacity levels and risk environments in ADB's diverse DMCs require ADB to adopt a more customized and flexible approach in the design and delivery of its lending operations.

27. **Dealing with fraud and corruption cases.** Separate guidelines on fraud, corruption, and other prohibited activities in RBL reflect the detailed arrangements for applying ADB's Anticorruption Policy (1998, as amended to date), and Integrity Principles and Guidelines (2015, as amended from time to time) in a manner suitable to the modality. ADB will update and incorporate these guidelines into internal guidance and program implementation documentation for RBL programs.

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<sup>15</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

28. **Managing procurement risks.** Under the RBL pilot policy, procurement risks are mitigated by restricting the value of contracts financed under RBL programs based on monetary thresholds. The thresholds for contracts as well as the conditions for their inclusion will be provided in the *Operations Manual* section that ADB will develop after the approval of the policy for mainstreaming RBL. Contracts exceeding the thresholds (high-value contracts) may, on an exceptional basis, be eligible for RBL financing if they are deemed to be important to the program outcomes. Decisions on whether to include high-value contracts will consider the procurement environment, the type and complexity of the procurement undertaken, the competitiveness of the market, and the level of fiduciary risk. In other cases, high-value contracts may be financed outside the RBL program, through an ADB-financed project loan, or financed directly by the government.

29. **Managing environmental and social risks.** The RBL pilot policy states that the implementation of RBL programs will follow the same policy objectives and principles in the Safeguard Policy Statement, but not its policy delivery processes and operational procedures. This enables ADB to include RBL programs under the framework provided by the Safeguard Policy Statement objectives and principles along with ADB's other lending modalities, while still developing the processes and procedures most appropriate for the unique features of RBL and its associated risks.

30. For RBL programs, the main issue for safeguards is ensuring that there are adequate RBL program systems and capacity to manage relevant environmental and social risks.<sup>16</sup> To assess this, the RBL policy requires a program safeguard systems assessment (PSSA) that looks at the RBL program system, as well as the capacity of the executing agency to implement the system, to ensure that the Safeguard Policy Statement objectives and principles can be met. This assessment is the basis for identifying measures to improve the safeguard systems and to build capacity in the RBL program, if needed. Where gaps are large, then the approach to managing risks would be not to support certain activities in the RBL program or reconsider whether RBL is the appropriate financing modality.

31. As a further measure, the RBL pilot policy excludes activities that would be classified as *category A* for environment under ADB's Safeguard Policy Statement (2009) from an RBL program. Like the ineligibility of high-value contracts, the ineligibility of these activities enables ADB to rely on RBL program systems because it only includes activities with lower potential environmental impacts.

32. As part of its proposal to raise the ceiling for RBL, Management proposed to refrain from including activities that would be classified as *category A* for involuntary resettlement under the RBL staff guidance from the RBL program during the remaining implementation period of the pilot phase (footnote 7). However, the Board expressed diverse views on this proposal during its discussion in April 2018 on the proposed RBL ceiling increase. The Board asked Management to review appropriate approaches to manage environmental and social risks in RBLs, considering the practices of other MDBs, before submitting the policy for mainstreaming RBL to the Board.<sup>17</sup>

33. Following the Board's request, ADB carried out a review of appropriate approaches and the practices of other MDBs. The review highlighted that other MDBs have integrated safeguard classification systems that consider impacts on the environment and affected people. No other

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<sup>16</sup> RBL program systems refer to relevant systems, rules, and procedures used for RBL program implementation.

<sup>17</sup> ADB. 2018. *Chair's Summary of Meeting of the Board of Directors: Piloting Results-Based Lending for Programs: Proposed Increased in Resource Allocation Ceiling*. 13 April.

MDB has a separate safeguard classification for involuntary resettlement and indigenous peoples. Other MDBs exclude activities with potential for significant adverse impacts and risks on the environment and affected people through their RBL-type lending instruments. None of the MDBs use numerical thresholds to exclude activities from RBL programs.

34. For the mainstreaming of RBL, the Safeguard Policy Statement objectives and principles will continue to apply in full. All activities are eligible under the RBL program unless they are assessed to be likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people.<sup>18</sup>

35. The identification of ineligible activities will be based on the RBL program. It will involve looking into factors like type, location, scale, sensitivity, and magnitude of potential adverse impacts on the environment and affected people. It will also consider the broader programmatic risks of the RBL program. The process will involve classifying activities in accordance with the Safeguard Policy Statement and relevant *Operations Manual* definitions and additional analysis through the PSSA. The PSSA process will be strengthened to include more detailed consideration of broader programmatic, institutional, and contextual risks for the RBL program.

36. The report and recommendation of the President will document the findings of the safeguard due diligence process and the way in which RBL eligibility criteria have been met. Information on safeguard classifications, potential environmental and social impacts, programmatic, institutional and contextual risks and other relevant factors such as legacy issues will be included. The documentation will also provide substantiation that the RBL program systems can manage safeguard risks. The proposal is consistent with approaches used by other MDBs, particularly the World Bank's approach for its PforR lending. Appendix 3 provides a detailed discussion on the classification of involuntary resettlement safeguards and eligibility in RBL.

37. **Resource allocation share of results-based lending.** The ceiling on RBL was originally introduced to manage the risks involved in implementing a new financing modality. Since ADB has gained substantial RBL experience, the need to impose a hard ceiling is not as strong as during the RBL pilot phase. Nevertheless, ADB recognizes the value of monitoring the change in the nature and size of the RBL portfolio during the initial stage of RBL mainstreaming while knowledge of RBL, and ADB staff and DMC capacity to design and implement RBL programs are being further enhanced. Based on these considerations, ADB proposes to continue monitoring the share of RBL in total OCR and ADF resource allocation. When the share of RBL approaches 10% (on a 3-year rolling average), Management will consult the Board on the best way to address the future demand for RBL to avoid any disruption in operations.

38. Except for the proposed adjustments discussed in paras. 25–37, the proposed policy to mainstream RBL as a regular ADB financing modality essentially retains the intent, scope, and principles of the RBL pilot policy (footnote 3), as presented in the following section.

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<sup>18</sup> In addition, ADB will not finance activities on the ADB Prohibited Investment Activities List (ADB. 2009. *Safeguard Policy Statement*. Manila (Appendix 5)).

## V. RESULTS-BASED LENDING POLICY

### A. Purpose and Key Features

39. RBL seeks to enhance development effectiveness, strengthen accountability and incentives for delivering and sustaining results, improve the effectiveness and efficiency of government-owned programs, promote institutional development, and support development coordination when more than one development agency is involved in a government-owned program.

40. RBL has the following key features:

- (i) **Supports government-owned programs.** RBL may support the whole, part, or a time slice of a government-owned program, which could be (a) ongoing or new, (b) national or subnational, or (c) multisector, sector, or subsector in scope. RBL finances the RBL program's expenditure framework.
- (ii) **Links disbursements to achieved results.** Disbursements are based on the achievement of RBL program results as measured by DLIs. Disbursements are not attributable to inputs, individual transactions, or whether expenditures have been incurred.
- (iii) **Focuses on institutional development.** RBL supports institutional development to bring about the needed organizational reforms and behavioral changes to enhance accountability and incentives for results. RBL seeks to enhance RBL program systems, including M&E, fiduciary, and safeguards.
- (iv) **Manages risks appropriately.** RBL program systems provide assurances that ADB financing is used appropriately and that RBL program risks are sufficiently addressed. ADB conducts rigorous assessments of the RBL program systems and provides capacity development and implementation support, as required.
- (v) **Fosters partnerships.** When more than one development agency is involved in a government-owned program, RBL can serve as a useful vehicle to support development partnerships, possibly by sharing a common results framework, using common systems, and financing a common expenditure framework.

### B. Preparing Results-Based Lending

#### 1. Suitability and Identification

41. RBL can support a new or existing government-owned program. The following are considered in identifying and designing an RBL program:

- (i) **Consistency with strategic priorities.** The appropriateness of an RBL program should be determined in the context of the DMC's development strategies and priorities, ADB's corporate strategy and country partnership strategy, and ADB's overall assessment of the RBL program.
- (ii) **Scope of the program.** An RBL program should have a defined scope, expected results, an expenditure framework, a financing plan, and accompanying institutions and systems.
- (iii) **Development challenges.** RBL should be the appropriate tool to address the development challenges faced by the DMC.
- (iv) **Strong government interest and ownership.** DMC government commitment to delivering results and improving RBL program systems is vital to the success of an RBL program. This commitment can be articulated through a government's strategy in the relevant areas, resource allocation, or willingness to strengthen

capacity and improve the RBL program systems by engaging in dialogue with development partners.

- (v) **Knowledge and learning opportunities.** ADB's prior knowledge of the development constraints and opportunities in the areas where it aims to provide support will be useful in selecting RBL programs. However, the learning opportunities afforded to ADB and the DMC by engagement through RBL, possibly in coordination with other development partners, will also be valuable.
- (vi) **Institutional capacity.** RBL program institutions and systems, through capacity development, institutional strengthening, and implementation support, should provide assurance that an RBL program can be efficiently and effectively implemented, results can be achieved, fiduciary risks can be addressed, and environmental and social impacts can be managed.
- (vii) **Eligibility.** ADB's Safeguard Policy Statement will apply to RBL. All activities are eligible under RBL programs unless they are assessed to be likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people (footnote 18). RBL programs will normally exclude activities that involve the procurement of works, goods, and services under contracts whose estimated value exceeds specified monetary amounts (para. 69).

## 2. General Approaches and Considerations

42. ADB will carry out the following assessments during the preparation of an RBL program:
- (i) **Program soundness assessment** to evaluate the RBL program's relevance, justification, adequacy, and appropriateness of its implementation arrangements.
  - (ii) **Expenditure and financing assessment** to evaluate the efficiency, effectiveness, adequacy, and sustainability of the RBL program's expenditure framework and financing.
  - (iii) **Results and links with disbursements assessment** to evaluate the appropriateness of the results framework of the RBL program, the selection of the DLIs, the design of the DLI verification protocol, and the disbursement arrangements.
  - (iv) **Institutional and system assessment** to evaluate the M&E systems, the fiduciary systems, the environmental and social safeguard systems, and other relevant and appropriate institutional and system aspects.

43. The assessments for RBL program soundness, expenditure and financing, and results and links with disbursements will help to determine the degree to which the RBL program is likely to achieve its development results. The institutional and system assessment include evaluation of fiduciary systems to determine the degree to which the RBL program systems could provide assurance that RBL program funds would be used for their intended purposes. The institutional and system assessment also include evaluation of environmental and social safeguard systems to determine the degree to which the RBL program could manage and mitigate the environmental and social impacts.

44. The assessments will identify the weaknesses and strengths of the RBL program, inform the risk-mitigating measures, and identify the capacity development needs. To reduce duplication and improve efficiency, ADB may draw on or use existing assessments, documentation, analyses, and work produced by ADB, development partners, government agencies, and other relevant sources. ADB will work with the DMC (and coordinate with development partners, as appropriate) to undertake or deepen these assessments. ADB will assist the DMC in strengthening the RBL program systems, as needed.



45. The design and implementation of an RBL program are guided by the following considerations:

- (i) **Results and systems.** ADB financing in an RBL program will not be linked to specific transactions and expenditures. To help DMCs carry out the RBL program effectively and efficiently, a system-based and results-focused approach will be used instead of a transaction-based approach.
- (ii) **Principle-based approach.** Commonly accepted good practice principles will guide the assessments of RBL program systems as well as any improvements.
- (iii) **Assessment scope.** The assessments will cover the RBL program because ADB financing may be used for any eligible activity.
- (iv) **Appropriate targets.** Results should be relevant for delivering benefits to program beneficiaries. RBL will set targets that bring positive, incremental, and sustainable changes that aim to bring material and clear improvements in the medium to long run.

### 3. Conducting the Assessments

#### a. Program Soundness

46. **Relevance and justification.** ADB will determine whether a government-owned program is strategically relevant and its outcomes are important. ADB will also assess the justification for the intended public interventions. If public intervention is warranted, ADB will also explore the role of the private sector and civil society in helping achieve the RBL program results, including through public–private partnerships.

47. **Adequacy.** ADB will assess the effectiveness, efficiency and economy, and sustainability aspects of the RBL program. Effectiveness is measured by how well it will achieve the intended results. To achieve efficiency and economy, ADB will assess whether the RBL program uses resources optimally. Sustainability means that the RBL program’s results are neither short-lived nor easily reversible. The RBL program’s sustainability will be reviewed to determine whether it can be sustained in the medium-term to achieve its outcomes.<sup>19</sup>

48. **Implementation arrangements.** ADB will assess the roles, incentives, resources, and capacities of the agencies responsible for RBL program implementation, as well as the relations between the agencies.<sup>20</sup> ADB will work with the DMC (and other development partners, as appropriate) to strengthen RBL program implementation arrangements as needed. The credible verification of results is especially important. ADB will also assess the commitment of the government to the RBL program in delivering results and improving systems.

#### b. Expenditures and Financing

49. **Expenditure framework.** The expenditure framework will help ensure that the priorities and costs of an RBL program are realistic.<sup>21</sup> ADB will assess the effectiveness, efficiency and economy, and adequacy of the RBL program’s expenditure framework as follows:

- (i) **Effectiveness.** This requires that public expenditures address the right problems with the right instruments and achieve the RBL program’s development objectives.

<sup>19</sup> This will include assessing the financial sustainability of the RBL program.

<sup>20</sup> ADB may assess a sample of agencies, selected agencies, key agencies, or representative agencies by gathering firsthand information or using existing information and analyses, as appropriate.

<sup>21</sup> The expenditure framework is sometimes supported by a medium-term expenditure framework. The RBL program’s expenditure framework may be part of a sector expenditure framework.

In assessing whether the expenditure framework is likely to achieve the RBL program results, ADB will try to identify any mismatches between expenditures and the problems they intend to address.

- (ii) **Efficiency and economy.** This requires the optimal use of limited public finance. ADB will assess whether the expenditures covered by the RBL program are allocated efficiently and whether certain aspects would be best shouldered by the private sector or public–private partnerships.
- (iii) **Adequacy.** This requires that expenditures are sufficient for the RBL program results. ADB will assess whether the allocation for the RBL program and its components reflects the resources required to generate the expected results.

50. **Financing plan.** ADB will assess the adequacy and sustainability of the financing plan for the RBL program. It will examine whether the financing plan is sufficient for the RBL program expenditure framework and whether the results can be achieved within the RBL program’s resource envelope. ADB will assess whether financing is predictable and sustainable.

51. ADB financing will constitute a part of the RBL program financing plan. The amount of ADB financing will be determined on a case-by-case basis based on the RBL program’s financing needs, ADB’s lending in the country, the soundness of the RBL program, and the priorities of the DMC and ADB. ADB financing will be pooled with the DMC’s resources and financing from other sources.

### c. Results and Links with Disbursements

52. **Results.** A clear definition of the results and strong emphasis on achieving them by linking results with disbursements are defining features of RBL. ADB will assess the existence and quality of the RBL program’s results framework, seeking to ensure that the indicators are concrete, measurable, transparent, achievable, and time bound. ADB will assess the suitability of the results indicators in the results framework. The indicators will depend on the nature of an RBL program and may include development outcomes or supporting indicators such as outputs, institutional development, and financing indicators. ADB will analyze the results chains to establish the causal links between intermediate and final results (the RBL program outcomes). If the results framework is not in place or well defined, ADB will work with the DMC to develop or refine it.

53. The achievement of desired outcomes is the main measure of success of an RBL program. The desired outcomes will drive the overall nature, scope, and design of the RBL program. Outputs are important because they are the means of achieving outcomes.

54. **Disbursement-linked indicators.** DLIs are the basis for disbursing ADB financing. They will generally be a subset of results indicators carved out from the RBL program’s results framework. DLIs include outcomes, outputs, institutional indicators, and financing indicators. They may also be actions or process results that are essential for strengthening RBL program performance, such as actions to improve fiduciary risk management, social and environmental systems, and M&E. DLIs should be sufficiently ambitious, consistent with the RBL program’s implementation capacity, and deliver RBL program results.

55. The disbursement amount linked with different DLIs will depend on the purposes of individual DLIs. It may be simpler to use an equal amount for each DLI, but using different amounts can accentuate the relative importance of key indicators. Disbursements can be deferred or occur ahead of the planned schedule, depending on the achievement of the DLIs.

56. **Verifying results.** ADB's disbursement of funds is conditioned upon verification that the DLIs have been achieved. The DMC and ADB will agree on the verification protocols, which will define how each DLI will be measured, how the verification will be done, and who will be responsible for verifying the achievements. The verification protocols will depend on the nature of the DLI, country circumstances, and RBL program context; and should provide assurance that disbursements will be made based on credible results. ADB needs to be satisfied with the competence, capacity, and credibility of the verifying agent to provide verification. This typically requires independent agents. The verification of DLIs may be carried out by government agencies, private entities, or third-party entities such as nongovernment organizations or civil society representatives, as appropriate. ADB may conduct spot checks of the robustness of the verification mechanism, including using external independent agencies.

57. **Partial disbursement.** RBL will allow partial disbursements if DLIs are partially met. The manner in which partial disbursements will be carried out will be specific to an RBL program; for example, disbursement could occur after (i) a certain number of DLIs have been met, (ii) a set of particularly important DLIs have been met, or (iii) a certain percentage has been met.

58. **Advance financing.** To support the achievement of DLIs, ADB may provide advance financing. The amount of the advances will be recovered from subsequent disbursements based on the DLIs achieved. Additional advances can be made once an earlier advance has been recovered or partially recovered, but the outstanding advance should not exceed 25% of ADB financing. The RBL program documents should justify and explain the use of advance financing.

59. **Financing prior results.** Certain DLIs may need to be achieved before an RBL program is approved. The necessity for advance achievements would be assessed during processing, and the total amount for financing should not exceed 20% of ADB financing. Such financing will be limited to results achieved within a period of 12 months before the signing of the financing agreement for the RBL program. ADB will finance and disburse based on the DLIs that were achieved before the effectiveness of the operation. The RBL program documents should justify and explain the use of financing prior results.

60. **Ceilings.** The combined outstanding balance of advance financing and the amount for financing prior results should not exceed 30% of total ADB financing, and the advance financing or financing for prior results should not exceed their respective ceilings, which are defined in paras. 58–59.

61. **Disbursement arrangement.** Proceeds from RBL will be disbursed to the account of the DMC or of the appropriate entity. Except for advance financing, disbursement will be made following the achievement and verification of the agreed DLIs. Disbursements will not depend on evidence of expenditures or transactions. The disbursement schedule and amounts will be defined and agreed upon during the preparation of the RBL program. For results achieved close to the RBL program's completion date, verification of the results and the disbursement can be done up to 6 months after the completion of the RBL program.<sup>22</sup> All DLIs should be achieved on or before the RBL program's completion date.

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<sup>22</sup> The RBL program's completion date is the end date of the RBL program's implementation period within which all DLIs, program actions, and activities in the program action plan will be achieved.

#### d. Systems and Institutions

62. **Monitoring and evaluation system.** The RBL program's M&E system should enable transparent and reliable monitoring of RBL program performance and support the implementation of timely remedies when problems occur. The system generates reports on results achieved, including for the DLIs, and promotes learning and better decision making. The feedback loop between results and financing is internalized and institutionalized by linking results with disbursement. By using the RBL program's M&E system, RBL aims to strengthen the DMC's M&E system. Setting up an acceptable M&E system can be part of the DLIs.

63. The assessment of the M&E system will determine whether it can generate reliable, timely, and adequate information on results. It will assess (i) the institutional arrangements for M&E; (ii) M&E capacity, including staffing and other resources; (iii) M&E experience regarding ongoing government-owned programs; and (iv) capacity development needs. It will also examine M&E plans, availability and quality of data, capacity to generate adequate and reliable reports, and information sharing and disclosure arrangements for the RBL program. M&E systems may include multifaceted approaches such as information systems and beneficiary group feedback, as appropriate.

64. The M&E system assessment and required capacity development interventions will be designed to ensure that the status of DLIs will be disclosed in a timely manner and made accessible to beneficiaries and affected communities. ADB and the DMC will agree on the arrangements and measures to improve the M&E system. They should avoid relying on cumbersome process-oriented oversight mechanisms to assess performance. The M&E system will be strengthened throughout the RBL program cycle.

65. **Fiduciary systems.** The fiduciary systems assessment will examine the financial management, procurement, and anticorruption systems. It will determine fiduciary risks and measures to manage and mitigate them. The assessment will examine applicable rules and procedures, the capacity of relevant agencies, and the required improvements.

66. **Financial management.** Guided by commonly accepted good practice principles, the financial management system assessment will determine the degree to which it manages risks and provides an assurance that RBL program funds will be used appropriately.<sup>23</sup> The assessment will cover the following aspects:

- (i) **Internal controls.** This determines whether sufficient controls are in place to safeguard financing for the RBL program and give due consideration to economy and efficiency. This will identify weaknesses that may create opportunities for leaks, fraud, corruption, and other prohibited activities—referred to as “integrity violations” in ADB's Integrity Principles and Guidelines (2015, as amended from time to time)—and will identify areas for improvement to strengthen prevention and enforcement measures, as appropriate.
- (ii) **Funds flow.** This assesses funds flow arrangements to ensure adequate clarity, checks and balances, and economy and efficiency.
- (iii) **Accounting.** This assesses whether the RBL program will have adequate program accounts and records.

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<sup>23</sup> ADB. 2014. Financial Management, Cost Estimates, Financial Analysis, and Financial Performance Indicators. *Operations Manual*. OM G2/BP. Manila; ADB. 2005. *Financial Management and Analysis of Projects*. Manila; and ADB. 2010. Governance. *Operations Manual*. OM C4/BP. Manila.

- (iv) **Financial reporting.** This assesses the adequacy of the scope, form, content, and frequency of the RBL program's financial statements to ensure that they are acceptable. The financial statements should include a report on the aggregate funds received for the RBL program and the aggregate RBL program expenditure.<sup>24</sup>
- (v) **Audit.** This encompasses an independent audit of the RBL program's financial statements. ADB will require the independent auditor to have the capacity to provide audit reports and opinions of the quality required by ADB.

67. **Procurement.** The RBL implementation will rely on the RBL program systems, including for the procurement of goods, works, and services. The procurement system assessment will determine whether the procurement system provides sufficient assurances that the RBL proceeds will be used for the intended purpose, with due consideration to the procurement principles of economy, efficiency, fairness, transparency, quality, and value for money as stated in the ADB Procurement Policy (2017, as amended from time to time). Consistent with ADB's strategic procurement planning practice and methodology, the procurement system assessment will cover the critical stages of the procurement cycle and will include the following aspects: (i) arrangements for strategic planning and budgeting; (ii) procurement rules and procedures easily accessible to the public, including e-procurement; (iii) institutional capacity for procurement, market analysis, and contract management; (iv) complaint mechanisms; and (v) oversight and control systems.

68. The assessment will evaluate the procurement risks and the scope for managing such risks and making improvements. Where risks or weaknesses are identified, ADB and the DMC will agree upon the improvements required and identify mitigation measures, including institutional strengthening and capacity building activities to be carried out before, if deemed necessary, and during the RBL program implementation. The actions to be carried out should align the procurement system with the procurement principles of economy, efficiency, fairness, transparency, quality, and value for money as set out in the ADB Procurement Policy (2017, as amended from time to time).

69. RBL programs should not normally include activities that involve the procurement of works, goods, and services under high-value contracts. The thresholds for high-value contracts and the conditions for their inclusion will be determined in the *Operations Manual* section that will be developed after the approval of the policy for mainstreaming RBL.

70. **Anticorruption system.** Through its built-in mechanisms, RBL will provide additional opportunities for ADB to assist DMCs in addressing fraud and corruption. First, linking ADB financing to verifiable results will help ensure that funds are used appropriately and for their intended purposes. Second, confronting systemic weaknesses and fostering institutional development in financial management and procurement systems will help build robust and transparent public management systems, and reduce opportunities for corruption. Third, RBL will include specific guidelines to address corruption risks, which will be set out in internal guidance to be developed for RBL.

71. Under RBL, ADB will identify the risks of fraud and corruption at the RBL program level and assess how the program's fiduciary systems will address the risks. This system-based approach focuses on how the DMC manages all program resources, not only those provided by ADB. Additionally, the fiduciary systems assessment will incorporate the findings of the project

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<sup>24</sup> The RBL financial statements should be able to report on the aggregate funds received and aggregate expenditures made for the RBL program.

procurement-related reviews prepared by ADB's Office of Anticorruption and Integrity. Together, the findings will inform ADB and the DMC about the system improvements needed. ADB and the DMC will agree on measures to mitigate the risks of fraud and corruption. A reporting and complaint mechanism for allegations of fraud, corruption, and other prohibited activities will be developed and implemented. Where remedial actions are identified, ADB will provide the DMC with appropriate assistance to strengthen institutions and the enforcement environment, such as through implementation support and technical assistance (TA). Measures to deal with fraud and corruption cases are discussed in paras. 102–104.

72. **Safeguard systems.** ADB's Safeguard Policy Statement will apply to RBL. Specifically, RBL programs will be designed to achieve the policy objectives and adhere to the policy principles of the Safeguard Policy Statement.<sup>25</sup> The overarching objectives of ADB safeguards are to (i) avoid adverse impacts of projects on the environment and affected people, where possible; (ii) minimize, mitigate and/or compensate for adverse impacts on the environment and affected people when avoidance is not possible; and (iii) help borrowers or clients strengthen their safeguard systems and develop the capacity to manage environmental and social risks. The safeguard delivery process for RBL is discussed in paras. 73-81.

73. RBL program systems will be used to address social and environmental issues. The safeguard systems assessment will examine the RBL program's potential safeguard impacts and risks, and based on the Safeguard Policy Statement principles, ADB will conduct a PSSA of applicable and relevant laws, regulations, rules, and procedures for managing and mitigating the environmental and social impacts of the RBL program. The PSSA will determine whether the RBL program systems can manage and mitigate adverse environmental and social impacts of the RBL program or have areas that need to be improved.

74. The PSSA will determine whether the DMC has adequate implementation practice, capacity, and commitment to plan, implement, monitor, and report on the safeguard measures for the RBL program. The assessment will include an evaluation of the adequacy of the RBL program's safeguard systems in relation to the policy objectives and policy principles of the Safeguard Policy Statement, including its arrangements for (i) early screening and mitigation of environmental and social impacts, (ii) the vulnerability of affected people and the magnitude and nature of potential impacts, (iii) the adequacy of the program's safeguard systems; (iv) additional programmatic, institutional, and contextual risks that could affect the ability of the DMC to effectively implement the safeguards for the RBL program; (v) the requisite capacity and commitment of the DMC; (vi) information disclosure mechanisms and consultations with stakeholders; and (vii) grievance redress procedures.

75. The PSSA results will inform measures to ensure that the program system can manage and mitigate program risks and build capacity in the RBL program, if needed. The level of comprehensiveness, as well as the details of the assessments and measures, will be commensurate to the nature and scope of the RBL program. ADB and the DMC will agree upon measures to strengthen the RBL program safeguard systems and include these in an action plan. During implementation, the DMC will monitor and report on the safeguard aspects of the RBL program's performance. ADB will monitor the implementation of the RBL program and the agreed actions.

76. ADB will disclose the draft PSSA reports on the ADB website, including the identified weaknesses and proposed measures to improve the safeguard systems of the RBL program, and

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<sup>25</sup> Safeguard Policy Statement, pp. 16–18.

will conduct public consultation with RBL program stakeholders on the draft assessment. ADB will disclose the final assessment reports on the ADB website.

77. All activities are eligible under the RBL program unless they are assessed to be likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people (footnote 18).

78. This will consider the type, location, scale of activities, and the magnitude and nature of potential adverse impacts on the environment and affected people, while considering the broader programmatic risks of the RBL program. The process will involve (i) classification of activities in accordance with the Safeguard Policy Statement and relevant *Operations Manual* definitions, and (ii) additional due diligence and analysis through the PSSA.

79. To meet the conditions stated in para. 77, activities that would be classified *category A* for environment under the Safeguard Policy Statement would be ineligible for financing through the RBL modality.

80. For involuntary resettlement, the eligibility of activities would consider the number of people affected, along with the findings of the PSSA consistent with para. 74 with particular attention to (i) the vulnerability of the affected people and the magnitude and nature of potential impacts; (ii) the adequacy of the program's safeguard systems; (iii) additional programmatic, institutional, and contextual risks; and (iv) the requisite capacity and commitment of the DMC. For indigenous peoples, a similar approach will be followed, taking into account the magnitude and nature of potential impacts, the vulnerability of the affected indigenous peoples, and the findings of the PSSA in the following areas: (i) the adequacy of the program's safeguard systems; (ii) additional programmatic, institutional, and contextual risks; and (iii) the requisite capacity and commitment of the DMC.

81. The report and recommendation of the President will document the findings of the safeguard due diligence process. This will include documentation on safeguard classification; potential environmental and social impacts; programmatic, institutional and contextual risks; and other relevant factors such as legacy issues. The documentation will also provide substantiation that the RBL program systems can manage and mitigate safeguard risks.

82. **Other relevant systemic and institutional aspects.** The strength of an RBL program's systems and institutions hinges upon many organizational and individual factors. System and institutional development may entail changes in the organization, behaviors, and incentive structures. It may include regulatory issues for the sector, such as (i) barriers to entry, (ii) optimal division of responsibilities between the public and private sectors in financing and providing services, (iii) demand for and supply of services, (iv) organizational changes in public institutions for better delivery of results, (v) incentives of public and private sector agencies, and (vi) efficiency and accountability of service providers. The assessments of these systematic and institutional aspects will be driven by the need to deliver and sustain development results.

83. RBL will aim to generate institutional, organizational, and individual changes that can deliver and sustain results. ADB and the DMC will agree on the measures to bring about the needed positive institutional changes to be carried out as part of the program implementation.

### e. Integrated Risk Assessments and Mitigating Measures

84. The integrated risk assessments will identify the RBL program's strengths, weaknesses, and risks. ADB and the DMC will integrate the findings from these assessments to determine the overall soundness of the RBL program and its systems, the risks and mitigating measures, and the improvements required. The risks may be broadly classified into five interlinked categories:

- (i) **Development.** These risks can impede the achievement of the RBL program's results and development outcomes. They relate to the RBL program's rationale, design, government commitment, definition and selection of results and DLIs, results measurement and verification mechanisms, M&E, implementation capacity, and sustainability.
- (ii) **Expenditures and financing.** These risks are associated with the efficiency and effectiveness of the expenditure framework, and the adequacy and sustainability of the RBL program financing.
- (iii) **Fiduciary.** These risks pertain to RBL program finances not being used for the intended purposes. They relate to financial management, procurement, anticorruption, and overall integrity systems.<sup>26</sup>
- (iv) **Safeguards.** These risks are associated with the safeguard systems' ability to manage potential adverse environmental and social impacts of the RBL program.
- (v) **Operating environment.** These risks relate to such factors as the country's macroeconomic conditions, political factors, and fiscal conditions.

85. Risk assessment and mitigation will be a dynamic process that will be updated throughout program preparation and implementation. Where weaknesses are identified, ADB and the DMC will agree upon capacity development and risk mitigation measures. Sustained government commitment is essential to the implementation of these measures. ADB will monitor the implementation of these measures, in addition to the RBL program's own M&E.

86. If the assessments conclude that the RBL program systems have major material weaknesses that cannot be effectively addressed through the RBL program, ADB and the DMC may decide not to choose RBL. In such cases, ADB can still work with the DMC on institutional strengthening and/or use another lending modality.

### f. Program Action Plan and Capacity Development

87. The assessments will inform the appropriate scope, measures, and intensity for capacity development and implementation support. ADB and the DMC will agree on a Program Action Plan (PAP) to be carried out and monitored during implementation. As appropriate, actions may include those to improve the RBL program's design and implementation, strengthen the RBL program's systems and institutions, enhance the capacities of agencies, strengthen the RBL program's M&E system, and assess and mitigate risks. The PAP will be refined, improved, and updated during implementation, as needed.

88. Under RBL, results will be defined in RBL program outputs and outcomes as well as system improvements. The PAP design should be realistic and feasible, considering the best use of opportunities to improve institutions and results. Through RBL, ADB will aim to assist DMCs in achieving positive and sustainable changes.

<sup>26</sup> When the institutional arrangements for implementing the RBL program involve an executing or implementing agency that is not a government ministry or agency, then RBL program teams must ensure that requirements for integrity due diligence are complied with. In case of doubt over the scope and methodology to be adopted in such situations, the Office of Anticorruption and Integrity should be consulted. ADB. 2017. Business Processes for Sovereign Operations. *Staff Instructions*. Manila; and ADB. 2015. Integrity Due Diligence for Sovereign Operations and Cofinancing. *Staff Instructions*. Manila.



89. In addition to the overall program-level support through RBL, ADB may also support capacity development through dedicated TA activities. TA may be provided as an integral part of RBL, as separate products in the operation, through parallel efforts financed by development partners, or through other appropriate arrangements.

## C. Approving and Implementing Results-Based Lending Operations

### 1. Application and Approval

90. Since RBL supports government-owned programs, it will be applied to sovereign operations. As with other modalities, the country, sector, or type of programs that may use RBL will not be predetermined. Each RBL program will be reviewed on a case-by-case basis. RBL implementation may be carried out by different public and/or private entities.

91. Processing and approval of RBL will follow standard ADB procedures. Through the review and oversight mechanisms of these procedures, ADB will form an overall conclusion on whether to proceed with the RBL program and how best to do so.

### 2. Financing-Related Issues

92. ADB financing for RBL may come from various sources, including regular and concessional OCR, ADF, and/or cofinancing. Financing-related aspects are outlined in the following list:

- (i) **Cofinancing.** RBL provides a platform for coordinating external financing in a sector. RBL supports DMCs and development partners to mobilize cofinancing and joint financing of government-owned programs. If cofinancing materializes after ADB approves an RBL program, Management will approve such cofinancing and report it to the Board for information as part of the annual report on cofinancing.
- (ii) **Additional financing.** RBL programs are eligible for additional financing in accordance with ADB's additional financing policy and procedures.<sup>27</sup>
- (iii) **Technical assistance.** ADB may provide TA as part of the RBL or as separate products or operations.
- (iv) **Loan terms.** RBL financing terms will be the same as those for investment projects.

93. **Use of proceeds and procurement.** Proceeds from RBL will be used to finance program expenditures aimed at achieving results, improving institutions, and providing needed support for achieving development objectives. ADB financing under RBL is not linked to specific transactions but is an integral part of RBL program financing, which may include financing from the DMC's own resources and cofinanciers.

94. To satisfy the Agreement Establishing the Asian Development Bank (Charter), RBL programs will require the adoption and implementation of mechanisms and procedures relating to the mandated country procurement eligibility requirement.<sup>28</sup> Such mechanisms and procedures will provide sufficient assurance that the aggregate amount of ADB disbursement proceeds does not exceed the amount of the total RBL program expenditures on goods, works, and services

<sup>27</sup> ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila. For additional financing funded by cofinancing, refer to ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank*. Manila. The document gives the ADB President the authority to approve the administration of cofinancing for any operation.

<sup>28</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

from ADB member countries, including from the borrowing country. Conversely, the total program expenditures, excluding the procurement from nonmember countries, should be at least equal to, or exceed, the amount of ADB financing.

95. At the processing stage, as part of the procurement and financial management system assessments, ADB will take measures to ensure that those systems (i) will provide for competitive and transparent procurement with due consideration for economy and efficiency; and (ii) can adequately track and record awards to foreign bidders, particularly those from non-member countries. During implementation, ADB will require the DMC to reflect the aggregate procurement value from ADB's non-member countries. This data will need to confirm that the amount of total program expenditures on goods, works, and services from ADB member countries (including the borrowing country) is at least equal to, or exceeds, the amount of the ADB RBL disbursements during the relevant reporting period.<sup>29</sup> ADB will reserve the right to audit compliance with this requirement. ADB may, where necessary, also support the DMC in establishing an adequate procurement bidder-award recording and reporting system.

### **3. Implementation-Related Issues**

#### **a. Auditing and Reviews**

96. **Financial auditing.** ADB and the DMC will agree on the approach for financial auditing. The audits will be conducted by auditors with independence, experience, and capacity acceptable to ADB, and under terms of reference acceptable to ADB, taking into consideration the RBL program nature, country context, and risk assessment. The DMC will submit annual audited financial statements of the RBL program to ADB within the agreed time frame after the close of the DMC's financial year. In DMCs, statutory requirements may specify the use of the country's supreme audit institutions (SAIs) for a development program.<sup>30</sup> There may be cases in which the audit reports from the SAI cover multiple projects or programs and do not provide sufficient details for the RBL program, or are issued with significant delays. In such cases, during the processing of the program, ADB will discuss and agree with the DMC and the SAI on acceptable terms of reference to ensure that the audit of annual program financial statements is conducted in a timely and acceptable manner. If the SAI is unable to audit the RBL program, ADB and the DMC will agree on the arrangements for selecting another independent auditor for the RBL program.

97. **Other reviews or audits.** ADB and the DMC may agree on and arrange other reviews or audits, as needed. These may include reviews of the performance of environmental and social impacts management systems, procurement systems, grievance redress mechanisms, and/or complaint-handling mechanisms.

#### **b. Changes in Scope and Implementation Arrangements**

98. RBL programs may require changes in scope and/or implementation arrangements. These changes may be needed to improve an RBL program's performance, reflect changes in a DMC's priorities and needs, modify the DLIs, revise RBL financing arrangements, or respond to changed circumstances. Changes in scope and/or implementation arrangements will follow ADB's prevailing rules and procedures on changes in scope for projects.

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<sup>29</sup> This means that the total program expenditures, excluding procurement from non-member countries, are equal to or greater than the amount of ADB financing. In cases where cofinanciers also have procurement country eligibility requirements, the program expenditures should satisfy ADB's requirements as well as those of the cofinanciers.

<sup>30</sup> SAIs take different forms in different countries, reporting to the parliament, the supreme court, or an audit board.

### **c. Risk Monitoring and Addressing Performance Problems**

99. ADB and the DMC will monitor risks during the implementation of an RBL program, identify emerging issues, and adjust risk management measures, as needed. ADB and the DMC will notify each other if they become aware of performance problems. The DMC will be expected to take timely and appropriate actions to address such problems. ADB will support the DMC in addressing the problems.

100. Depending on the nature, scale, and frequency of performance problems—and the DMC's response to problems, ADB will adopt appropriate measures to address them. Reasonable assurances in using RBL program systems are premised on the recognition that even robust systems have varying quality of transactions. Thus, ADB's actions will distinguish between systematic issues and ad hoc variations, and between a DMC's actions and inaction in addressing performance problems. However, a DMC's failure to take corrective actions promptly to address systematic performance problems for reasons under the DMC's control may result in ADB applying corrective remedies agreed to in the legal agreement.

101. RBL will incorporate measures to ensure that all RBL program financing, including financing from ADB, is used appropriately and that fiduciary and safeguard risks are adequately addressed. ADB will undertake careful assessments of the fiduciary and safeguard systems, assist DMCs in preparing PAPs to address weaknesses, and support capacity development. More accountability for results, which is a built-in feature of RBL, will mitigate fiduciary and safeguard risks. Systematic M&E will (i) track the achievement of results and the performance of systems and (ii) allow lessons to be incorporated into the RBL program. Verification protocols that ensure credibility of DLIs achieved will help increase accountability and reduce risks. While improving DMC systems is difficult, it is the only sustainable way to address fiduciary and safeguard risks.

### **d. Dealing with Fraud and Corruption Cases**

102. ADB has a fiduciary responsibility to ensure that its loans and other forms of financing are used only for the purposes for which they were granted. If allegations of fraud, corruption, or other prohibited activities arise regarding an RBL program, ADB and the DMC will communicate these to each other in a timely manner and consult on appropriate actions by the DMC. The responsible investigation unit of the DMC will share its findings with ADB, including proposed corrective measures. ADB will retain the right to investigate allegations of fraud, corruption, or other prohibited activities in an RBL program and take additional remedial actions if it considers that further action is required.

103. Entities and individuals debarred or temporarily suspended by ADB are ineligible to participate in RBL programs throughout the duration of their debarment or temporary suspension. The DMC will be expected to ensure that entities and individuals debarred or temporarily suspended by ADB do not participate in RBL activities during their periods of debarment or suspension.

104. ADB's standard remedies under the loan regulations and loan agreements (e.g., suspension of loans, cancellation of loans, or acceleration of maturity for funds already provided) provide scope for ADB to respond when issues of fraud and corruption are not satisfactorily addressed.

### e. ADB's Key Corporate Functions

105. **Independent evaluation.** RBL programs will be subject to independent evaluation if deemed appropriate by IED.

106. **Accountability mechanism.** RBL programs will be subject to the Accountability Mechanism policy.<sup>31</sup>

107. **Consultation and transparency.** RBL programs will include stakeholder consultation on the indicative DLIs, draft fiduciary system assessments, and draft environmental and social systems assessment. Information disclosure on RBL will comply with ADB's Access to Information Policy. Disclosure requirements for RBL programs will be consistent with other operations.

## D. Responsibilities and Partnership

### 1. Roles and Responsibilities

108. The DMC will (i) be responsible for designing, implementing, and monitoring an RBL program; (ii) maintain the agreed implementation arrangements, including the M&E systems, fiduciary systems, and safeguard systems; and (iii) be expected to address individual and systemic problems in the RBL program in a timely and effective manner.

109. ADB will (i) assess the RBL program in coordination with the DMC; (ii) support the DMC in identifying and designing measures to improve the RBL program, its systems, and risk-mitigating measures; and (iii) support the DMC in implementing improvement measures, monitoring program performance and risks, and resolving emerging issues in collaboration with development partners as appropriate.

### 2. Development Partnership

110. RBL will support government ownership and leadership. The RBL program will be owned by the DMC and implemented by using and improving DMCs' RBL program systems. Capacity development will be geared toward improving the DMC's ability to deliver and sustain results. Through assessing, using, and improving DMCs' RBL program systems, RBL will support joint learning by DMCs and ADB.

111. When a government-owned program is supported by multiple development partners, RBL will foster development partnerships by sharing a common DMC-owned results framework, using common program systems, and financing a common expenditure framework among the DMC and development partners. Development partners can coordinate their assistance to the DMC to improve program design, conduct assessments, identify risks, mitigate risks, coordinate capacity development, and undertake joint learning. ADB will help the DMC carry out development coordination to (i) improve the efficiency of the RBL program design and implementation, and (ii) avoid duplication and fragmentation of development assistance.

### 3. Resource Allocation Share of Results-Based Lending in Total ADB Lending

112. ADB will monitor the share of RBL in the combined total of the OCR and ADF resource allocation. If the share of RBL commitments approaches 10% of the combined total of the OCR

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<sup>31</sup> ADB. 2012. *Review of the Accountability Mechanism Policy*. Manila.

and ADF resource allocation (on a 3-year rolling average), Management will consult the Board on how best to address the future demand for RBL to avoid any disruption in operations.

#### **4. Effective Date and Transitional Period**

113. This policy becomes effective immediately upon Board approval. The RBL pilot policy will continue to apply for RBL financing proposals for which the quality assurance meeting is completed on or before 31 December 2019.

#### **5. Review of Implementation Experience**

114. ADB will monitor the implementation of the policy for mainstreaming RBL. A stocktaking of the experiences of mainstreamed RBL will be undertaken in about 5 years after the date of approval of this policy. The findings will be reported to the Board and used to update the policy accordingly.

### **VI. TRAINING AND DISSEMINATION PLAN**

115. The implementation of the policy for mainstreaming RBL will require the development of a well-focused training program for staff that will be conducted on a regular and continuing basis. The training program will cover all aspects of the policy including (i) identifying a government program to support, (ii) conducting the required assessments, (iii) selecting and verifying DLIs, and (iv) supporting institutional development. In addition to staff training, comprehensive internal and external communications and outreach efforts will support the mainstreaming of the instrument. Learning modules and good practice notes on RBL will be updated and improved periodically to provide guidance to staff and DMC clients. Knowledge sharing among RBL program teams and DMC clients will be conducted regularly. Targeted support will be provided to RBL program teams throughout the RBL program cycle. These efforts are being supported through the One ADB approach, which involve different departments and offices, with ADB's Strategy, Policy, and Partnerships Department serving as the focal point for facilitating and coordinating RBL learning. TA resources have been mobilized to support capacity building efforts for DMC clients.

116. ADB will continue to learn from its own experiences and from the experiences of other development institutions such as the African Development Bank, Inter-American Development Bank, and the World Bank, which have similar modalities. In 2018, five ADB staff participated in the World Bank's PforR Academy programs. Given the similarity between PforR and RBL, ADB finds participation in the PforR Academy useful for ADB staff and will continue to collaborate with the World Bank to send ADB staff to future PforR Academy programs.

117. ADB will develop an *Operations Manual* and staff instruction for RBL to provide details of business processes involved in RBL processing and implementation support.

### **VII. RECOMMENDATION**

118. The President recommends that the Board approve the Mainstreaming the Results-Based Lending for Programs policy as described in paras. 39–114 of this paper.

**RESULTS-BASED LENDING PROGRAMS: APPROVAL, COMMITMENT, AND  
COFINANCING**  
(\$ million)

Results-Based Lending Program	Country	Sector	Approval Amount	Commitment Amount	Cofinancing
<b>A. First 3-Year Period (6 June 2013–5 June 2016)</b>					
1. Education Sector Development Program	Sri Lanka	Education	200	201	100
2. Skills Sector Enhancement Program	Sri Lanka	Education	100	100	128
3. Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education	India	Education	100	100	0
4. Senior High School Support Program	Philippines	Education	300	300	0
5. National Urban Health Mission	India	Health	300	300	0
6. School Strengthening and Renovation Program	Armenia	Water and Other Urban Infrastructure and Services (with education component)	89	89	0
7. Perusahaan Listrik Negara Electricity Grid Strengthening Program—Sumatra Program	Indonesia	Energy	575	575	525
8. Guizhou Vocational Educational Development Program	People's Republic of China	Education	150	150	0
9. Sustainable Transport Infrastructure Improvement Program	Solomon Islands	Transport	21	21 <sup>a</sup>	23
<b>Subtotal</b>			<b>1,835</b>	<b>1,815<sup>a</sup></b>	<b>776</b>
<b>B. Second 3-Year Period (6 June 2016–5 June 2019)</b>					
10. Supporting School Sector Development Program	Nepal	Education	120	116	316
11. Access to Clean Energy Investment Program	Pakistan	Energy	325	325	79
12. Public–Private Partnerships Demonstration Program to Transform Delivery of Elderly Care Services in Yichang, Hubei	People's Republic of China	Health	50	50	0
13. Integrated Participatory Development and Management of Irrigation Program	Indonesia	Agriculture, Natural Resources, and Rural Development	500	500	228
14. Affordable Rural Housing Program	Uzbekistan	Finance	500	500	300
15. Perusahaan Listrik Negara Sustainable Energy Access in Eastern Indonesia—Electricity Grid Development Program	Indonesia	Energy	600	600	310

<b>Results-Based Lending Program</b>	<b>Country</b>	<b>Sector</b>	<b>Approval Amount</b>	<b>Commitment Amount</b>	<b>Cofinancing</b>
16. Guangxi Modern Technical and Vocational Education and Training Development Program	People's Republic of China	Education	250	250	200
17. Supporting Fourth Primary Education Development Program	Bangladesh	Education	500	500	875
18. Skills Sector Enhancement Program—Additional Financing	Sri Lanka	Education	100	100	3
19. Secondary Education Support Program <sup>b</sup>	Philippines	Education	300	0	0
<b>Subtotal</b>			<b>3,245</b>	<b>2,962</b>	<b>2,311</b>
<b>Total</b>			<b>5,080</b>	<b>4,777</b>	<b>3,086</b>

Notes:

1. Numbers may not sum precisely because of rounding.
2. Approval and commitment amounts refer to Asian Development Bank financing.
3. As of 30 June 2019.

<sup>a</sup> The Sustainable Transport Infrastructure Improvement Program was approved on 27 May 2016 (within the first 3-year period) and committed on 1 July 2016 (within the second 3-year period). The subtotals for commitments reflect this.

<sup>b</sup> The Secondary Education Support Program in the Philippines was approved in May 2019 (\$300 million) and not yet committed as of 30 June 2019.

Source: Asian Development Bank.

### SUMMARY DESCRIPTION OF RESULTS-BASED LENDING PROGRAMS

Results-Based Lending Program	Country	Description
1 Education Sector Development Program	Sri Lanka	Aims to modernize Sri Lanka's secondary school system to enhance youth employment and meet the country's urgent need for a skilled workforce
2 Skills Sector Enhancement Program	Sri Lanka	Aims to reorient Sri Lanka's technical and vocational education and training (TVET) system to meet labor market demand
3 Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education	India	Aims to improve the communication, basic information technology, and other soft skills of higher secondary and undergraduate students in Kerala schools
4 Senior High School Support Program	Philippines	Supports the nationwide establishment and implementation of the government's senior high school program
5 National Urban Health Mission	India	Supports India's National Urban Health Mission by facilitating access to quality health services
6 School Strengthening and Renovation Program	Armenia	Supports the Government of Armenia in reviewing, updating, consolidating, and implementing its School Strengthening and Renovation Program
7 Perusahaan Listrik Negara Electricity Grid Strengthening Program—Sumatra Program	Indonesia	Supports Indonesia's state electricity corporation, Perusahaan Listrik Negara, to implement major power transmission and distribution system upgrades in Sumatra
8 Guizhou Vocational Educational Development Program	People's Republic of China	Supports the Guizhou provincial government to improve the quality of TVET in the province, and to make it more relevant to employers' needs
9 Sustainable Transport Infrastructure Improvement Program	Solomon Islands	Supports the Government of Solomon Islands in implementing its National Transport Plan
10 Supporting School Sector Development Program	Nepal	Aims to improve the equity, quality, efficiency, governance, and management of school education in Nepal
11 Access to Clean Energy Investment Program	Pakistan	Aims to contribute to Pakistan's goal of enhanced energy security by increasing access to sustainable and reliable electricity services for vulnerable communities in Khyber Pakhtunkhwa and Punjab provinces
12 Public-Private Partnerships Demonstration Program to Transform Delivery of Elderly Care Services in Yichang, Hubei	People's Republic of China	Aims to help Yichang City in Hubei province pilot delivery of integrated residential, community, and home-based elderly care services in partnership with the private sector
13 Integrated Participatory Development and Management of Irrigation Program	Indonesia	Helps Indonesia improve irrigation systems and management to strengthen the country's food security and reduce rural poverty
14 Affordable Rural Housing Program	Uzbekistan	Supports part of the Government of Uzbekistan's ongoing affordable rural housing program by constructing up to 29,000 affordable housing units in nine regions across the country



	<b>Results-Based Lending Program</b>	<b>Country</b>	<b>Description</b>
15	Perusahaan Listrik Negara Sustainable Energy Access in Eastern Indonesia—Electricity Grid Development Program	Indonesia	Forms part of a series of investment programs in Indonesia to enhance access to sustainable and modern energy services, with a focus on developing the eastern part of the country as a new growth hub
16	Guangxi Modern Technical and Vocational Education and Training Development Program	People's Republic of China	Helps establish a demand-driven TVET system in the Guangxi Zhuang Autonomous Region by enhancing its industry relevance, quality, and inclusiveness; and expanding the role of TVET in regional economic development
17	Supporting Fourth Primary Education Development Program	Bangladesh	Supports the Government of Bangladesh's primary education program, which aims to provide quality education to children from pre-primary to grade 5 through an efficient, inclusive, and equitable education system
18	Skills Sector Enhancement Program—Additional Financing	Sri Lanka	Supports the implementation of the Government of Sri Lanka's Skills Sector Development Program through 2020 and adds value by scaling up successful program interventions and accelerating the pace of reform initiatives
19	Secondary Education Support Program	Philippines	Support the Philippine government's efforts to improve access to high-quality secondary education that responds to labor market needs

Source: Asian Development Bank.

## **BACKGROUND NOTE: CLASSIFICATION OF INVOLUNTARY RESETTLEMENT SAFEGUARDS AND ELIGIBILITY IN RESULTS-BASED LENDING**

### **A. Introduction**

1. The implementation of programs supported by results-based lending<sup>1</sup> follows the same policy objectives and principles in the Safeguard Policy Statement (2009), but not its policy delivery process and operational procedures. The policy for piloting RBL does not include activities that would be classified as *category A* for environment under the Safeguard Policy Statement.<sup>2</sup>

2. In November 2017, ADB's Independent Evaluation Department (IED) issued Results-Based Lending at the Asian Development Bank: An Early Assessment.<sup>3</sup> The evaluation recommended that RBL programs do not include activities classified as *category A* for involuntary resettlement, and that the report and recommendation of the President should document the scale of the safeguard-related impacts of RBL programs with legacy, ongoing, or current safeguard issues. Subsequently, ADB's policy paper of 2018 on the proposed increase in resource allocation ceiling for RBL programs proposed to refrain from including activities classified as *category A* for involuntary resettlement during the remaining RBL pilot.<sup>4</sup> In addition, ADB made a commitment to revisit the issues of how best to classify risks associated with involuntary resettlement in RBL programs, and how to achieve consistency with the approaches of other multilateral development banks (MDBs), notably the World Bank.

3. This note addresses the issues of classification of involuntary resettlement in RBL programs and the exclusion of activities with significant adverse impacts.

### **B. Review of Other Multilateral Development Bank Approaches for Classification of Safeguard Impacts and Eligibility of Activities in Results-Based Lending**

4. ADB's Safeguard Policy Statement is an integrated policy with separate requirements for environment, involuntary resettlement, and indigenous peoples. The Safeguard Policy Statement requires projects to be classified in one of four categories (A, B, C, or FI for financial intermediation projects) determined by the most environmentally sensitive component. The Safeguard Policy Statement does not have a requirement to separately classify projects based on their impacts on involuntary resettlement and indigenous peoples. However, procedural requirements for classification for involuntary resettlement and indigenous peoples impacts are included in the ADB *Operations Manual* section on the Safeguard Policy Statement (OM F1).<sup>5</sup>

5. The Safeguard Policy Statement and OM F1 describe classification of projects but do not cover RBL. However, the current RBL staff guidance includes a classification system analogous to that in OM F1.<sup>6</sup>

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<sup>1</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila.

<sup>2</sup> A project is classified *category A* for environment if it is likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented. The Safeguard Policy Statement does not stipulate classification of involuntary resettlement and Indigenous Peoples impacts.

<sup>3</sup> IED. 2017. *Corporate Evaluation. Results-Based Lending at the Asian Development Bank—An Early Assessment*. Manila: ADB.

<sup>4</sup> ADB. 2018. *Piloting Results-Based Lending for Programs: Proposed Increase in Resource Allocation Ceiling*. Manila.

<sup>5</sup> ADB. 2013. Safeguard Policy Statement. *Operations Manual*. OM F1. Manila.

<sup>6</sup> ADB. 2018. *Staff Guidance for Piloting Results-Based Lending for Programs*. Manila (internal)

6. During the RBL pilot phase, activities classified as *category A* for environment were excluded from RBL financing (para. 1). In addition, ADB refrained from including activities classified as *category A* for involuntary resettlement (footnote 4). The current definition of *category A* for involuntary resettlement is based on a numerical threshold of 200 or more persons affected by involuntary resettlement (i.e., physically displaced or losing more than 10% of productive assets). Activities classified as *category A* for Indigenous Peoples were not excluded during the RBL pilot phase.

7. The Inter-American Development Bank's Environment and Safeguards Compliance Policy sets out three levels of safeguard classification (A, B, C) that integrate environmental and social safeguard impacts.<sup>7</sup> Operational policies<sup>8</sup> on involuntary resettlement and indigenous peoples do not have screening and categorization requirements, and no numerical thresholds for determining the significance of involuntary resettlement impacts. Programs that are *category A* under the Environment and Safeguards Compliance Policy are not eligible for financing under the loan based on results (RBL equivalent).<sup>9</sup>

8. African Development Bank's Policy on Integrated Safeguards System classifies projects into four safeguard categories (1, 2, 3, 4), which also integrate environment and social safeguard impacts. For involuntary resettlement issues, any project that involves 200 or more persons (as defined by the involuntary resettlement policy) or is likely to have adverse effects on vulnerable groups will require a full resettlement action plan (in contrast, ADB does not distinguish between full and short resettlement plans and requires a full resettlement plan wherever involuntary resettlement impacts occur). Any project requiring a full resettlement action plan is deemed to be *category 1*; however, the policy specifies this threshold should not be seen as a cast-in-stone criterion and recommends the use of professional judgment and complementary information when assessing the significance of involuntary resettlement impacts.<sup>10</sup> Results-based financing (RBL equivalent) do not support components of government programs that are classified *category 1*.<sup>11</sup>

9. The World Bank Environmental and Social Framework (2016), which applies to investment projects, introduces an integrated risk-based classification system. Under this system, the World Bank classifies projects including financial intermediation into four risk classifications: high, substantial, moderate, or low.<sup>12</sup> Prior to the Environmental and Social Framework, the World Bank had a safeguard classification system for investment projects (A, B, C, FI) that integrated environment and social impacts. Neither the current nor previous World Bank safeguard policies use a numerical threshold for classifying involuntary resettlement impacts. The World Bank's RBL equivalent, Program-for-Results (PforR), is governed by a stand-alone policy that has separate safeguard requirements defined specifically for PforR purposes that are distinct from the World Bank's safeguard policy requirements for investment projects. The PforR policy does not specify

<sup>7</sup> Inter-American Development Bank: Operational Policy on Environment and Safeguards Compliance (OP-703).

<sup>8</sup> Inter-American Development Bank: Operational Policy on Involuntary Resettlement (OP-710) and Operational Policy on Indigenous Peoples (OP-765)

<sup>9</sup> Inter-American Development Bank: Operational Policy on Environment and Safeguards Compliance (OP-703) page 8 section B3: Screening and Classification; As defined in the policy, "Any operation that is likely to cause significant negative environmental and associated social impacts, or have profound implications affecting natural resources, will be classified as category A."

<sup>10</sup> African Development Bank Group. 2013. *African Development Bank Group's Integrated Safeguards System*. Tunisia (pp. 34–35, Section: Resettlement Planning, footnote 16).

<sup>11</sup> *Category 1* projects are likely to induce significant and/or irreversible adverse environmental and/or social impacts, or to significantly affect environmental or social components that the African Development Bank or the borrowing country considers sensitive.

<sup>12</sup> World Bank. 2017. *The World Bank Environmental and Social Framework*. Washington, DC (p. 6, para. 20).

a classification system, nor does it apply a numerical threshold for exclusion. Instead, it states “activities that are judged to be likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people are not eligible for the Financing, and are excluded from the Program.”<sup>13</sup>

10. In summary, the World Bank and other MDBs use an integrated approach to classification. They do not have separate classifications for environmental, involuntary resettlement, and indigenous peoples impacts, either generally or specifically for RBL-type modalities. In addition, they do not apply a numerical threshold to classify the significance of resettlement impacts either for their investment projects generally or for their RBL-type modalities. Finally, no other MDB uses such a numerical threshold for the purposes of excluding activities or RBL-type programs. This is because involuntary resettlement risks have less to do with whether a numerical threshold has been exceeded and more to do with the context in which the resettlement occurs.<sup>14</sup> It neither captures the institutional complexities and risks in a specific program context nor takes into consideration the implementation capacity of the borrower and executing agencies. It does not assess legacy issues either, and whether they have been or can be adequately addressed. The exclusion of activities with significant adverse impacts on the environment and affected people that are sensitive, diverse, or unprecedented is the common approach in RBL-type policies at MDBs.

11. Given that such exclusions are a common feature in RBL-type programs, it is useful to elucidate what these key terms mean. Significant adverse impacts include impacts that are sensitive, diverse, or unprecedented. By way of illustration, “sensitive” generally means impacts that could have a major bearing on the environment and/or affected people and cause serious or irreversible damage, or for some reason that requires special attention. For environmental safeguards, this could include, for example, impacts to the functioning of a critical habitat for endangered species or additional air pollution in an airshed that is already degraded. For social safeguards, this could include, for example, vulnerable affected people losing or partially losing their way of life and livelihood, or physical displacement.

12. “Diverse” means impacts that are multidimensional in nature, leading to multiple types of impacts or impacts that may affect an area larger than the sites or facilities subject to physical works and might have cumulative and synergistic effects. For environmental safeguards, this could include, for example, activities such as impacts to upstream and downstream water resources that could lead to changes in the availability of water resources and impacts on fisheries and biodiversity. For social safeguards, this could include, for example, impacts that affect different types of affected people such as landless, non-titled, seasonal workers as one type and landowners as another, or impacts that involve different impact types, such as loss of land, physical displacement, economic displacement, crop losses, tree losses, other socioeconomic impacts and/or cultural impacts. A combination of environmental and social impacts could also contribute to the diversity of impacts.

13. “Unprecedented” means impacts of a type, nature, or scale that have not occurred before or occur very rarely, or where little is known or understood about the likelihood and nature of the

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<sup>13</sup> World Bank. 2017. *Bank Policy: Program-for-Results Financing*. Washington, DC (para. 10).

<sup>14</sup> In some cases, risk can be high even when only 100 people are affected, if the system is weak and the affected people come from vulnerable households. In other cases, risks can be low even if 250 people are affected, if the system is strong and the institutional capacity of the executing agency is robust. Because of the context-specific nature of involuntary resettlement risks, ADB’s Safeguard Policy Statement does not distinguish between the type of resettlement planning for *category A* and *category B*, both of which require a resettlement plan commensurate with the extent and degree of impacts.

impacts, such that mitigation measures are not readily available or have not been tested within the program context. For environmental safeguards, this could include, for example, activities such as a trans-basin water transfer or dealing with disposal of hazardous wastes or contaminated land in close proximity to affected people. For social safeguards, this could include, for example, large-scale physical displacement of indigenous peoples communities from customary land and sources of livelihood, or households that have been previously displaced by earlier development projects and may be displaced again by the program.