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Addressing Development Challenges in Emerging Asia: A Strategic Review of the AFD-ADB Partnership

Final Report, Period covered: 1997-2009

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Summary assessment

During the period 1997-2009, the Agence Française de Développement (AFD)-Asian Development Bank (ADB) partnership started on an *ad hoc* basis in the Greater Mekong Subregion (GMS) region and became fully institutionalized in terms of co-financing arrangements over the years. Since 1997, joint activities by ADB and AFD have resulted in 38 co-financed operations amounting to United States Dollars (USD) 2,668.91 million for ADB and USD 1,107.40 million for AFD. Vietnam is the country with the greatest number of co-financed projects, with 14 projects for a total of USD 494.36 million (public loans only). This sustained collaboration between AFD and ADB in Vietnam started in 1997, well before the signing of the AFD-ADB Memorandum of Understanding (MoU) in 2003. Over the years, the co-financed projects have been implemented in many countries, covering a wide range of sectors, including water and irrigation (32% of total AFD co-financing in Asia), energy and environment (23%) and financial sector (18%).

The mission confirmed that emerging needs in Asia called for stronger collaboration but also posed challenges to the definition and objectives of the AFD-ADB partnership. We contend that an upward trend in co-financing volumes could be sustained by the partners in Asia, with AFD's commitments in the region already at 25% of its worldwide commitments. As demand for financing increases, AFD and ADB will have greater incentive to engage in constructive co-financing operations.

However, the AFD-ADB partnership is hampered by the lack of conceptual clarity, since the partners have different interpretations of how it should be pursued. A range of opinions signalled the different intentions of the partnership's "founders", with AFD seeking to enter markets in Asia in which ADB had secured a first-entrant strategic position, and ADB seeking to complement its leading resource mobilization strategy in monetary terms. Due to the widely varying perceptions of the partnership, we concluded that it was important for the partners to align their strategies and objectives for the period 2010-2015.

The existing convergence of strategic mandates may be an opportunity to promote greater coherence in the future. We noted that AFD and ADB shared many strategic objectives that could facilitate co-financing between the partners for the period 2010-2015. In particular, synergies could be developed by both AFD and ADB in the climate change and energy sectors. With respect to the private sector and non-sovereign lending, both AFD and ADB have also expressed interest in strengthening the partnership, but the implementation of joint actions has been hampered by a few structural constraints. Several sectors appear to offer good opportunities to enhance the partnership, thus allowing ADB to attain its operational goals, *i.e.* scaling up private sector development to reach 50% of annual operations by 2020 and, in the medium term, developing an environmentally sustainable development agenda.

In recent years, AFD and ADB have shared competitive advantages, which benefited each other. These advantages ranged from organizational design (knowledge-based and GMS historically rooted projects) to complementarities of expertise located at both AFD and ADB. AFD's flexibility, experience in innovative implementation schemes, appetite for risk, and specific sectoral expertise can bring value to any form of partnership.

While ADB's wide coverage of Asia through a strong network of country offices was perceived by AFD as a key advantage of the partnership, some "barriers to entry" were mentioned concerning some countries or markets, with ADB benefiting from its unique historical position, size and scope, but also imposing on partners the application of its procedures and prerogatives. Not surprisingly, we noted that

ADB was very often the "initiator" or "conceptor" of the co-financing arrangements, thereby creating an important asymmetric impact within the partnership.

As a result of the above, expanding the AFD-ADB business model to new sectors and geographical zones will require a careful balancing of mandates and resources within the partnership. Although the partnership has been able to satisfy increasing expectations over the past years, it has not fully addressed the question of strategic sustainability in a systematic way. While many new areas of intervention for the partnership have been advanced, both AFD and ADB need to formulate clear guidelines on goals, roles, responsibilities and overall authority with respect to resource mobilization that enables a shift toward collaboration in new regions (*i.e.* Central and West Asia) and sectors (climate change, local government, non-sovereign lending, etc.). As such, in tandem with refocusing its co-financing operations, AFD and ADB must seek to promote greater coherence in their co-financing policies and strategies: first, by conducting a comprehensive inventory of all existing short- and medium-term opportunities, starting with a review of country strategies and business "pipelines". In our review, both partners argued that they had to maintain a good balance between co-financing and other forms of financing, thus raising the issue of the criteria to be applied in developing more sustained co-financing.

The mission concluded that the two organizations have made substantial efforts to strengthen the effectiveness of the partnership over the years. Overall coordination was said to be satisfactory but could be enhanced to ensure that joint missions and in-the-field actions be undertaken on a more organized basis. To a large extent, AFD staff secondees have contributed to the coherent approach institutionalized through the MoU, thus ensuring overall coordination. While each partner reaffirmed the importance of coordination, and while evidence of positive efforts could be found at headquarters, information-sharing could still be strengthened at the project or field level. For example, the identification, conception and implementation of co-financed projects require well-balanced organizational commitments to successfully pursue joint approaches, in particular for the assessment of needs and for the project feasibility and technical assistance missions.

Areas of enhanced performance were reviewed. Greater transparency in programming framed by a strategic vision, rather than the *ad hoc* project approach currently in vogue, would be beneficial. For example, improved planning and prioritization, effective policy and process integration, more competitive institutional positioning and systematic knowledge management through shared information from lessons learned could promote the effectiveness of the partnership. The mission concluded that there can be no alternative to a clearly articulated AFD-ADB strategic approach if sustainability is to be achieved.

Staff of both organizations have also expressed their interest in having co-financing procedures and project cycles better aligned. According to AFD and ADB staff at the project level, lack of synchronization or lengthy processes requiring substantial human and financial resources have significantly increased global transaction costs for all partners. Furthermore, the lack of mutual recognition of procedures was said to be a major obstacle, especially when ADB's procedures were often imposed on the partner, leading to a lack of involvement of AFD staff in many aspects of the project cycle. The new ADB policy entitled "Better and Faster Loan Delivery" may significantly reduce the business cycle (from an average of 24 months to less than 16 months) and therefore provide an opportunity to better align project cycles, improve process and cut transaction costs for all partners.

We noted that the partners have successfully implemented innovative financing modalities. For instance, the co-financed project in Pakistan (The Energy Efficiency Investment Program at a total cost of USD 60 million) has been financed through the ADB's Multitranche Financing Facility (MFF), a financing modality that supported the client's medium- to long-term investment program. According to AFD, the MFF opened the way to more structured co-financing by cutting transaction costs, providing critical mass, predictability and continuity to the client, and forcing the co-financing partners to engage in more robust planning and programming.

The absence of an integrative mechanism to facilitate systematic information flows between AFD and ADB is a factor making the reconciliation of co-financing information more difficult. Well-informed decision-making at managerial levels depends on the reliability of financial data. Therefore, the partnership has to improve its reporting systems in order to serve both the macro-reporting requirements and the management information requirements of both organizations, their constituent units, the country offices and, ultimately, senior management.

There has been limited success in implementing some areas of the partnership, in particular in knowledge management, research and analytical work. However, we could not identify traces of joint systematic knowledge-management actions taken. Apart from the Retreats and the evaluation work performed in 2006, AFD and ADB staff rarely identified and shared good practices or lessons learned; formally documented ideas, information or experiences that could be useful to others; or actively shared their knowledge, except on specific co-financed projects. We also noted that a more appropriate monitoring and accountability system was needed to ensure that the reporting of performance will be done on a regular basis. With regard to research, we noted that, apart from good intentions, the partners have implemented no particular actions.

The overall visibility of the partnership also has to be maximized. Not only did we not find systematic documentation presenting the partnership at a general level, but we also found that in terms of general outreach the implementation phase appears to give a clear advantage to ADB. This was particularly true during the implementation phase of ADB-administered co-financing projects, with ADB procedures being used for procurements, on-site missions and evaluation, etc. More worrisome, we could not find any mention of the AFD-ADB partnership in key official documents. As a consequence, we recommended developing a more systematic communication campaign at both AFD and ADB headquarters (HQ) as well as on the ground at country level. We asserted that it was crucial to properly disseminate institutional information on the partnership with a goal of providing accountability for achievements and impacts.

We concluded that the partnership had to be fully re-institutionalized to ensure its long-term durability and better visibility. The renewal of the MoU for the period 2010-2015 was a major milestone for the future, with both institutions feeling the need to deepen the partnership. In particular, the drafting of a renewed partnership agreement represented an opportunity to explore new areas of convergence (notably private sector and non-sovereign financing) and to expand beyond the ‘traditional’ areas of historical collaboration.

We made ten recommendations to enhance the work of the partnership, including: re-defining its mission and scope; streamlining business portfolios in the medium term; mapping potential projects in selected areas over the next three years; ensuring appropriation of new processes for better aligned procedures at all levels; strengthening accountability and monitoring of co-financing and other joint actions; creating a concrete knowledge-management & research agenda, including evaluation; increasing the overall visibility of the partnership; re-inventing the Retreat concept; optimizing the staff exchanges between the two organizations; and re-institutionalizing the partnership to ensure its long-term durability.

1. Background

1.1 Mandate, scope and purpose

Between December 2009 and January 2010, we conducted a strategic review of the partnership between AFD and ADB. A partnership between AFD and ADB was initiated in 1997 with the first co-financing project in the Vietnam rural infrastructure sector. In 2003, an MoU was officially signed with the aim of strengthening the institutional and operational cooperation between the two institutions.

After some seven years of collaboration under the 2003 MoU, AFD and ADB agreed to carry out a strategic review of their partnership. The overall objectives of the review have been threefold:

- review of the AFD-ADB partnership, both at the institutional and operational levels, and its strategic orientations;

- review of ADB-AFD transversal questions, including implementation priorities, operational alignments, and grant/co-financing; and

- review of lessons to be drawn as a guide to future strategic planning over the period 2010-2015.

1.2 Methodology

This study provides a comprehensive assessment of the AFD-ADB partnership. Specifically, we utilized the following evaluation methods: (a) a desk-review of key strategic and implementation documents in December 2009; (b) interviews with at both AFD and ADB, including a mission in ADB Headquarters in Manila between 8 and 18 January 2010; and (c) an analysis of program data as provided by both AFD and ADB, including co-financing projects. Readers are encouraged to review the comprehensive set of materials provided in a series of annexes. These materials offer important insights into research methods and findings.

We have sought to consult a broad range of informants actively involved in the partnership. About 90 interviews were conducted on a one-to-one basis both in Paris and Manila. These included senior management staff, team leaders and project heads, heads of operations departments, country economists and international and national resident mission staff. The commonalities identified from the interviews of a large number of highly experienced individuals resulted in a comprehensive overview of the partnership.

However, due to a lack of time, we did not conduct field missions in country offices, and therefore the working relations between AFD and ADB at a local or regional level could not be evaluated.

1.3 Context information

1.3.1 AFD and ADB: two partners showing robust performance over the years

The Asian Development Bank (ADB)

ADB is a multilateral international development finance institution whose mission is to help its developing member countries reduce poverty and improve the quality of life of people in Asia. Headquartered in Manila and established in 1966, ADB is owned and financed by its 67 members, of which 48 are from the region and 19 are from other parts of the globe. Under ADB's Strategy 2020, a long-term strategic framework adopted in 2008, ADB follows three complementary strategic agendas: inclusive growth, environmentally sustainable growth and regional integration. Although most of its lending is in the public sector – and to governments – ADB also provides direct assistance to private enterprises of developing countries through equity investments, guarantees and loans.

In 2008, ADB's total revenues were USD 2,064.5 million, expenses were USD 1,360.6 million and net income was USD 1,126.3 million. Carrying a triple-A credit rating, ADB raises funds through bond issues on the world's capital markets. It also utilizes its members' contributions and retained earnings from lending operations. These sources comprise ADB's ordinary capital resources and account for 74.1% of lending to ADB's developing member countries. It should also be noted that ADB successfully concluded a round of replenishment negotiations in 2009, resulting in a total replenishment of around USD 11.3 billion for the Asian Development Fund (ADF) to cover the period from 2009 to 2012. This amount, which is considerably larger than ADF resources previously available, will enable ADB to make a greater contribution to poverty reduction in its lower-income developing member countries.

The Agence Française de Développement (AFD)

Within the French official development aid system, AFD is the primary organization for bilateral French untied aid. AFD has offices in 64 countries, including nine in Asia (with the Philippines office being opened in June 2010), and employs 1,412 staff. Funding is provided on an untied basis in the form of grants, loans (soft to market-based terms), guarantees or equity participation.

In 2008, Sub-Sahara Africa was AFD's main beneficiary, receiving 41% of its funding commitments. The Mediterranean Basin countries, including North Africa, received 26% of commitments and Asian countries received 25%. While AFD strategy in Asia initially focused on Millennium Development Goals (MDG)-related areas, such as rural development, human development and water resource management, AFD is now expanding to emerging countries in Asia with the aim of supporting "green and inclusive growth" and the protection of Global Public Goods. It should be noted that in 2009 about 70% of total commitments in Asia were still made through sovereign loans, with only 12% in the form of non-sovereign subsidized loans and the remainder being split between market-rate loans and grants, the latter showing a decreasing trend.

1.3.2 Key indicators demonstrate strong performance of both AFD and ADB

In the following table, some key indicators illustrate the performance of both AFD and ADB. From this analysis, it should be noted that AFD has clearly become a leading bilateral development finance institution showing sustained performance, substantial human resources, wide country coverage on five continents and strong financial performance.

In 2008, AFD's financial performance was robust, with total revenues of Euro 1,029.9 million against total expenses at Euro 685.8 million and net banking income of Euro 344.1 million (net profit being Euro 167.2 million). The AFD Group's activity (AFD and Proparco) has more than doubled since 2001. From commitments of up to Euro 1.5 billion in 2001 to Euro 4.5 billion in 2008 (see also Table 1), AFD today has strong financial performance data, including a total balance sheet of Euro 14 billion and a loan portfolio of Euro 11 billion.

Proparco, AFD's private sector arm, has shown strong growth and financial results in recent years, achieving record results in 2008 of Euro 42 million net banking income and net income of Euro 20.8 million. AFD's total financing commitments, excluding Proparco, have increased by 25% annually, due in part to its use of market-rate products such as non-subsidized loans and guarantees. This increase is greater than France's development aid contribution to AFD's budget, which has grown on average by 12% a year.

Table 1: Comparison of AFD and ADB key indicators (2008 value)

	AFD	ADB
Leadership	Bilateral agency established in 1941 French Government	Multilateral organization established in 1966 67 members
Field offices	64 (9 in Asia)	27
Total employees	1,412 (with 463 local country employees)	2,506 with 874 professional and 1,627 local staff
Total revenues (Income)	Euro 1,029.9 million	USD 2,064.5 million
Total expenses	Euro 886.1 million	USD 1,360.6 million
Net income	Euro 167.2 million (with Proparco at Euro 20.8 million)	USD 699.7 million (Pre-FAS* 133/159)
Total funding/capitalization	Euro 4.46 billion(loans, grants, guarantees, private equity…)	USD 52 billion (total capitalization)
Total loans	Euro 2.8 billion (with grants)	USD 10.5 billion
Total grants	N.A.	USD 811.4 million
Technical assistance	N.A.	USD 274.8 million
Private sector assistance	Euro 789 million (against 598 in 2007 and 401 in 2006)	USD 1.5 billion

** FAS: Financial Accounting Standards*

Sources: AFD and ADB 2008 annual reports.

ADB has achieved a strong financial performance every year since its establishment, with very low levels of loan defaults. This is demonstrated through a strong 2008 Pre-FAS 133/159 net income of USD 700 million, which reflects the continuous robust lending operations and favorable returns from its liquidity portfolio. On 31 December 2008, ADB had outstanding aggregate principal borrowings of USD 35.6 billion and an average maturity of 4.2 years. In 2008, ADB raised about USD 9.3 billion in long- and medium- term borrowings through 113 transactions, as compared with USD 8.8 billion in 2007.

2. Evaluation Findings

2.1 Emerging needs in Asia call for stronger collaboration but also pose challenges to the definition and objectives of the AFD-ADB partnership

2.1.1 The AFD-ADB partnership started on an *ad hoc* basis in GMS countries and recently expanded to new regions and sectors

The history of the AFD-ADB partnership is deeply rooted in the Southeast Asia region. It was in 1993 that AFD was first authorized to intervene in the three countries of former Indochina (Vietnam, Laos, Cambodia), focusing on agriculture, rural development and cultural heritage (*e.g.* Angkor and Luang Prabang). Over the years, contacts were developed with ADB to establish the basis for the current cooperation.

The partnership developed on an *ad hoc* basis, without an overall strategy being discussed and implemented and with a few projects being first identified and co-financed by both partners. In 1997, for instance, a rural infrastructure project emerged in partnership with AFD and ADB in Vietnam. Initiated by ADB, it covered 23 provinces for a total cost of USD 150 million, to which ADB contributed USD 105 million and AFD contributed USD 14.8 million. In 1998-99, following the reform of French Official Development Assistance (ODA), AFD's area of intervention was expanded to include all of its traditional areas of intervention, including social sectors (health care, education infrastructures, etc.). This expansion allowed AFD to be a co-financier on a wide array of new projects, including a Vietnamese Vocational and Technical Education project totaling USD 98 million, with an AFD contribution of USD 15 million.

In the early 2000s, the geographical scope of ADB-AFD co-financing projects was increased to the entire GMS region. The AFD-implemented projects focusing on the productive sectors, seeking to develop financial systems and business investment in Asia. For instance, a Financial Sector Development Program was co-financed with ADB in 2002. Furthermore, in mid-2001, Proparco, AFD's private sector financing subsidiary, opened an office in Vietnam after signing a framework agreement with the Vietnamese government (State Bank of Vietnam) leading to the co-financing of a project in 2001 related to the Franco-Vietnamese hospital in Ho Chi Minh City and a major loan in 2002 related to the Phu My 2.2 Power Project. The total cost was USD 480 million (USD 75 million from ADB and USD 40 million from AFD).

In 2003 a formal MoU was signed, outlining a more proactive approach to developing the partnership strategy around a few topics discussed by both partners and including the identification of projects for co-financing, joint appraisal of projects, enhanced follow-up and sharing of information, training and exchange of staff. The signing of this MoU represented a first step in trying to identify specific partner objectives and common procedures for implementing co-financing arrangements.

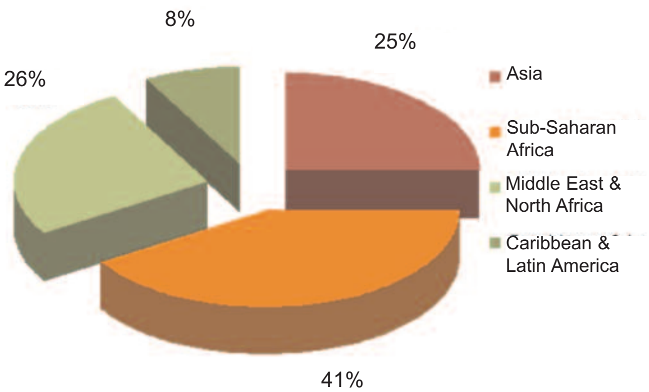
The potential scope of the partnership could be extended in the future now that AFD has gained more prominence in Asia. Originally concentrating on operations in Cambodia, Laos and Vietnam, AFD is now deeply involved in other Asian countries and markets. In 2004, AFD established operations in China and Thailand. Since 2007, AFD has also been located in Indonesia, India and Pakistan. In 2009, AFD was authorized to expand its activities to the Philippines, Bangladesh and Central Asia.

2.1.2 Today AFD has secured a strong presence in emerging Asia, with 25% of its global commitments in the region

In recent years, to meet new needs in different regions, AFD has demonstrated its willingness to increase its financial capacity and has become a key partner for ADB in Asia. As new priorities have emerged, AFD has expanded into areas of infrastructure, agriculture, the environment, natural resources, energy efficiency, clean energy, urban development, local government, etc.

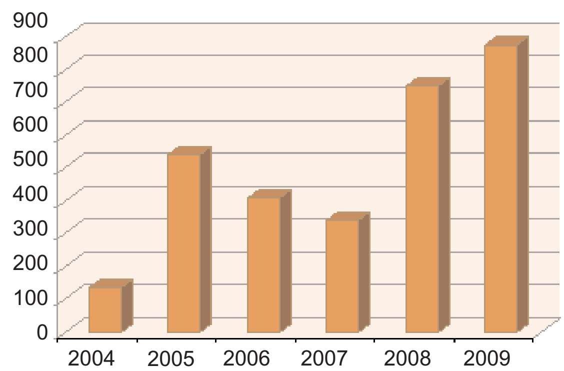
As a result, AFD Group's commitments in Asia during 2004-2008 were substantial and showed a sizeable increase over those of previous years. In 2009, its total commitments in Asia were Euros 875 million, representing a steady increase from the Euro 150 million in 2004 (see Figure 1.2). In 2009, total disbursements in Asia totaled Euro 17 million in grants and Euro 436 million in loans.

Figure 1.1: AFD Group volumes per region (2009)



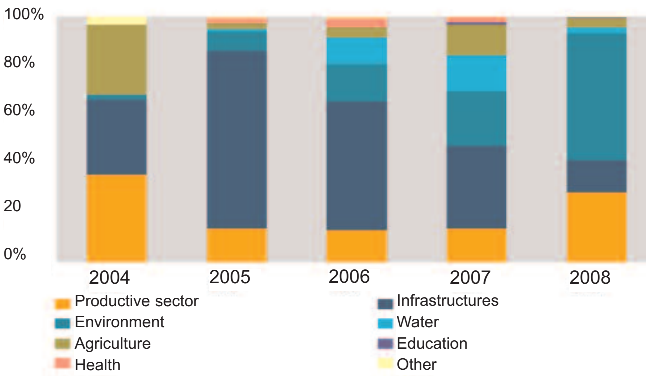
Source: AFD.

Figure 1.2: AFD Group in Asia (Total in Euro millions)



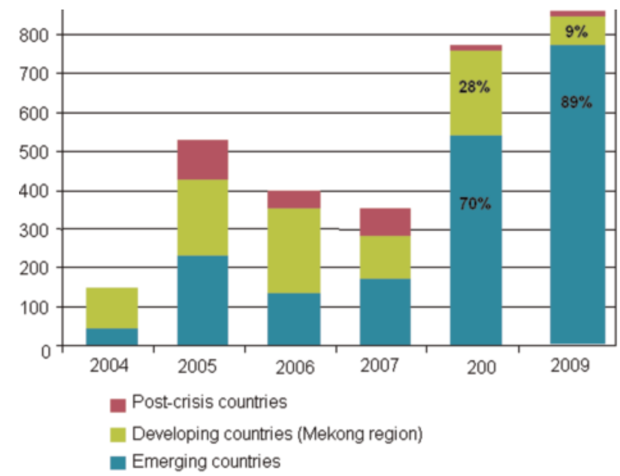
Source: AFD.

Figure 1.3: AFD's commitments in Asia by sector (Euro millions)



Source: AFD.

Figure 1.4: AFD Group in Asia per country type (Euro millions)



Source: AFD.

As shown in Figure 1.1, Asia represented 25% of AFD's total commitments, a significant increase from recent years during which intervention was still concentrated on the African continent. Figure 1.2 also shows a large increase in the total value of commitments in Asia in the years 2008 and 2009, primarily to meet needs in emerging market countries (which represented 89% of the total value of commitments as shown in Figure 1.4). The remaining commitments were in the Mekong region (9%) and in post-conflict countries (2%).

We noted the trend to focus commitments on the emerging Asian countries, with a clear shift from 2007 (when they were around 50% of the total commitments in Asia) to 2008 (70%) and in 2009 (89%). As a result, commitments and grants have been significantly reduced in Asian developing countries. Figure 1.3 shows the predominance of the environmental sector in 2008, a substantial increase from past years to the detriment of infrastructure projects, which have not increased in value.

2.1.3 Increasing demand in Asia calls for higher contributions to some sectors, with a renewed and stronger partnership

The Asia and Pacific region presents many opportunities and challenges. The Asian economy has grown at a record pace over the past few decades. In the 1980s and 1990s, real per capita gross domestic product (GDP) rose more than 6% annually in East Asia and 3% annually in South Asia, while other developing regions in the world struggled to increase their per capita income at all. At the same time, developing Asian economies accounted for slightly more than half of the world's population and the bulk of its poor population. More than 600 million people, or around double the population of the United States, still live in absolute poverty, defined as less than one USD per day. Almost half of the world's absolute poor live in South Asia alone. One of every two individuals in the region – or 1.7 billion people – remain poor, as measured against the USD 2-a-day benchmark.

As a result of emerging needs, AFD's commitments to the Asian region for the period 2010-2012 have been budgeted at around Euro 6 billion according to the AFD Regional Intervention Framework for Asia (*Cadre d'Intervention Regional* or CIR). The AFD strategy for 2010-2012, therefore, is clearly oriented towards Asia's emerging countries, with a strategic focus on climate change and post-conflict stability.

Both AFD and ADB have policies to engage in co-financing arrangements to finance emerging needs in Asia. These are largely resource-driven. Not surprisingly, ADB's strategy is focused on securing long-standing and reliable partnerships: "As part of the drive to make partnerships a core element of ADB's business model, the Office of Co-financing Operations is pursuing more co-financing deals based on a partnership approach" (Financing Partnerships, Doc. IN.213-09, 6 August 2009). The ADB Long-Term Strategic Framework 2008–2020 ("Strategy 2020") also aims at establishing partnerships on a more regular basis, often including projects involving the private sector and private institutions.

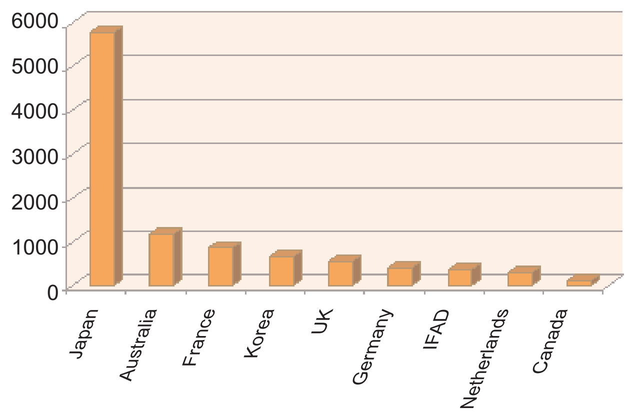
This willingness to promote co-financing arrangements was confirmed in the interviews we conducted at both AFD and ADB. As demand for financing increases, there are greater incentives to embark on constructive co-financing operations with partners, and AFD is perceived as having both the strategic fit and the know-how to co-finance projects with ADB. Both AFD and ADB also advocated the promotion of new assistance models underpinning these partnerships, models that include closer collaboration with the private sector in project co-financing and the use of market-based investment instruments.

We concluded that an important window of opportunity exists to concretize an expansion of the partnership to meet these new needs, in particular those related to the development of approaches to economic growth that will address pollution, the destruction of natural resources and environmental degradation (including climate change).

2.1.4 AFD is seen as a "natural" partner of ADB for co-financing arrangements

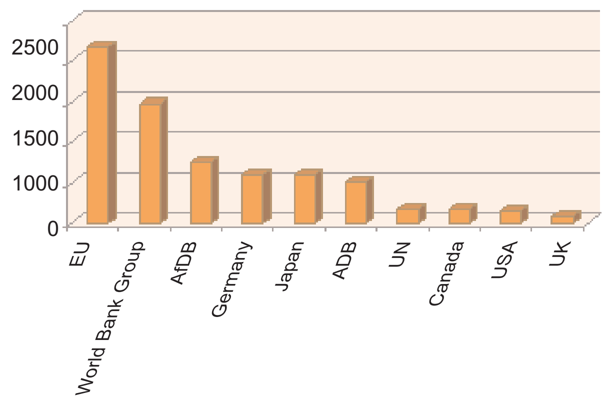
Today, AFD is among the top development partners of ADB. Between 1997 and 2009, 38 co-financed projects between the two partners were implemented for a total value of USD 7.33 billion, with ADB accounting for USD 2.66 billion and AFD for USD 1.1 billion. The most recent statistics for the period 1999-2009 show that AFD has become the third partner of ADB in providing official loans. ADB's senior management unanimously agreed that the Australian Government Overseas Aid Program (AusAID) and AFD are the two most important partners after Japan (Japan having no partnership framework and being more project-based). While the United Kingdom's Department for International Development (DFID) is said to have decreased commitments, South Korea has recently become a major partner as well. Figures 2.1 and 2.2 illustrate the total official loans in value (leaving aside commercial loans and grants).

Figure 2.1: ADB partners by country 1999-2009 (USD millions)



Source: ADB.

Figure 2.2: AFD partners since 2000 (AFD co-financed share in Euro millions)



Source: AFD.

In the overall co-financing strategy of AFD, ADB has a prominent place (See Figure 2.2). Since 2000, AFD has entered into 372 co-financing arrangements with multilateral and bilateral organizations. The World Bank Group and European agencies and institutions are the partners of choice for the AFD strategy, in particular for the Sub-Saharan region. AFD's co-financing commitments with the World Bank Group amounted to Euro 1,472 million since 2000; with European partners (European Commission [EC], European Development Fund [EDF], European Investment Bank [EIB]) the figure was Euro 2,181 million.

According to AFD, Japanese International Cooperation Agency (JICA)/Japan Bank for International Cooperation (JBIC) was also a major partner, with co-financing activities for the two organizations amounting to Euro 598 million in commitments since 2000. In this arrangement a recent focus has been on countries such as Indonesia and Vietnam, primarily concerning climate change issues (climate change program loans, or CCPLs). With JICA, AFD is now considering various future cooperative ventures, in particular extended cooperation in energy efficiency, renewable energies, deforestation and the water sector. There could also be increased projects and field missions to foster a common technical and strategic culture, to encourage staff secondment and to develop projects extending the visibility of the partnership.

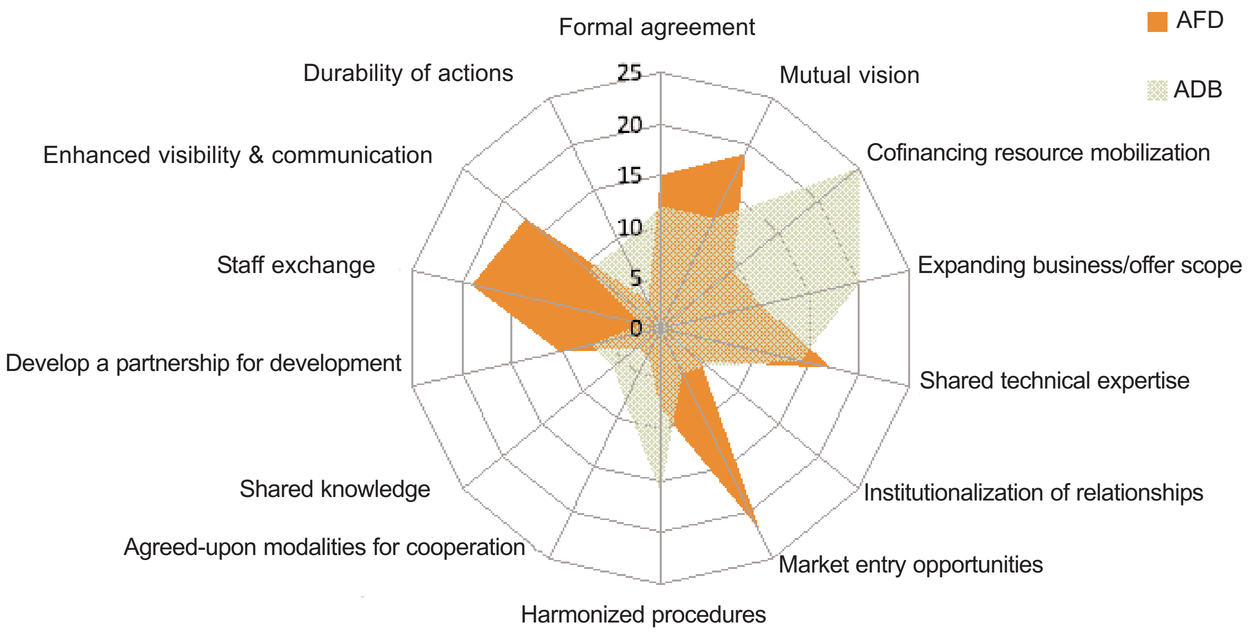
2.1.5 The AFD-ADB partnership is hampered by the lack of conceptual clarity; the partners have different interpretations of the partnership

Most persons interviewed said that AFD and ADB have created a strategic alliance that is increasingly bringing added value to both partners. According to one director at ADB, "the AFD-ADB partnership is not only an historical partnership but also a natural one. We don't perceive it purely in terms of the volume of funding; the commitment to substantive knowledge is of greatest importance." A senior AFD staff member pointed out that the "partnership agreement signed in 2003 thus represented a significant milestone for AFD in establishing a beneficial relationship with a major multilateral development bank (MDB) in a new market."

Many opinions gathered in the interviews in Paris and Manila signaled the intentions of the partnership's "founders". These included fostering a "shared culture" and creating leverage in resource mobilization, which were among the items most frequently cited. Other aspects mentioned were building an expert network, planning common strategic objectives, coordination through staff exchanges, cooperation frameworks and sharing of knowledge.

While the shared fundamentals of the partnership remain strong, it was clear that at the operational level the collaboration model is being interpreted in different ways by AFD and ADB. Indeed, the partners have a different understanding as to how the partnership was defined. Figure 3 illustrates the different interpretations collected in interviews.

Figure 3: Various interpretations of the partnership



Source: Author.

Overall, a large area of overlapping expectations characterizes the partnership. Interviews revealed that both parties consider that an essential feature of the partnership is to build a relationship that allows for better resource mobilization in specific areas. This was particularly stressed by the ADB staff interviewed. Moreover, ADB staff positively viewed the fact that AFD was establishing a strong presence in several Asian countries, bringing technical expertise in the fields of urban development, energy and local government.

Nonetheless, there exist differing expectations of what the partnership should achieve. For instance, AFD staff insisted on the need to create a more competitive institutional positioning in Asia, with the partnership offering opportunities to enter new countries and markets. Indeed, for AFD the partnership is often perceived as an opportunity to expand business in Asia, leveraging ADB's strong resource mobilization strategy as a tool to improve infrastructure. At the same time, AFD recognized that it had also benefited from ADB's strong expertise in this area. For the past 40 years, ADB has supported large-scale projects in agriculture and natural resources (ANR), energy, industry and non-fuel minerals, social infrastructure and transport and communications. In fact, more than half of ADB's assistance has been channeled into building infrastructure (roads, airports, power plants and water and sanitation facilities). Its expertise in these fields was perceived by AFD as an opportunity to lay the foundation for business expansion in emerging Asia, and AFD first sought to jointly work on infrastructure projects at the inception of the partnership.

When discussing the definition and purpose of the AFD-ADB partnership, a few interviewees mentioned the MDGs as being an important component of the AFD-ADB partnership. Creating a global partnership for development was said to be important in a time of a large delivery gap in meeting commitments towards the MDG target of addressing the special needs of least developed countries. However, as shown in Figure 3, the MDGs were only mentioned by a limited number of people and they did not appear to strongly define the AFD-ADB partnership.

The mission concluded that the partners had developed many synergies in the past, especially in terms of resource mobilization and shared expertise. We recommend that the partners build on this to begin a discussion of the key objectives for the partnership for the period 2010-2015. Due to the array of available partnership strategies from which to choose, it would be preferable to thoroughly review several partnership options before taking on new mandates. Not all partnership models would be appropriate to support an AFD-ADB strategy based on expansion of the business model to cope with greater needs in Asia.

2.2 The convergence of strategic mandates may be an opportunity to promote greater coherence, but expansion will require careful balancing of mandates and resources

2.2.1 The convergence of existing strategic mandates may facilitate co-financing between the partners

The convergence of existing strategic mandates may facilitate co-financing between the partners in the future. People interviewed at both AFD and ADB unanimously agreed that there is a convergence of agendas in some sectors at the present time, and that this represents a major opportunity to explore new projects. The partnership is therefore more relevant than ever. One ADB regional department Director General reported that "there is now a perfect match on strategic priorities and therefore a good scope for further collaboration. The question is now how to do a mapping that would allow [the partners] to identify specific projects."

Table 2: Comparison of AFD and ADB strategies

Strategic Outlook	ADB	AFD
OVERALL STRATEGY IN ASIA	Based on the 9 leading challenges facing the region (ADB Strategy 2020), ADB remains committed to ending poverty A development strategy anchored in inclusive growth	Mekong countries: Poverty reduction and support for economic growth Emerging Asia: Global Public Goods/Green and Inclusive Growth Specific missions in post crisis-countries
GEOGRAPHICAL SCOPE IN ASIA	All Asia through its 27 field offices	Growing Asian focus with 10 country offices (Philippines to be opened in April 2010) Mekong countries (Poverty reduction and support for economic growth) Emerging Asia (Global Public Goods/ Green and Inclusive Growth) Post-crisis and post-conflict regions
PRIORITIES IN ASIA	Inclusive growth Environmentally sustainable growth Regional integration	Global Public Goods, including climate change: Energy efficiency, renewable energy and other related issues (adaptation and mitigation) Creation of partnerships in Asia in order to promote overall strategy, maintaining a strong regional integration component (different from ADB's concept)
OPERATIONAL AND INSTITUTIONAL GOALS	80% of operations in its new core operational areas by 2012 Scale up private sector development, reaching 50% of annual operations by 2020 Scale up support for environmentally sustainable development Increase public and private sector operations to at least 30% of total activities by 2020	Quantitative objectives are not always available Specific operational and institutional goals have been established in various areas: emission reduction; biodiversity protection; promotion of partnerships, including in Asian region; regional integration; private sector financing (Proparco)

Sources: Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020; AFD's 2007-2011 Strategic Orientation Project; AFD's 2010-2012 Regional Intervention Framework.

During our interviews, we tested new areas for potential collaboration. Both AFD and ADB staff confirmed that new projects and other regions could be added to the portfolios in the coming years to better align the respective strategies of the partners. Common priorities might include the following: climate change; energy efficiency, new and renewable energy; urban planning, transport and development; agriculture and water, water resources management; local government; non-sovereign and sub-sovereign activities; and other financial instruments: *i.e.* guarantees.

The convergence of mandates in some sectors is clearly evidenced in AFD's Asian strategy for the period 2010-2012 (AFD "*Cadre d'Intervention Régional*" or "CIR") and ADB's Strategy 2020. The latter states that ADB will refocus its operations into "five core specializations that best support its agenda, reflect Development Member Countries' (DMCs') needs and ADB's comparative strengths and complement efforts by development partners: (i) infrastructure; (ii) environment, including climate change; (iii) regional cooperation and integration; (iv) financial sector development; and (v) education. In other areas, ADB will continue operations only selectively in close partnership with other agencies" (Strategy 2020). AFD's CIR also states that the French intervention in Asia will be focused on three strategic objectives: climate change, biodiversity and natural resources along with the promotion of regional integration equilibrium.

2.2.2 To choose among the many opportunities for collaboration, it is important in the medium term to streamline business strategies across sectors and geographic regions

The mission concluded that it was crucial to focus on a limited number of project strategies to avoid being spread across too many sectors/subsectors and regions. Besides ADB's Southeast Asia Department (SERD), other ADB geographical departments have shown an interest in collaborating with AFD:

- For instance, ADB's Central and West Asia Department confirmed an interest in collaborating in specific fields: (1) global public goods, energy efficiency and smal to medium run-of-the-river hydro-projects in Pakistan; and (2) green and inclusive growth, urban infrastructure, energy efficiency and electricity in Uzbekistan and Kazakhstan. In South Asia, major areas of collaboration and priorities include: transport, clean energy, urban development, and climate change in Bangladesh and India, with the aim of adding Sri Lanka at a later date; (2) investment in energy efficiency projects in India (several states – Bihar, Himachal Pradesh, North East States, Uttarkhand, Jammu and Kashmir, and Madhya Pradesh) and Bangladesh (water supply and urban sanitation, energy efficiency). In addition, both AFD and ADB departments dealing with the Pacific region have shown interest in considering specific projects on the environment and climate change. (However, without any grant resources, AFD's capacity to intervene in the Pacific region must be considered to be very limited).

- We have also been informed about potential collaboration on initiatives in integrated regions. For instance, the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN (Association of Southeast Asian Nations) Growth Area, or BIMP-EAGA, initiative is preparing an environment and socio-economic profile of BIMP countries in order to assess policies and institutional capacities, formulating a fifteen-year Regional Environment Program (BIMP-EAGA REP), generating government support and forging a broad partnership for BIMP-EAGA REP implementation. This could be another area of collaboration for the AFD-ADB partnership.

- AFD's expansion into the Philippines, with an office to open by April 2010, also offers a potential for collaboration. As ADB can theoretically extend loans directly to local governments in the Philippines, but also to state enterprises (but not yet to local government), synergies could be sought with AFD. Indeed, AFD has built strong non-sovereign expertise from years of close collaboration with local governments on many continents.

Given the availability of staff and the complexity of some business processes, the number of loans and their geographical spread need to be better aligned with existing resources and institutional arrangements. We concluded that a more focused co-financing portfolio strategy should be defined. Such a strategy will depend on factors such as:

- clients/partners demand and preferences;
- staff and financial resource availability;
- analytical work that identifies specific needs;
- clients/partners' strategic priorities and choice of a balanced portfolio;
- programs of other development partners; and
- experience showing what has worked and what has not.

Therefore, it is important to review the purpose of the partnership, to define its key objectives and to be selective in choosing business strategies to be implemented during the period 2010-2015.

2.2.3 Expanding the AFD-ADB business model to new sectors and geographical departments will require revisiting the value chain

Although in the past the AFD-ADB partnership has been able to satisfy increasing expectations, it does not appear to have fully addressed the question of strategic sustainability in a systematic way. The large number of sectors and countries in which co-financing was implemented between 1997 and 2009 (education, energy and environment, the financial sector, infrastructure, urban & rural development, water and irrigation) reflect the multiplicity and the range of complex issues that increasingly occupy the attention of AFD and ADB in Asia.

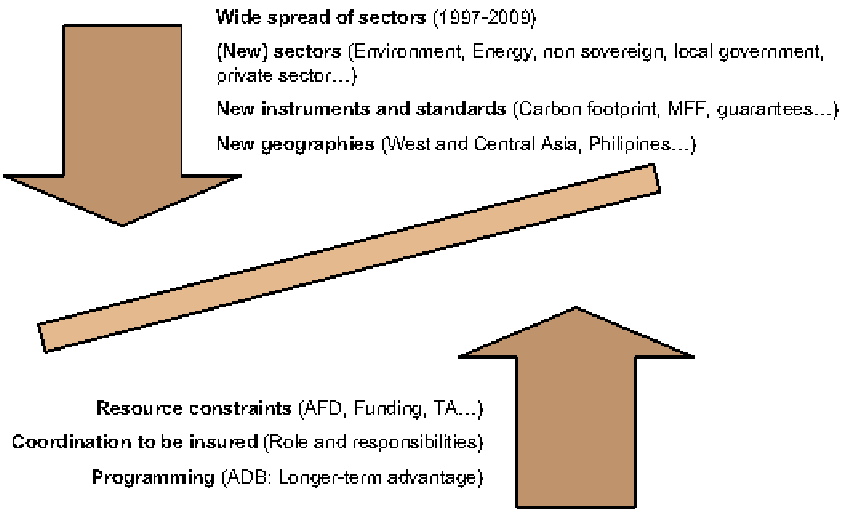
Mission discussions at AFD and ADB headquarters reveal that many new regions and areas of intervention for the partnership have been suggested. While this may be desirable in some circumstances, both AFD and ADB need to formulate clear guidelines concerning goals, roles, responsibilities and overall authority with respect to resource mobilization to follow up on these suggestions and prioritize areas for collaboration in new geographic regions (*i.e.* Central and West Asia Dept. of ADB) and sectors (climate change, local government, etc.).

If the business model for the partnership is to be expanded, the value chain (the way the partnership will function and be organized to deliver specific outcomes) will need to be precisely defined in terms of the following:

- processes to be implemented at both AFD and ADB in order to sustain the new activities;
- competencies required and to be mobilized, especially in light of AFD resources, which are less than ADB's;
- organizational aspects specific to the partnership (focal points, monitoring tools, reporting); and
- informational capital to be mobilized (knowledge management, research and evaluation).

Indeed, if an expansion of the partnership is pursued and the value chain is not reconsidered in full, there could be a mismatch between mandates and resources: present staff and resource allocations dedicated to the partnership and its coordination are not presently commensurate with broad and expanding co-financing demands.

Figure 4: Balancing out ambitions and availability of resources



Source: Author.

2.2.4 Matching the business priorities of AFD and ADB has to become a consistent strategy of the partnership

Opinions varied when the mission attempted to determine how the partners decided on priorities for co-financing projects. One view, not necessarily dominant, is that priority options reflected the individual will of one partner. Supporters of this view maintained that the bulk of co-financing projects between 1997 and 2009 originated at ADB, the bank being perceived as the initiator in most cases. This view is somewhat tempered by the assertion that regular meetings took place at country level to discuss opportunities and strategies, and that therefore the partnership played a role in the identification of projects.

Whether ADB is seen as the primary source of co-financing or not, it was apparent from the review that most projects have been developed on a case-by-case basis. The mission concluded that, over the short- and medium-term, the partners did not have a formal process for matching business plans and identifying co-financing projects in a predictable way. We noted that a list of priority sectors has been maintained at AFD-ADB since the last Retreat of 2009 ("ADB-AFD Work Plan 2009-2010"). A few ADB staff commented on the Work Plan, seeing it as a much needed tool for planning, but cautioning that this tool must be comprehensive and regularly updated.

In any case, AFD and ADB staff from different geographical departments and sectors have expressed their interest in investigating new co-financing opportunities in the areas mentioned in the AFD Work Plan. From interviews in Paris and Manilla, we concluded that it was important to conduct a comprehensive inventory of all existing short- and medium-term opportunities, starting with the review of country strategies and business "pipelines" (at the country level). This matching of pipelines has to be pursued on a regular basis, at least once a year, preferably at country level. The AFD-ADB Retreat also presents opportunities for involving senior staff in this exercise.

To facilitate the development of a comprehensive mapping of potential areas of joint intervention, a taxonomy could be agreed on and oriented towards the practical identification of projects over a three-year period. Such a bottom-up approach would request the staff of both AFD and ADB to identify possible synergies project by project and country by country. By following such a process, the predictability of effective collaboration could be significantly improved. We also recommend involving staff in more frequent joint activities in order to create a joint understanding of opportunities (*i.e.* exchange of concept papers before technical assistance (TA); joint appraisal missions, regular country-level directors' meetings, etc.)

2.2.5 The environment and energy sectors show promise for joint activities, some of which have already been initiated in energy efficiency projects

In the climate change and energy sectors, synergies could be developed by AFD and ADB. As indicated in the background section, rapid economic growth in developing Asia is lifting people from abject poverty. Still, many countries will have to deal with major climate change challenges in the coming decades, South Asia being the most vulnerable. Furthermore, nearly a billion people in the region still lack basic access to electricity and energy sources. In developing Asia, the primary projected energy demand is expected to grow from 3,227 million tons of oil equivalent (mtoe) in 2006 to 6,325 mtoe in 2030, with China and India accounting for major shares.[1]

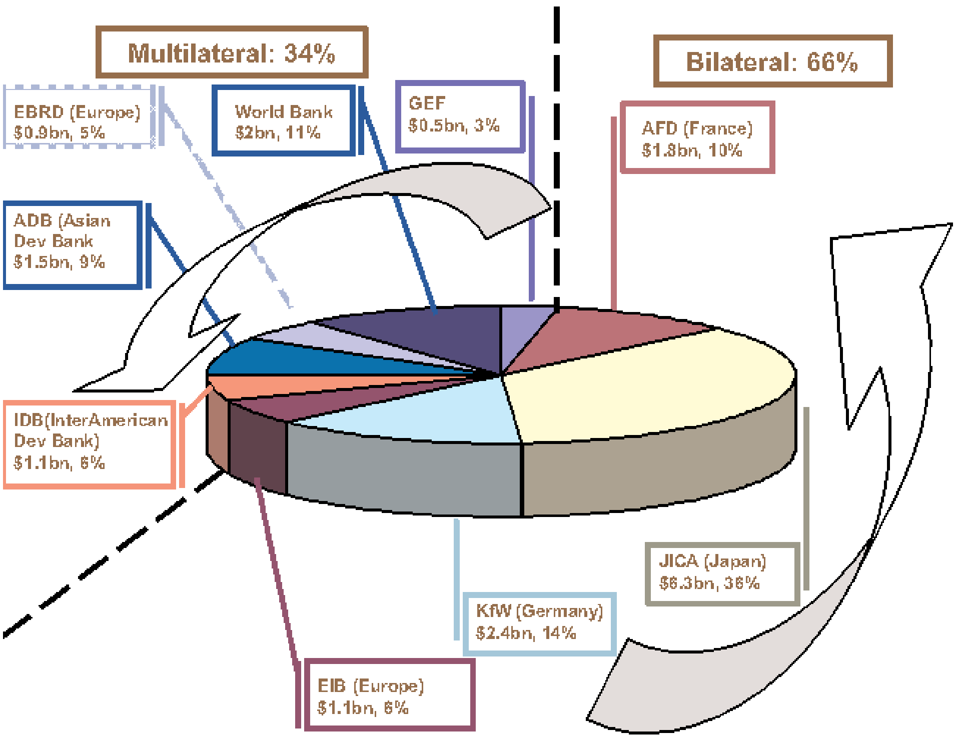
Both AFD and ADB have realized the strategic importance of committing resources to these sectors. In 2008 in Asia, more than 50% of AFD's commitments were in the environmental sector, a near-100% increase compared with 2007. The 2009 Java-Bali Distribution Performance Improvement project is a concrete example of the willingness of the partners to work

[1] See also ADB's Energy Policy, June 2009.

together on strategic issues related to climate change and energy efficiency. This project, co-financed with ADB and AFD contributing USD 50 million each, is aimed at reducing the overall carbon dioxide emissions of Indonesia's power sector and contributing to the global effort to mitigate the impact of climate change. When completed, around 200 megawatts equivalent in distribution system capacity will be freed and approximately 400 gigawatt-hours will be saved annually through energy efficiency and at a cost well below that of developing equivalent new capacity

Indeed, there are good opportunities for both AFD and ADB to develop joint support for energy efficiency improvements and renewable energy projects. To do so will require substantial financial resources, but the benefits are obvious in terms of reducing the growth of fossil fuel demand in key countries (*i.e.* India), improving energy security and contributing to a reduction of greenhouse gas emissions. In this respect, it is worth mentioning the recent AFD-ADB Energy Efficiency Investment Program in Pakistan, with USD 40 million committed by ADB and Euro 20 million by AFD under a new multitranche financing facility (MFF), a possible precursor to a longer-term collaborative strategy in this key sector (see also the case study in Table 2).

Figure 5: Current international public finance for climate change projects



$18bn (12bn Euros) annually committed on mitigation and adaptation (sources SEI study, January 2010)

Source: AFD,2010.

Figure 5 shows that most international public finance spent on climate change came from bilateral organizations. In 2008, AFD's share represented 10% of the grand total and ADB's, 9%. AFD has been considerably scaling up its financing with innovative projects *via* lines of credit and program loans (co-financing operations with JICA in Indonesia and Vietnam) dedicated to the fight against climate change.

The mission concluded that AFD's financing covers a wide range of sectors (renewable energies and energy efficiency, sustainable forest management and conservation agriculture). Therefore, there is a potential matching of AFD financing with the ADB's climate change strategy – supporting The Climate Investment Fund's initiatives, including low-carbon and climate-resilient development – and energy policy, centered on energy-efficient, renewable energy, access to energy for all, energy sector reform and governance.

2.2.6 Strategic positioning must be specifically negotiated by the partners in the energy and environment sectors

Although specific areas of collaboration have been identified for the partnership in the energy and environment sectors (see Box 1 below), the partners must ensure that concrete projects can emerge in a predictable and sustainable fashion.

Box 1: Potential areas of collaboration in the Environment, 2010-2015

- Low carbon growth, adaptation/mitigation and 'climate proofing' are areas with a tangible potential for collaboration.
- Joint collaboration in climate-related funds: possible AFD participation in the Clean Technology Fund (CTF) investment plans in Asia (Indonesia, Philippines). There may be opportunities for joint work in the Forest Investment Program, potentially in Indonesia.
- Climate Change Policy Loan: various possibilities in jointly developing these programs in Indonesia, the Philippines and Vietnam.
- Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD and REDD+): possible participation of AFD in Indonesia, GMS and/or India. Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD and REDD+): possible participation of AFD in Indonesia, GMS and/or India.

Convergence of strategies in the field of environment and energy need to be discussed and agreed on for the period 2010-2015. AFD wants to support national and transversal programs in climate change that would contribute to the promotion of policy reforms (not excluding targeted aid on specific projects), while ADB argued that a wider sector-oriented agenda must be considered, including issues of land use and forestry, climate change and water resources, migration, etc. One ADB staff member said it this way: "When working on issues from the Climate Investments Funds, ADB wants to consider actions on the different pillars, including deployment and transfer of low carbon technologies, reduction of deforestation and forest degradation, integration of climate risk and resilience into core development planning and implementation, and development of renewable energy solutions."

On the other hand, AFD mentioned that systemic reforms had to be targeted, with transversal projects that offer better potential for AFD's strategy. This AFD strategy is illustrated by its recent USD multi-million financing of climate change projects in Indonesia and Vietnam. This initiative has been supported by bilateral agencies (France and Japan). At the present time, the strategy has not yet involved MDBs, but the World Bank Group may join the initiative in 2010.

There was a clear interest expressed by the partners in jointly developing instruments and tools in the environment sector, but a broad consensus on how this is to be achieved has yet to be fully realized. For instance, during the interviews both AFD and ADB staff mentioned the AFD Carbon Footprint tool as a pragmatic carbon calculator which could be standardized for greater use by the development partners. The tool was introduced in 2007 by AFD to be used by every manager as one element in risk analysis. The data on project emissions provides feedback to improve AFD's investment decisions. This is in line with ODA principles of measuring project impacts. It can also be fully adjusted to be used in international negotiations (Bali Action Plan) and is in line with Measurement, Reporting and Verification (MRV) requirements for climate mitigation projects. Though there is interest at both AFD and ADB to standardize such tools, this cannot be accomplished without first discussing the most consensual way of developing a common understanding on the international standards to be used.

2.2.7 Enhancing collaboration in non-sovereign lending and private sector financing can be a central component of the future partnership strategy, but the partners seem reluctant to engage in further collaboration

As the private sector has been accelerating economic growth in the Asia and Pacific region, ADB's private sector financing has also significantly increased (see Figure 6). For a region that will require as much as USD 3.5 trillion in new infrastructure investments over the next 20 years,[2] the demand for investment and infrastructure spending is clearly an established need.

At the same time, Proparco, AFD's private sector arm, has experienced exceptional growth in recent years. In 2008, its activity grew by 32% compared with 2007 and reached a new record, with more than Euro 789 million in gross commitments. The target for 2010 is Euro 1.1 billion. Proparco's activity has more doubled in the past two years, which confirms the soundness of its business model. At the same time, Proparco's geographical expansion has continued in Asia (27% of commitments). AFD also benefited from its expertise in sub- and non-sovereign lending in Asia. For instance, in Indonesia AFD has been financing local authorities and state-owned enterprises (SOEs) without government guarantees. AFD has also financed the private sector (Proparco or AFD) directly or through the banking system.

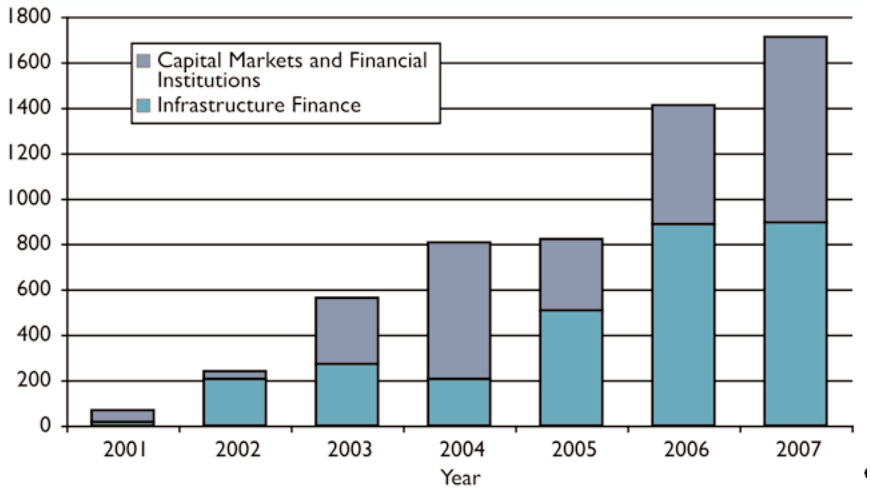
With respect to private sector and non-sovereign lending, both AFD and ADB have reasons to consider strengthening the partnership. Because AFD and ADB share similar geographies and growth objectives, collaboration in private sector projects seems natural, especially when ADB indicated that the organization would scale up its private sector development to reach 50% of its annual operations by 2020.

Although both AFD and ADB staff indicated it was possible to envisage concrete collaboration in the private sector with specific projects that would boost private investment, there are still some barriers preventing efficient collaboration from taking place:

- **Volume of transactions**: According to ADB's Private Sector Operations Department (PSOD), there are opportunities to strengthen the collaboration, but primarily on larger scale projects, many of them in the area of energy. ADB has contributed to the financing of large-scale infrastructure projects in fields such as energy, water supply, waste management and treatment, telecommunications, toll roads, ports, airports and rail systems. Not surprisingly, ADB's total non-sovereign approvals climbed from a mere USD 68 million in 2001 to over USD 1.7 billion in 2007 (comprising public and private sector loans, equity, credit

[2] See Private Sector Finance Catalyzing Private Investment in the Asia and Pacific Region, ADB, 2009.

Figure 6: ADB private sector total financing 2001-2007 (USD millions)



Sources: ADB.

and political risk guarantees, B-loans). On the other hand, AFD's average commitments were considerably lower than ADB's, imposing a constraint on AFD to join ADB on large projects.

- **Thematic areas**: ADB's activity in the private sector has been primarily related to projects concerning infrastructure and financial markets. Today, ADB assists private financial intermediaries, such as banks, non-bank financial institutions and funds to enable them to provide the necessary support for underserved segments and selected thematic purposes such as those involving small- and medium-sized enterprises and micro-enterprises, infrastructure facilities, mortgage finance and trade. AFD, on the other hand, has been engaged in different types of projects, including those relating to climate change, agro-industry, microfinance, health and education, etc.

- **Risk-sharing and ownership arrangements**: In the private sector, AFD and ADB must utilize several modes of financing by working closely with a range of financial institutions, private and public, national and bilateral development organizations, export credit agencies and other official sources of parallel financing. ADB PSOD uses a variety of sources to manage concentration risk in its non-sovereign lending portfolio. The total assistance for a single project must not exceed 25% of the total project cost or USD 250 million, whichever is lower. As a result, the structuring of its transactions is more complex and less advantageous than those of AFD.

- **Opportunities not realized**: The private sector area could represent an opportunity to share expertise and projects, *i.e.* in financial markets and trade facilitation. In recent years, ADB has developed a major Trade Finance Facilitation Program (TFFP), the first region-wide program undertaken by the organization aimed at helping banks to develop member countries' ability to provide trade finance products to importers and exporters. In 2009, the TFFP supported USD 2 billion in trade, an increase of over 300% compared with 2008, with the bulk of its exposure concentrated in Bangladesh, Pakistan and Vietnam. Among the other countries benefiting were Indonesia and Sri Lanka. AFD had considered developing these activities but eventually decided not to do so.

2.2.8 The alignment of mandates in some instances is not always possible for external reasons

The alignment of priorities between AFD and ADB has been largely positive but constraints still exist. Though some co-financing projects have been identified, there remain some gray areas in which the partners now have difficulties to cooperate. For instance, co-financing in the People's Republic of China (PRC) has been very difficult in the past because of burdensome local regulations. Since 2004, AFD's China office has focused on projects leading to a reduction in CO2 emissions in the following sectors: power generation; sustainable urban development; low-carbon rural development; and energy management in industry and services. AFD has also concentrated its activities in seven priority provinces in the Southwest region of China (Yunnan, Guangxi, Guizhou, Sichuan, Hubei, Hunan and the Chongqing municipality). At the same time, two co-financing projects in China were carried out between AFD and ADB in 2003 and 2004 (the Western Yunnan Roads Development and the Yunnan Dali-Lijiang Railway). However, no further co-financing arrangements have been pursued recently because of constraints imposed by Chinese regulations that favour bilateral aid. In any case, expectations were initially created and opportunities for collaboration could well exist in future if Chinese regulations are relaxed.

Specific issues related to AFD's capacity to be involved in large-size financing have also been raised with respect to the climate change and energy sectors. ADB has indicated it has a resource mobilization strategy and is therefore willing to participate in large and complex projects involving large financial commitments. It is important that AFD develop a financial plan for the Asian region in terms of its potential commitments in the years ahead.

Finally, the question of a commitment to non-coal co-financed solutions has been raised by staff at both AFD and ADB. ADB recognizes that coal continues to be a critical input for the power sector in many Asian countries due to large reserves and the lack of alternatives. While many countries are moving away from coal to cleaner fuels, some ADB staff argued that it is not realistic to have a strategic mandate based only on renewable energy and energy efficiency. In this respect, ADB's agenda should focus in part on bringing cleaner fuels to market, while also developing strategies that recognize the realities of the present energy marketplace.

2.3 The two organizations have made good efforts at strengthening the effectiveness of the partnership, in particular in the area of co-financing

2.3.1 Competitive advantages of both AFD and ADB proved to be beneficial to the partnership in terms of co-financing

Over time, ADB and AFD have developed specific competitive advantages which benefit each other. These synergies have occurred because one of the partners has acquired or developed an attribute or combination of attributes that allowed it to potentially outperform in a specific area. These factors can be important in promoting the partnership and in creating sustained co-financed projects.

Competitive advantages within the partnership range from organizational design (knowledge-based and GMS historically rooted projects) to complementarities of expertise located at both AFD and ADB. AFD strongly believes that co-financing in monetary terms is not its core value-added attribute. An AFD senior official asserted that the AFD could "offer something far more strategic and important than money alone in a co-financing arrangement. AFD's experience in innovative implementation schemes, its appetite for risk and its specific sectoral expertise are bringing value to any form of partnership." Indeed, at ADB, many interviewees mentioned the quality of interactions with AFD staff in specific sectors. For instance, AFD's experience in electricity distribution and efficiency and in water and sanitation was often recognized and praised by ADB staff. Local government and non-sovereign lending expertise are other areas of AFD expertise that can bring added value to the partnership.

The table below illustrates the key competitive advantages of the partnership as seen by each of the partners in respect of the other. For instance, ADB staff usually see AFD's flexibility and willingness to create a common "language" as a major advantage over other donors, especially when it comes to flexibility in the implementation phase. The fact that AFD brings untied aid is also an important competitive advantage. The technical expertise of AFD in many areas, such as urban development and energy efficiency, has often been praised. The strong expertise of some AFD country offices (*i.e.* Vietnam) has also been mentioned.

Table 3: Competitive advantages of AFD and ADB

Competitiveness area	AFD	ABD
ORGANIZATIONAL OUTLOOK	Knowledge-based, strong sectoral expertise in some areas	Resource mobilization capacity, SERD as the hosting ADB Dpt.
AID TYPE	Untied, some grants available through Trust Funds, NS-SS	Diversified (OCR and ADF), new financing instruments (*i.e.* MFF)
IMPLEMENTATION	Organizational flexibility (but AFD seeks greater visibility)	Impose safeguards-procedures but enhanced predictability
STRATEGIC FOCUS	Willingness to develop a shared vision in innovative sectors	Wide geographical and sectoral coverage, strong leadership
EXPERTISE	Highly recognized, risk-based approaches (NS) is a +	Strong sectoral and decentralized expertise

Source: Author.

According to AFD staff, ADB has a number of competitive advantages over other multilateral institutions. First, ADB is competitive in terms of financial arrangements, with the Asian Development Fund (ADF) being a major instrument enabling equitable and sustainable development for the Asia-Pacific region by using concessional financing (around 1% during the grace period and 1.5-2% during the amortization period). The ADF, funded by ADB's donor member countries – and replenished for the period 2009-2012 for around USD 11.3 billion – is seen as an ideal vehicle for offering grants and loans at very low interest rates to help reduce poverty in Asia's poorest borrowing countries.

ADB's wide coverage of Asia and strong network of country offices is also perceived as a key advantage of the partnership, enabling AFD staff to establish contact and build networks at the local and regional levels. Although ADB's procedures are often imposed on the partners, AFD admitted that the ADB's project management procedures, policy safeguards and reporting practices create a high level of predictability during the entire project cycle.

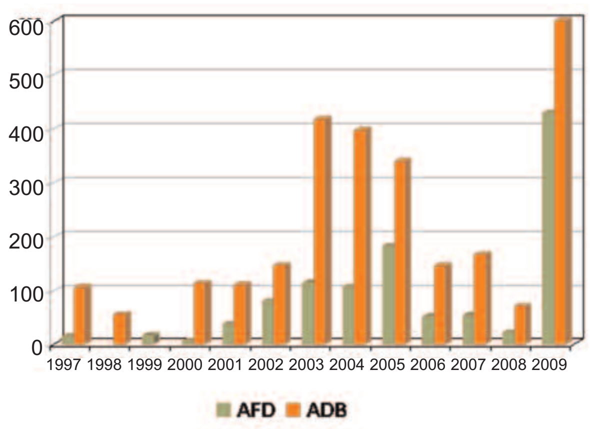
2.3.2 Co-financing commitments are seen to be a major outcome of the partnership

The efficacy of the partnership can be expressed through the number of projects being co-financed. Since 1997, joint activities by ADB and AFD have resulted in 38 co-financed operations amounting to USD 2,668.91 million for ADB and USD 1,107.40 million for AFD.

Vietnam is the country with the greatest number of co-financed projects: 14 for a total of USD 494.36 million (public loans). This is due to the historical collaboration in Vietnam between AFD and ADB, which started in 1997, well before the signing of the MoU. In 2009, a project was established in Pakistan in the field of energy efficiency, using a new ADB financing modality, the Multitranche Financing Facility (MFF). It is important to note that AFD is the first bilateral agency to test MFF, with feedback showing the promise of this instrument. In the Philippines, there was an important co-financing agreement of USD 441 million in the promising field of local government, with USD 216 million co-financed by AFD.

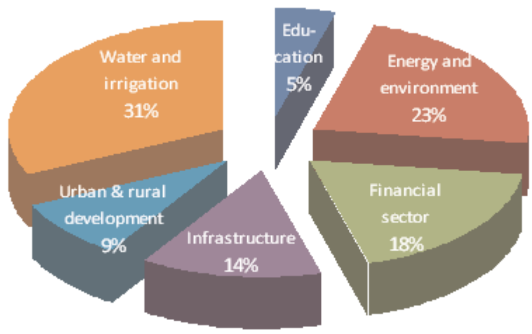
Interviews confirmed that an upward trend in co-financing could be sustained in Asia. As demand increases in terms of financing needs, ADB has greater incentives to embark on constructive co-financing operations with reliable partners.

Figure 7.1: AFD-ADB co-financing in Asia (USD millions)



Sources: AFD-ADB.

Figure 7.2: AFD-ADB sectors of intervention



Sources: AFD-ADB.

2.3.3 Over the years, the co-financed projects have covered a wide range of sectors, allowing the partners to share sectoral expertise

The co-financed projects carried out by the AFD-ADB partnership confirm that several sectors for interventions have been clearly identified by the partners for the period 1997-2010. Not surprisingly, many water and irrigation projects were carried out between 1997 and 2003 in the GMS countries before the signing of the MoU. These projects were developed in Vietnam, Cambodia and Lao PDR, the historical base of the AFD-ADB partnership.

Recently, new sectors – such as energy and environment, financial sector financing or local government – have witnessed an increase in co-financing commitments, and new countries have also been added (Indonesia, the Philippines, Pakistan, etc.).

It should be noted that energy and environment represented the second largest area of commitments (23% of total co-financed projects) during the period 1997-2010. Water and irrigation were the most important projects in this sector, representing some 32% of commitments, but the number of these projects has been decreasing in recent years. In the years ahead, the energy and environment sector will continue to show promise for the partnership, because demand has been clearly identified in these areas, primarily for large-scale projects related to energy efficiency, clean energy and climate change.

2.4 Implementation of the partnership presents opportunities for enhanced performance

2.4.1 Project cycle time and schedule effects are said to have caused problems in the past; coordination could be improved at field level

Both AFD and ADB recognized the importance of transparent and coordinated strategic planning, portfolio management and project scheduling. When the processes are aligned, the strategic element naturally feeds the portfolio element, the portfolio element feeds the project management element, and the project management element feeds projects and the team's execution.

In the case of the AFD-ADB partnership, these processes are said not to be fully aligned; as a result, both organizations may fail to collaborate effectively. This issue had been noted in the 2006 evaluation of the partnership when it was stressed that ADB was often associated with the conception of the projects and its implementation, ADB's processes prevailing on those of the bilateral co-financers. In practical terms, for the great majority of the projects under review, it meant that ADB's project managers would take the lead for conducting the following operations: identification, preparation and appraisal (including feasibility and technical assistance missions), approval, implementation, completion, and evaluation.

In 2006, AFD staff had already indicated that they had insufficient opportunities to participate in all the stages of the project cycle. For instance, procurement of experts for the preparation would be done under the ADB's procedures and ADB's safeguards would be applied across the board. During interviews in 2010, ADB staff argued that it was important to ensure that ADB's procedures would be followed when selecting a co-financer for a project. At the same time, AFD argued that the agency had flexibility to be responsive to ADB's proposals to participate in co-financing arrangements, often being able to secure signature of loan conventions in less time than ADB, but that its staff would not participate enough in feasibility and technical assistance missions (see also Annex 7 for the co-financed project indicators).

In terms of coordination, judgments are not the same from the headquarters and field perspectives. Coordination between the partners is seen to be satisfactory at the headquarters level. The AFD staff secondee is contributing to a large extent to the coherent approach institutionalized through the MoU. Heads of departments at both institutions meet at the annual Retreat and discuss respective mandates and business plans. While each partner reaffirms the importance of coordination and evidence of positive efforts can be found within the partnership, this is not always the case at country level where information-sharing is rare and design clarity could be improved.

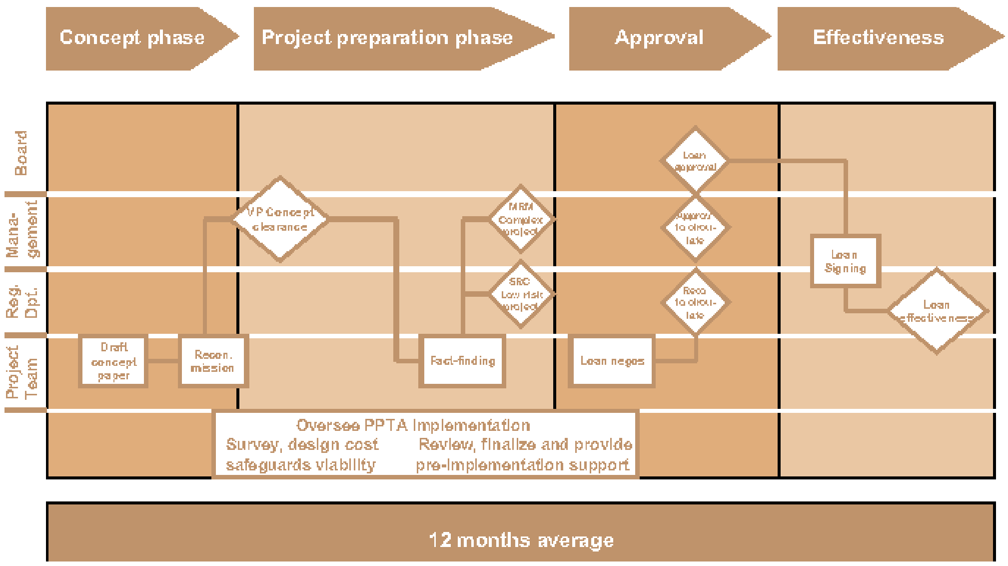
Moreover, information-sharing could still be strengthened at project or field level. For example, the identification of co-financed projects requires organizational commitments to pursue joint approaches, such as in "needs assessments" mutually carried out by donors and involving different forms of consultations. Indeed, formal consultative mechanisms have to be implemented to share a vision on business plans and project pipelines. This is particularly true when country business plans from both AFD and ADB exist but have to be matched in order to identify co-financing opportunities and other potential joint activities. We recommend increasing coordination of country programming and project preparation. Adequate and sustained coordination is also important for the partners in order to enhance ownership of the co-financed projects and communicate in a more regular fashion with borrowers and beneficiaries.

2.4.2 ADB's "Better and Faster Loan Delivery" could today be a major opportunity to align the partners' project cycles for greater efficiency

We note that a new policy entitled "Better and Faster Loan Delivery" was approved by ADB in November 2009. This policy shows promise for both AFD and ADB in the area of co-financing and is perceived to be a new opportunity to improve the process and cut transaction costs for the partners.

Generally speaking, staff members of both organizations have expressed their interest in having co-financing procedures and project cycles better aligned. An AFD evaluation study carried out in 2006 reported that the "two institutions have procedures that are relatively similar" (Devernois, 2006) but there can be significant delays between early project assessment and the signing of financing agreements at both AFD and ADB. Indeed, as shown in Annex 2, for specific projects in our review, the processing time from AFD to ADB is greater by a factor of 1.59 to 7.86 for the six projects under review.

Figure 8: ADB's revised loan delivery procedures



Source: ADB.

According to AFD and ADB staff at the project level, lack of synchronization or lengthy processes requiring substantial human and financial resources have significantly increased global transaction costs for all partners in the past. Our report argues that the revised November 2009 ADB loan delivery procedures may well streamline ADB processes in the near future, while also bringing specific benefits to the co-financing partners. At the same time, both AFD and ADB easily admit that the concept of mutual recognition of both AFD-ADB procedures is unrealistic in the short term. Therefore, as a solution for the longer term, it is expected that the revised loan delivery procedures will make it easier for both partners to derive common benefits as follows:

- **Better matching of AFD and ADB business cycles**: ADB's average loan delivery of 36 months from concept to disbursement for a project with a Project Preparation Technical Assistance (PPTA) is slow, since the normal project cycle of an AFD project is 12-24 months. Streamlining the ADB loan delivery processes from 24 months to around 12-15 months will make the two institutions' project cycles more compatible.

- **Increased co-financing efficiency**: Identification of projects and programming should become easier when staff work under a streamlined timetable that will force them to seek efficiencies while also maintaining quality. Recruitment and procurement reforms are underway at ADB to reduce the timetable and allow AFD staff to participate in joint missions and activities in a more efficient manner.

- **Greater business certainty**: If the business cycle is reduced from an average of 24 months to around 12-15 months, this will encourage the partners to gain more predictability in preparing the project pipelines, simply because less time will be available in the process to fix delays.

- **Enhanced communication**: Shorter project cycles will encourage the partners to develop more robust and efficient communication practices, both at country and HQ levels.

- **Reduced transaction costs**: As processes become more efficient, transaction costs will decrease. At ADB, a higher degree of authorization should be accorded to the lowest optimal functional level. There is also significant scope to simplify document management and to improve the ways the concept and preparation phases are carried out.

- **Seeking impacts**: The new ADB Better and Faster Loan Delivery is sensitive to the fiscal constraints now imposed on countries. Clearly, executing agencies in countries will have to take account of these reforms.

2.4.3 Innovative financing modalities are seen to be promising by the partners

New co-financing instruments have recently been introduced. For instance, the co-financed project in Pakistan (Energy Efficiency Investment Program for a total cost of USD 60 million) was made possible by the ADB's Multitranche Financing Facility (MFF) – see Case Study below. According to ADB, an MFF is a financing modality that supports a client's medium- to long-term investment program. ADB's Board of Directors approves a maximum amount for an MFF and the conditions under which financing will be provided. On the basis of the Board's approval, and at the client's request, ADB Management converts portions of the facility amount into a series of tranches to finance eligible investments. A tranche can be a loan (other than a program or a sector development program loan), grant, guarantee or ADB-administered co-financing.

The MFF is said to enable the partners to invest programmatically, thereby reducing over-reliance on stand-alone project approaches that often involve repetitive and cumbersome business processes. According to AFD, this modality has been tested only in the Pakistan case but should be renewed. The MFF opens the way for more structured co-financing and cuts transaction costs. It also provides critical mass, predictability, and continuity to clients, and encourages the co-financing partners to engage in more robust planning and programming.

The inconvenience for a co-financier such as AFD is to make the MFF fully compatible with internal processes in terms of approvals, while ensuring a high level of commitment over the MFF's life. The review recognized the need for facilitating the application of these financial instruments in a transparent manner, based on clear instructions and practice at both AFD and ADB. Management endorsement should also be clear to ensure that the partners can engage in long-term collaboration that will require multitranche financing over the medium and long terms.

Box 2: Case Study - Multitranche Financing Facility and Administration of AFD-ADB Co-financing in Pakistan: Energy Efficiency Investment Program

The energy gap is now one of Pakistan's most serious binding constraints to growth and jobs. It results from the rapid increase in demand and high wastage of energy, and is one of the main causes of the current economic crisis. Pakistan uses 15% more energy than India and 25% more than the Philippines (for each dollar of gross domestic product). Energy wastage is a high cost to the economy, businesses, and consumers; its reduction requires major and immediate shifts in policies, investment, and consumption patterns.

In 2009, the power deficit reached 5,000 megawatts (MW), and natural gas supply to industries was cut during the 4 winter months. People and businesses in many parts of Pakistan are experiencing power outages and rationing lasting more than 12 hours a day. Factory closures are causing social unrest. Energy efficiency also represents the least-cost and quickest low-carbon solution to bridge the energy gap.

The Energy Efficiency Investment Program is the first initiative in Pakistan to integrate energy security and climate change into a common strategic platform. It establishes a dynamic business environment for clean energy technology and finance priority projects. There is a comprehensive 10-year investment program (USD 3.8 billion) comprising a variety of sequenced supply- and demand-side investments in priority sectors and institutional development.

The Investment Program underpins a reform strategy that will mainstream energy efficiency into national planning and public investments, and is a critical component of Pakistan's climate change program. The Government of Pakistan is adopting a holistic platform for strategic planning of the energy sector and climate change.

The Investment Program builds on ongoing work of the Asian Development Bank (ADB) to establish integrated energy planning. AFD is the first partner to join this initiative. The Investment Program will break down the financial barriers to clean energy investments, and finance deployment of clean technology that has been successfully demonstrated. It will strengthen regulatory and institutional frameworks, establish fiscal and financial incentives, and enforce standards and testing. More importantly, it is expected that the private sector will play a key role in the deployment of clean technology and energy services. Sustainable business models for energy efficiency services (*i.e.*, energy audits, performance contracts) will be established and replicated. The Investment Program will increase industrial productivity and competitiveness by lowering operating costs.

It is the Government of Pakistan that asked ADB for a flexible public sector financing mechanism to support energy efficiency in the short to medium term. A multitranche financing facility (MFF) was considered the most appropriate modality for energy efficiency investments in Pakistan.

Pakistan has requested USD 980 million equivalent from ADB and AFD to help finance the Investment Program. Funding will be requested through periodic financing requests (PFRs) and extended through individual loans and/or guarantees. ADB will provide up to USD 760 million equivalent from its ordinary capital resources under ADB's London interbank offered rate (LIBOR)-based lending facility. AFD should provide up to Euro 150 million on a joint co-financing basis through loans to the Government. ADB and AFD will enter into a co-financing agreement for each PFR. AFD co-financing under the Investment Program will be handled by ADB on a partial-administration basis. Co-financing arrangements may also be agreed with other development partners after the Board's approval of the proposed MFF for future tranches under the Investment Program.

The MFF will be provided in tranches to finance projects and investment program management. The first PFR will be financed from tranche 1 of the MFF. It includes financing for the National Compact Fluorescent Lamp (CFL) Project (USD 85 million) and the Investment Program Management Support Project (USD 25 million), which is essential to improve institutional effectiveness, capacity, governance, gender mainstreaming, and project management activities). This PFR has requested USD 60 million equivalent loans from ADB and a Euro 20 million loan from AFD.

Such a MFF approach in the sector of energy efficiency is said to be innovative because it provides a long-term perspective and commitment of donors. Thus it ensures predictability of investment on policies qualified as long term.

2.4.4 Competitiveness in financial terms is seen as an important factor for the partnership, with ADB remaining considerably more competitive than AFD

Today's socio-economic challenges underscore the importance of not losing sight of long-term competitiveness fundamentals in providing development aid in the midst of short-term urgencies. Competitiveness means essentially the ability for the bilateral or the multilateral organization to compete in terms of financing offerings using international best practices. Furthermore, beneficiaries of development aid often seek to harmonize the financial conditions of the co-financiers, thus forcing the partners of a project to develop a common approach.

Table 4 shows that AFD and ADB share the key fundamentals of measuring performance. However, ADB has been more competitive than AFD in some areas, including the return on investment and profit margins. It should be noted, however, that levels of expenses were not always comparable when comparing a bilateral organization with a multilateral one.

With regard to financial terms on loans, ADB has developed a dominant position in terms of volumes offered, lending rates (at LIBOR with rebates reviewed every six months), the choice of currencies available and repayment terms. We noted that ADB could generally fund LIBOR-based loans at a cost lower than 6-month LIBOR (*i.e.* a sub-LIBOR funding cost margin). This means that loans could be offered at LIBOR -20/-28 basis points (bp), making ADB more competitive than any other MDB, including the World Bank Group. In comparison, AFD is more expensive, especially on EURIBOR-based loans at present being offered at about +25 bp.

Table 4: Comparison of AFD and ADB key financial indicators (2008 value)

Strategic Outlook	ADB	AFD
Net income	Euro 167.2 million (with Proparco at Euro 20.8 million)	USD 699.7 million (Pre-FAS 133/159)
Yield ratio (Net income/total assets)	1.2%	0.916%
Return on investment (ROI) (Net income/total investment)	1.43%	3.70%
Profit margin (Net Income/revenues)	16.23%	33.89%
Employee return (Average) (Net income/number employees)	11.84%	27.92%
General & administrative (GA) expenses	Euro 187.4 million	USD 141 million
G&A ratio to income	18.19%	6.82%
Cost of borrowing	4.30%	3.29%
Total funding/capitalization	Euro 4.46 billion (Loans, grants, guarantees, private equity…)	USD 52 billion (total capitalization)

Source: AFD and ADB Annual reports 2008.

2.4.5 Disbursement commitments are satisfactory but may impact negatively on performance in some areas and countries

Disbursement commitments are satisfactory in the AFD-ADB portfolio but remain problematic in some countries. AFD and ADB total disbursement rates over the cumulative period from 1997-2009 are quite similar, 54% for ADB and 50% for AFD of the total committed for public loans.

In some countries, the mission has identified several issues of emerging concern for the future health of the AFD-ADB portfolio. These could possibly lead to missed opportunities or, in some cases, a risk that some of the ongoing projects will not meet the development objectives set by the government. This is the case in Vietnam. Despite the "Six Banks Initiative"[3] in Vietnam, disbursement rates are still problematic, mostly due to the constraints imposed by a deficient public financial management capacity and a constrained regulatory environment. For instance, the Phuc Hoa Multipurpose Water Resources project, started in 2003, only shows an AFD disbursement rate of 22%. The GMS Yen Vien-Lao Cai Railway Upgrading project, started in 2006, shows no disbursement at this stage.

As a result, we concluded that there was clearly an increasing need to monitor specific issues related to performance on disbursements, and consequently to improve efforts to implement monitoring across sectors and project harmonization procedures among donors, with particular attention being devoted to the following issues: (i) a stagnant disbursement performance and a noted downward trend in disbursement ratios; (ii) slow project startups leading to possible missed opportunities (*i.e.* due to problems with staffing, hiring consultants required to prepare detailed designs, procurement, and management issues particularly in the case of provincially delegated projects); and (iii) delays in implementation requiring frequent (and expensive) project extensions. We recommend monitoring disbursement policies and ratios on a regular basis in order to take corrective actions at the partnership level.

[3] In Vietnam, the "Six Banks" are the World Bank, ADB, JICA, KfW, Korean Eximbank and AFD. With 80% of the official development aid provided in Vietnam, the Six Banks are concerned with specific constraints to project and program implementation, calling on the review of government and donor systems and procedures. The Six Banks are also pursuing a negotiation process to reform the country systems.

2.4.6 Managing for quality: strengthening information-sharing mechanisms in the future

Adding staff is a necessary but in itself insufficient measure to ensure effective fulfillment of a partnership that has aims to increase its scope. In a business environment in which the partners will seek to new challenges and to expand the partnership, additional resources are needed to support the acquisition of field knowledge and strengthening the staff's analytical capabilities.

AFD and ADB have made good efforts to strengthen information-sharing mechanisms in recent years, but these can still be improved. The processes by which the partners share information between themselves, and how information from various departments/divisions of both AFD and ADB is shared throughout the partnership, shape the quality of co-financing projects and the results achieved.

Information-sharing mechanisms exist, primarily from the annual Retreat and from staff being seconded from AFD. However, the flow of information is not always fully structured and regularly shared. Many ADB staff members have indicated that while they provide information to AFD, through the SERD or the Retreat, they receive little information in return or no follow-up. The same perceptions exist at AFD, perhaps more on the level of project design and implementation. Some AFD staff indicate that they do not receive information concerning missions, procurement issues, etc. Some pointed to a weak follow-up process after the annual Retreat and a failure to implement a clear decision-making process once the Retreat has ended.

As a result, we discussed ways to reinforce relationships and follow-up from official visits. It appears that a clear plan should be devised to measure follow-up after the Retreat, with emphasis on performance and results. One tool to achieve this could be video conferencing, which could be deployed at AFD to ensure that regular discussions can take place during the course of the year.

2.4.7 Better accountability and monitoring of joint actions could enhance the reporting of performance

Monitoring and accountability functions are essential elements of the financial management cycle at both AFD and ADB, but they have not been fully implemented on a joint basis. At present, each organization maintains its own systems as follows:

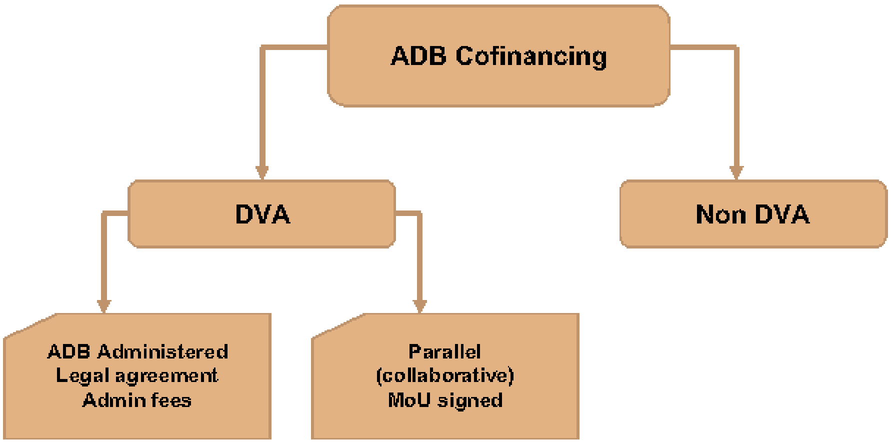
- **AFD**: Co-financing is recorded on an Excel spreadsheet and updated on an *ad hoc* basis. The Excel database is maintained by AFD's Asia Department.

- **ADB**: The Office of Co-financing Operations (OCO) is responsible for securing and monitoring co-financing agreements. A database is maintained to register co-financing projects from an ADB perspective.

Although the reliability of these systems and their capacity for providing timely, comprehensive and accurate data are basic prerequisites for good management, the mission concluded that the AFD and ADB reporting systems needed improvement in many respects. Reporting systems, both for accounting and performance purposes, are not configured for quick and reliable reporting, nor do they allow for organizational goal-setting and performance measurement.

The review also noted that the ADB systems would not allow for full consolidation of co-financing projects. ADB has created various categories of reporting for co-financed projects (see below). Although the ADB OCO database records all information on the co-financing (project, approval, Direct Value Added [DVA] and non DVA loans, grants), it is used to report ADB DVA-administered projects and consolidate data on the same basis in the Annual Report. As a result, in the Annual Report, non DVA projects are shown as a "discrete" one-line item (meaning that a single figure is quoted without providing any breakdown per co-financier or project). This also poses problems of accountability and visibility, since part of the co-financing projects, the non DVA-administered ones, do not appear in official documents in a consolidated format.

Figure 9: ADB co-financing arrangements



Source: ADB.

Our mission at both AFD and ADB noted that reconciling information from AFD and ADB is quite difficult, as it is impossible to obtain a fully aggregated financial picture (the two organizations present non-reconciled data with some margins of error).

Well-informed decision-making at managerial levels depends on the reliability of financial information for each project. An effective Management Information System (MIS) requires a multi-directional approach that may include:

- ensuring reporting discipline (maintaining intelligible MIS, allowing for consolidation and reporting on a project basis);

- ensuring transparent reporting within each organization and facilitating communication of verified information;

- providing consolidated information on implementation to project managers and senior management on a regular basis; and

- satisfying any central financial reporting requirements, both at AFD and ADB.

It is therefore suggested that a system be developed that can reconcile funding sources and reporting of financial data at all levels of the partnership and that consideration be given to the appropriateness of the focal point responsible for the collection of proper financial data and reporting to management. It would be appropriate to develop a joint integrated MIS to facilitate systematic information flows on co-financing.

2.5 There has been limited success in some areas, in particular knowledge management, research and analytical work

2.5.1 Non-monetary outcomes for the partnership have been identified but have not yet been fully implemented

The partnership's success will not only depend on monetary co-financing terms, but also on a variety of potential joint actions, as shown in the following table. Clearly, many non-monetary outcomes were identified by the partners during our interviews, but many of these have not been developed. We also noted an asymmetry in the way outcomes and impacts could be evaluated by the partners, for instance on the question of staff exchange.

Table 5: Partnership outcomes

Types of actions	Details	Comments
Co-financing	38 projects in 9 countries since 2003	The co-financing arrangements are at the heart of the AFD-ADB partnership
Shared mandates	1 MoU at institutional level; many technical agreements at local level	Global MoU being revised in 2010. The MoUs are well perceived by both partners
Shared information systems	*ad hoc* tools existing to monitor co-financing	ADB and AFD systems to be reconciled in value and fine-tuned on performance reporting
Staff exchange	1 AFD staff at ADB (SERD)	No ADB staff at AFD Paris, thus creating an asymmetric impact within the partnership
Staff retreat	4 annual Retreats since 2006	Concept to evolve to ensure more follow-up of joint actions and matching of business plans to indentify co-financing opportunities
Common procedures	Mostly developed at project level to facilitate implementation	Perceived to be based on ADB's procedures since AFD and ADB have not developed a mutual recognition of procedures. AFD follows ADB's procedures in most cases
Training & learning programs	Phnom Penh Plan for Development Management with AFD financing and training	67 demand-based learning programs benefiting over 1,313 GMS officials but AFD mentioning that administrative details and logistics are cumbersome
Research and knowledge management	Discussions at Retreat to embark on joint initiative	No concrete actions yet
Technical expertise facilitation	Numerous joint missions from AFD and ADB experts	AFD technical expertise well perceived in many areas: urban, energy, local government.
Evaluation	To be developed	Evaluation is mentioned as an area of future collaboration by both partners

Source: Author.

2.5.2 The partners have the intention to share knowledge-based management actions, but the agenda for this does not yet exist

We could not identify traces of joint systematic knowledge management actions in the AFD-ADB partnership. Apart from the Retreats and an evaluation work performed in 2006, AFD and ADB staff rarely identified and shared good practices or lessons learned. Nor did they formally document ideas, information or experience that could be useful to others or actively share their knowledge, except on specific co-financed projects. While there is some knowledge-sharing between the two institutions, it is largely *ad hoc* in nature. We noted an absence of any knowledge management tool at the level of country operations.

An initiative that we found commendable at ADB is the "Knowledge Solutions" showcase: a paper-based series of short documents providing guidelines on a variety of topics in order to provide support to ADB staff and partners. This consists in sharing experiences, guidelines and lessons learned. In particular, we noted the publication entitled "Creating and Running Partnerships", which highlights key drivers of success and guidelines for managers.

2.5.3 Joint research projects offer the potential for enhanced collaboration but opportunities have not yet been exploited

On the research side, we noted from the executive summaries of past Retreats that research has been considered important. Both AFD and ADB having strong departments in this area. For instance, at the Retreat of 2009, ADB and AFD agreed to initiate cooperation in knowledge management and research with the aim of developing joint activities, climate change being a theme of common interest.

ADB research centered in the following departments and offices: 1°) Economics and Research Department; 2°) Regional and Sustainable Development Department; Office of Regional Economic Integration; and the ADB Institute in Tokyo. Research MoUs between the ADB and other institutions have also been signed (Inter-American Development Bank [IADB], World Bank, Organisation for Economic Co-operation and Development [OECD], International Monetary Fund [IMF], etc.). At AFD, the Research and Evaluation Department is composed of the following units: Economic and Social Research; Macroeconomic Analysis and Country Risk; Evaluation and Knowledge Capitalization; and Support to Knowledge Management.

For ADB, research is seen to be a public good, one that also has networking advantages. Therefore, it is most beneficial when acquired from the greatest number of sources and disseminated to the widest possible audience. Most of the research capabilities of ADB are located in-house. For instance, the Economics and Research Department has a full-time staff of around 30 professionals, most at the Doctor of Philosophy (PhD) level, and around 30 support staff. But AFD also outsources research to specialized centers and universities.

A meeting with the ADB Economics and Research Department revealed the following research priorities: inclusive growth; diagnosing critical constraints to growth; economics of climate change and low-carbon growth; commodities, energy and global economic monitoring; impact assessments; achieving more balanced growth; pursuing fiscal and debt sustainability; and poverty monitoring. Knowledge-based work within the partnership could be explored in these areas. Specific proposals for the partnership included potential work in India (at the sub-national level) or at the regional level (*e.g.* northeast India, Nepal, Bhutan).

We recommend that AFD and ADB engage in more substantial knowledge and research activities in the future. In particular, we noted an interest in doing joint research on climate proofing for Vietnam and/or the Philippines.

2.5.4 Past evaluation analysis has not been fully integrated into the decision-making process

Monitoring and evaluation (M&E) functions are essential elements of the financial management cycle of any partnership. In particular, the purpose of the evaluation is to provide the various stakeholders with an independent and accountable assessment of past and current cooperation with each partner. The evaluation is the necessary tool to monitor progress toward key goals and to better understand the constraints hampering progress and, if needed, to make specific recommendations for corrective measures to be implemented.

Due to limited management resources and budgets dedicated to M&E, the evaluation function has evolved somewhat erratically within the AFD-ADB partnership. We found traces of only one evaluation, commissioned by AFD in 2006, and covering the period 1997-2006. Not surprisingly, the linkages between findings and recommendations from the 2006 evaluation have not been systematically visible in practice during the last few years. Although a few recommendations proposed in 2006 have received attention (*i.e.* high-level meetings and retreats), the majority of these have not been implemented (information-sharing at both HQ and country levels, joint planning documents, knowledge management, joint evaluations).

As a result, the partnership has not been able to capitalize on M&E findings and analyses. When asked about M&E, many interviewees pointed to the scarce resources dedicated to this field, the non-availability of trained personnel that could inform the M&E process and the limited number of co-financing arrangements carried out in previous years. The data-gathering and analysis activities regarding delivery and cost-effectiveness of M&E for the partnership was thus considered by many to be too costly and not necessary as a regular activity.

Now that the partnership is attaining a critical mass, with an expansion being considered, we recommend establishing an evaluation system to ensure the effective functioning of M&E. Before doing so, it is important for the partners to identify the objectives of introducing such a system. The evaluation departments of both AFD and ADB have the resources and the expertise to develop and render operational an effective M&E system.

2.5.5 Ahead of the curve: building scenario-planning capacity to create a dialogue between risks and opportunities in specific areas

During interviews at AFD and ADB, a clear need was expressed to reinforce the strategic planning and analysis function, particularly in the fields of energy and environment. In these fields, which will face many challenges in coming years, forward thinking is necessary. To accomplish this, scenario planning should be prioritized to consider a wide range of possibilities, trends and uncertainties (*i.e.* in climate change, migration, renewable energy). This would partially compensate for the usual errors in decision-making – overconfidence about the medium-term future and tunnel vision.

In specific areas, the partnership should utilize scenario planning to simplify the avalanche of data and focus on a limited number of alternative activities. This would also allow the partners to think systematically about complexity, uncertainty and interdependence in turbulent times. One senior staff member asserted that "achieving believability and action in climate change requires a depth of insight and understanding that is rare today within the organization. It is important for all of us to develop an internally consistent view of what the future might turn out to be in Asia on climate change – not a forecast, but possible future outcomes."

In conclusion, we recommend that the partners develop a common approach to specific game-changing events in Asia that could occur over the medium and long term. When upheavals occur, the rules of the game that were previously in place may no longer apply. This is why there is a need to anticipate major shifts. In practical terms, the partners could decide to embark on a joint scenario-planning exercise, for example in the area of climate change, energy or urban development. Taking such a long view will constitute a more proactive and anticipatory approach to address deep-seated problems, to anticipate challenges and opportunities at the level of the partnership and to consider the long-term effects and potential unintended consequences of actions that might well occur in the near, medium and longer terms.

2.6 The partnership has to be fully re-institutionalized to ensure long-term durability and better

2.6.1 The renewal of the MoU over 2010-2015 as a major milestone for the future

Today both organizations feel the need to deepen the partnership. The new Partnership Framework Agreement represents an opportunity to explore new areas of convergence, notably in private sector and non-sovereign financing; to expand beyond the 'traditional' geographical areas of collaboration; to expand areas of collaboration beyond co-financing (which has been the major tool to implement joint activities).

The collaboration between AFD and ADB existed before the signing of the 2003 MoU. But it was the MoU signed in 2003 that has given visibility to specific common objectives, allowing both institutions to test their interest in working together. The renewal of the MoU for the 2010-2015 period will re-institutionalize the partnership, thus enhancing its long-term durability. As indicated earlier, the partnership has been setting the scene for a strategic alliance since 1997, allowing both partners to develop synergies in terms of resource mobilization and shared expertise. Because both organizations feel the need to deepen the partnership, a revised MoU represents an opportunity to explore new areas of convergence and expand beyond the 'traditional' geographical areas of collaboration.

In short, our interviews with staff of AFD and ADB confirmed that the MoU is an important tool to ensure that both institutions find ways to deepen the partnership, while working together to achieve common purposes and to share risks, responsibilities, resources, competencies and benefits.

MoUs are widely used by ADB and are a tool for improving predictability. While MoUs could be signed by any ADB department in the past, they are now prepared and centralized by the Strategy and Policy Department (Co-financing agreements being prepared and negotiated by the Office of Co-financing Operations), thereby reducing the risks of poor communication and inconsistency in implementation. ADB has institutional or project-based MoUs with many organizations: African Development Bank (AfDB), OECD, World Trade Organization (WTO), United Nations Development Programme (UNDP), United Nations Children's Fund (UNICEF), Food and Agriculture Organization (FAO), United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), United Nations Development Fund for Woment (UNIFEM), UNFCM, Red Cross (in preparation), etc.

Although we could not answer the question of whether cooperation would have been sustained regardless of the MoU, clearly there is an increasing interest, within both institutions, in replicating co-financing experiences. The fact that the MoU was institutionalized in 2003 at the highest level, being signed by AFD Director General, Jean-Michel Severino, and ADB President, Tadao Chino, is also perceived as an important step to facilitate collaboration. Many interviewees affirmed that the processes introduced under the MoU have led to a more strategic, longer-term approach to planning and programming. In sum, following the signing of the MoU, it was easier to design institutional mechanisms to promote co-financing.

2.6.2 There is growing cooperation between AFD and ADB, but many of the agreed-upon modalities for better cooperation are yet to be implemented

In addition to the institutional MoU of 2003, many project MoUs or project co-financing agreements have been signed to govern the relationship between AFD and ADB at the project level. In the case of ADB-administered or joint co-financed projects, staff at both AFD and ADB pointed out that it is important to ensure predictability and consistency through a formal agreement. This is particularly true for AFD because, in such an arrangement, ADB's procedures and safeguards are strictly followed. For instance, AFD staff would like to be involved in the concept and preparation phases of co-financed projects and, as a result, they would expect that the MoU will provide guidance on how joint efforts can be contemplated (*i.e.* joint missions in the field).

We noted that an institutional co-financing agreement is now being prepared. We highlighted some important points to include in this agreement, as reported to us:

- nature and purpose of the project (objectives) ;
- areas of cooperation over the period ;
- estimation of the resources to be mobilized over the medium term (up to 3 years) ;
- implementation and executive arrangements (focal points at both AFD and ADB) ;
- channels of communication and notice ;
- protocols for joint missions ;
- dispute resolution mechanism.

2.6.3 Collaboration will be enhanced only if a systematic inventory of potential joint actions is undertaken

Although the "fit" is clear in specific areas, the content of intervention using a medium-term perspective must be agreed upon. In tandem with refocusing co-financing operations, AFD and ADB would promote greater coherence across the co-financing policies and strategies if a comprehensive inventory of all existing opportunities were undertaken in a systematic manner, starting with the review of country strategies and business "pipelines".

We noted that a list of priority sectors has been maintained at AFD-ADB since the last Retreat of 2009 ("ADB-AFD Work Plan 2009-2010"). A few ADB staff commented on the Work Plan, seeing it as a much needed tool for planning, but adding a word of caution indicating that this tool has to be comprehensive and regularly updated. In any case, AFD and ADB staff from different geographical departments and sectors have expressed their interest in investigating new co-financing opportunities in the areas mentioned in the AFD Work Plan.

In sum, we conclude that there are areas of convergence in the AFD and ADB mandates that should facilitate the co-financing of projects but should also allow for collaboration in new areas. To ensure full implementation of joint projects in these areas, it is crucial for both partners to create a realistic joint business plan based on a list of priorities and concrete objectives. Depending on the degree to which the partners share business plan information upfront, co-financing strategies will be enhanced in terms of operational efficiency, client responsiveness and optimization of institutional resources for a greater development impact.

2.6.4 The staff AFD-ADB Retreat concept has to be re-invented

The staff AFD-ADB Retreat remains an important event, but the concept has to evolve. Three Retreats have taken place since 2006, and the content of the event was always relevant to the strategic agenda of both partners.

The Retreats are well prepared, with a specific concept paper, an agenda and an executive summary. In 2007, a plan of action was provided with details on how to follow up on specific items. During the Retreat, special priorities are also highlighted. For instance, in 2006, AFD indicated that it wanted to give priority to the energy sector for its future cooperation with ADB (energy efficiency in the Lao People's Democratic Republic [PDR], supporting the GMS working group on energy activities, and co-financing projects with ADB in Lao PDR and in Vietnam).

At senior level of both AFD and ADB, there seems to be a willingness to implement a stronger follow-up plan to ensure that specific actions are carried out and monitored. There were also suggestions made to create preparatory workshops on specific topics/sectors/countries.

Table 6: Retreats 2006-2010: a perspective

Retreat	2006	2007	2009	2010
Dates	30 January 2006 in Paris	Manila on 28-29 June 2007	3-4 February 2009 in Paris	8-9 March 2009 in Manila
Objectives	• Take stock of cooperation outcomes in co-financing • Determine key future cooperation areas to co-finance GMS regional cooperation and country specific programs • Enhance cooperation between the two institutions	• Compare respective strategic frameworks and aid effectiveness agenda • Examine the potential for collaborative activities in clean energy and energy efficiency • Review sector and project prospects for co-financing • Determine areas for future cooperation	• Enhance cooperation • Review progress of partnership • Determine cooperation areas and regions to develop a common strategic approach • Identify opportunities for enhanced institutional collaboration to build a stronger partnership	• Provide a high-level forum for country, sector and thematic groups to jointly define, following an independent evaluation of the ADB-AFD partnership, its future architecture and priorities, outputs and targets • Signing of the new (a) partnership framework agreement and (b) co-financing agreement framework • Finalization of the first year work-plan under the new partnership framework agreement
Sectors discussed	• Energy sector • Rural Development and Water Resources Management (Cambodia, Lao PDR and Vietnam) • Participation in the Phnom Penh Plan (PPP)	• Clean energy • Agriculture and Natural Resources • Infrastructure and finance • Climate change	• Water and sanitation • Non-sovereign lending and private sector development	• Sustainable Urban Development • Climate Change • Non-sovereign/sub-sovereign funding • Knowledge Products and Research Activities
Key outcomes	• Improving coordination and aid harmonization according to the OECD/Development Assistance Committee (DAC) Paris Declaration • Increased efficiency and effectiveness in the Mekong and beyond	• Participation in the ADB-supported Asia Clean Energy Forum • Assistance programs in A&NR and rural infrastructure remaining a priority • Improving co-financing • Sharing experience in non-sovereign/sub-sovereign financing	• Enhancing collaboration in water and sanitation (China, India, Thailand, Indonesia & Pakistan) • Enhancing collaboration in non-sovereign lending and private sector development • Enhancing collaboration in urban infrastructure and transport	• Signature of a renewed MoU, expanding the scope of ADB-AFD cooperation objectives and activities • Signature of a co-financing framework agreement

Retreat	2006	2007	2009	2010
Key outcomes	• Coordinating country and regional strategy formulation and programming;	• Considering knowledge Products and Research Activities	• Promoting energy efficiency and clean energy activities • Developing a common knowledge-based development program	
Specific actions to be conducted	• In-depth consultation meetings to be set, with particular emphasis at the country level • Enhanced coordination in the agriculture and natural resources sector, in particular in the framework of the GMS Working Group for Agriculture • Coordinating in Country Programming and Project Preparation		• AFD to develop a matrix of next steps for sectors and themes discussed • AFD and ADB to carry out an assessment of the work accomplished within the framework of the partnership • AFD and ADB to establish a mechanism of formal coordination for continuous exchange of information and follow-up at all levels	

Source: Author.

2.6.5 The visibility of the partnership should be strengthened to enhance its impact

The visibility of the partnership has not always been maximized. We do not find systematic documentation presenting the partnership at the general level. In addition, outreach concerning the implementation phase of projects may give a clear advantage to ADB. This is particularly true during the implementation phase of ADB-administered co-financing projects, with ADB procedures being used for procurements, on-site missions and evaluation, etc. At country level, the annual consultation process would help raise the visibility of joint activities, but there are still no official activities undertaken to present the partnership to various stakeholders. Each partner prefers to conduct its communication campaign and actions separately.

More worrisome, we cannot find mention of the AFD-ADB partnership in key official documents. The AFD regional intervention framework (*Cadre d'Intervention Régional*) only mentions ADB in the Annex of the document. Similarly, we could not find many references to AFD in official ADB documents (we also noted that one publication concerning the Phnom Penh Plan, which was undertaken in partnership with AFD, was lacking the sponsoring logo and information).

We recommend developing a more systematic communication campaign at both HQs and on the ground. An institutional brochure should be designed to give visible ownership to the partnership and to outline its core mission and objectives. It is crucial to properly disseminate information on the partnership in order to highlight its achievements and impacts.

2.6.6 The grant-making capabilities of AFD are decreasing, posing problems for joint technical assistance

The grant capabilities of AFD (around Euro 23 million in 2008 for the Asia and Pacific region) have been perceived as a useful contribution to the AFD-ADB partnership. In 2008, the AFD grants to the region could be broken down as follows in Euro millions: 15 for Afghanistan; 3.6 for Cambodia; 2.1 for Vietnam; and 2.7 for Asia and Pacific Multi-Country Programs. A GMS Trust Fund has been created by AFD and ADB, with funds committed from AFD and administered by ADB for conducting specific technical assistance missions.

Along with subsidized or concessional loans, grants and subsidies allow the AFD and ADB partners to mobilize different types of resources in order to target the poorest countries. AFD has provided specific grants for the partnership, which were extremely well received. Although TA missions conducted from the GSM Trust Fund are administered by ADB, the French grant contribution allows AFD and ADB to join forces upstream in the conception and implementation phases of a loan delivery. Such efforts should be sustained to ensure that the partners maximize their relationship and target action on key co-financing issues.

2.6.7 Staff exchange as a reflection of the asymmetry of the partnership

The 2003 MoU provided a clear arrangement to ensure the exchange of professional staff between the organizations. AFD has been able to secure the secondment of a professional staff at ADB; the present secondee, Sandrine Boucher, serves as senior economist in the Southeast Asia Department. However, limited progress has made in establishing regular staff exchanges between the partners.

Staff exchanges between AFD and ADB provide an opportunity for employees to be appointed on special assignments to the hosting organization. AFD is particularly satisfied to have had two of its staff members use their experience, enhance their skills, share their knowledge and contribute to cultural exchange at ADB.

The issue of sustainability of the staff exchange policy was raised by ADB, in particular with regard to Sandrine Boucher, whose mandate ends in 2010. The exchange program's usefulness will be highlighted by the opening of AFD's Philippines office. The renewal of an AFD staffer at ADB, located at SERD, has been welcomed at ADB. In respect of staff exchanges, other issues were also discussed:

- in the past, staff exchanges from ADB to AFD have been difficult because of administrative constraints; however, we noted that perceived difficulties in obtaining administrative approval for these exchanges no longer exist;

- ADB admitted there would be no problem identifying candidates willing to be seconded to Paris. Human resources departments at both institutions have to agree on a fair mechanism that would facilitate these exchanges.

3. Conclusion and recommendations

Following the signing of the MoU in 2003 (and renewed in 2010), this mission concluded that the existing partnership between AFD and ADB has been successful in many respects. The collaboration has attracted wide praise at both organizations, with a significant number of co-financing arrangements being signed between 2003 and 2009. In non-monetary terms, the partnership has put in place a forum for dialogue focused on mutually agreed objectives, highlighted specific competitive advantages to benefit each partner, promoted the use of specialized expertise, allowed exchange of staff from AFD to ADB, improved overall coordination, etc.

However, in Asia the economic landscape has undergone fundamental shifts in recent years. Both AFD and ADB have to come to grips with the new realities in the years to come. *"The greatest error in strategic planning"*, the economist Thomas Schelling once said, *"is assuming that the future will look pretty much the same as the present"*.

In order to react to the changing international environment, AFD and ADB need to apply their unique knowledge and experience to the process of development aid, adjust organizational structures and leverage their niche positions to improve the partnership.

Recommendation 1: Re-defining the mission and scope of the partnership

We noted that the AFD-ADB partnership is hampered by the lack of conceptual clarity, with the partners having different interpretations as to what it should accomplish. A range of opinions interpreted the different intentions of the partnership's "founders", and we concluded that it was important for the partners to align their strategies and objectives for the period 2010-2015.

Before embarking upon major new areas of collaboration however, AFD and ADB should undertake an internal consultation to seek agreement on a strategic vision for the future that would position the partnership at the centre of specific priorities, and which would provide credible information on the basis of upstream analytical approaches. The internal consultation should include options that would facilitate reaching decisions concerning the following issues: purpose and mission of the partnership; consolidation of the coordination function if expansion of co-financing is sought; redefinition of the role and position of the AFD secondee at ADB.

Recommendation 2: Streamlining the business portfolios in a medium-term strategy

The convergence of strategic mandates can provide an opportunity to promote greater coherence and facilitate co-financing between the partners in the years ahead. In particular, climate change and energy sector synergies could be developed by both AFD and ADB in the following areas: private sector and non-sovereign lending, environment and energy and local government.

We recommend that the partners streamline their co-financing strategy over the medium term to avoid having a spread of projects across too many sectors and sub-sectors. Given the availability of staff and the frequent complexity of business processes, the number of loans and their distribution across sectors or sub-sectors needs to be better aligned with existing resources and institutional arrangements.

We recommend a strategy of being more selective in business operations. Decisions on which sectors or sub-sectors to include in a more focused co-financing portfolio depend on factors such as (i) partners' demands and preferences, (ii) staff and financial resource availability, (iii) analytical work that identifies specific needs, (iv) partners' strategic priorities and their choice of a balanced portfolio, (v) the programs of other development partners and (vi) experience showing what has worked and what has not.

Recommendation 3: Mapping potential projects in selected areas over the next three years

We believe that expanding the AFD-ADB business model to new sectors and geographical zones will require careful balancing of mandates and resources within the partnership. Although the partnership has been able to satisfy an increasing level of expectations in the past, it has not fully and systematically addressed the question of strategic sustainability.

While we noted that many new areas of intervention for the partnership have been considered in new geographic regions (*i.e*. Central and West Asia) and sectors (climate change, local government, non-sovereign lending, etc.), we recommend that AFD and ADB seek to promote greater coherence across their co-financing policies and strategies by first conducting a comprehensive inventory of all existing short- and medium-term opportunities, starting with the review of country strategies and business "pipelines".

We recommend developing a comprehensive mapping of potential areas of joint intervention according to a taxonomy to be agreed on but oriented towards the practical identification of projects that could be undertaken over the next three years. The taxonomy should be project-oriented and should consider the following factors: geographical area; sector; theme; AFD and ADB departments to be involved; name of potential projects with resource identification; name of focal points in charge of follow-up at both AFD and ADB; and list of key targets and deadlines.

With regard to priorities, we recommend developing a mechanism or tool to ensure that strategic information is shared in specific areas for which both AFD and ADB can foresee a strengthening of collaboration, in particular energy and environment, local government, private sector financing and non-sovereign financing. It is crucial to ensure that the partners have a shared understanding of what intervention could accomplish in these sectors.

Recommendation 4: Ensuring application of processes to better align procedures at all levels of the partnership

ADB's rules-based business processes are perceived as being designed to ensure consistency across its operational units, to avoid corruption in operations, safeguard the rights of affected persons and the environment and ensure fairness among shareholders' access to procurement and consulting opportunities. However, partners often see these processes as being imposed on them, thus contributing to delayed implementation and lack of visibility for joint missions and often causing frustration.

We recommend that the partners begin considering how to better align procedures and develop awareness of new ADB processes and instruments in order to seek synergies and more efficient implementation. ADB's "Better and Faster Loan Delivery" offers partners a new opportunity to improve processes and cut transaction costs. The multitranche financing facility (MFF) provides another opportunity to achieve these same ends.

Although a mutual recognition of procedures between AFD and ADB is not being considered at present, the partners should seek to improve the predictability of their business plans in view of the fact that less time to accomplish this will be available in the ADB "Better and Faster Loan Delivery" policy. This is an opportunity for the partners to increase co-financing efficiency and develop greater business certainty and visibility.

The AFD and ADB project cycle should be described in a specific document to ensure that project managers of both organizations understand the implications of specific procedures. Matching up the project cycles between the partners would clarify the timetable and enable the partners to carry out joint missions more efficiently.

Recommendation 5: Strengthening accountability and monitoring of co-financing and other joint actions

Well-informed decision-making at managerial levels depends on the reliability of financial information for each project. We recommend putting in place the proper Management Information System (MIS) that will allow for monitoring performance and reporting to the management as often as needed.

It is important to have a systematic tool for reporting on co-financing arrangements as well as any other joint initiatives. Co-financing strategies should be evidence-based, results-oriented, cost-effective and built on transparent relationships between providers of assistance and beneficiary countries. To achieve this outcome, an MIS tool is required. For co-financed projects, the shared MIS should be designed to integrate performance indicators so that monitoring can be performed using selected variables: project progress, disbursements, impacts, etc.

Of critical importance to the successful installation of a joint system is the decision to have two MIS focal points well identified and manned by personnel having both M&E and IT skills. To maintain a reliable system on such a large scale will require significant investment in communications and training.

Recommendation 6: Creating a concrete knowledge management agenda, including strategic scenario planning, evaluation and specific research

We could not identify joint systematic knowledge-management and research actions within the AFD-ABD partnership. Apart from the Retreats and evaluation work performed in 2006, AFD and ADB staff rarely identified and shared good practices or lessons learned. It is important to expand areas of collaboration beyond co-financing (which has been the major tool to implement joint activities) and to put in place knowledge-management and to research joint initiatives that will add value to the partnership.

With respect to the preceding paragraph, we recommend addressing the issue of knowledge management, research and evaluation in a more systematic manner with the objective to identify a very limited number of joint projects that would allow a sustainable partnership to be developed in these areas. It is important to promote joint research (operational, thematic or sectoral) and the development of knowledge products. During our interviews, a few topics were mentioned by both AFD and ADB staff: climate adaptation and resilience (with little research expertise at AFD presently); migration; growth strategies; clean energy; and impact evaluation.

Evaluation should become a regular feature of the partnership to collect performance information to highlight lessons learned and best practices in selected areas. It can also be used as critical evidence to develop program areas of mutual interest. We also recommend performing a joint evaluation of selected co-financed projects. Evaluation offices of both AFD and ADB could conduct these evaluations. For the future evaluation of the partnership, we also recommend a fully shared exercise, from the drafting of the terms of reference to the financing of the evaluation itself.

Finally, we recommend developing a scenario-planning agenda with the objective of developing a limited set of structured scenarios on specific topics (climate change, energy, urban development). In doing so, the partners could acquire common knowledge in the selected areas, highlight driving forces behind the issues under study, develop systemic analysis of critical variables at play and draw on specific AFD and ADB expertise to compile a unique set of data and analysis to reflect on the way forward for the partnership in Asia.

Recommendation 7: Increasing the overall visibility of the partnership

The visibility of the partnership has not always been maximized. We did not find systematic documentation presenting the partnership at the general level; moreover, the implementation phase appears to give a clear advantage to ADB in terms of general outreach. This is particularly true during the implementation phase of ADB-administered co-financing projects, with ADB procedures being used for procurements, on-site missions and evaluation, etc.

We recommend developing a more systematic communication campaign at both HQs and on the ground to increase the visibility of the partnership. An institutional brochure should be designed to emphasize ownership of the partnership and to outline its core mission and objectives. Wide dissemination of information should also provide accountability of its achievements and impacts.

This means that the partnership should be mentioned in the key strategic documents of AFD and ADB. Too often the partnership has focused narrowly on co-financing projects, many of which were initiated by ADB. Annual reports of both AFD and ADB could also be used to convey information on the partnership, in particular in terms of its strategic outlook and commitments.

At country level, the annual consultation process should be used to raise the visibility of joint activities. In addition, joint official activities should be undertaken to present the partnership to various stakeholders.

Recommendation 8: Re-inventing the Retreat concept

The staff AFD-ADB Retreat remains an important event, but the concept has to evolve. The content of the three Retreats that have taken place since 2006 was always relevant to the strategic agenda of both partners. However, we recommend reconsidering the Retreat concept and to make it oriented more towards performance and identifying future concrete joint activities.

Most staff interviewed said that there is not sufficient follow-up after the Retreat.

The concept of the Retreat may evolve in the following ways:

- circulation of a concept paper, provisional agenda and potential list of participants at least four months ahead of the event;
- organization of a plenary session on the first day, and reserving specialized workshops on specific issues for the second day;
- organization of a strategic “Senior Officers” working dinner to discuss the strategic orientations and decide on specific actions to be envisaged during the year;
- sending invitations to key experts outside the partnership – in academia, civil society, other bilateral organizations or MDBs;
- issuing a press release and sending communications to other media, such as websites;
- issuing a Retreat Executive Summary following the first month of the Retreat;
- nominating one AFD and one ADB department/staff member to ensure follow-up of actions.

With regard to the latter, we recommend in particular implementing a stronger follow-up plan to ensure that specific actions are carried out and monitored. The creation of preparatory workshops on specific topics/sectors/countries should also be considered.

In sum, we recommend using the Retreat to address concerns related to the performance of the partnership. For instance, at country level, we noted that adequate and sustained coordination is important for the partners to enhance ownership of the co-financed projects and communicate in a more regular fashion with borrowers and beneficiaries. The Retreat could be a forum to raise awareness on such issues and decide on proper courses of action.

Recommendation 9: Optimizing the staff exchanges between the two organizations

The 2003 MoU included a clear arrangement to ensure the exchange of professional staff between the organizations. AFD has been able to secure the secondment of a professional staff member to ADB; however, limited progress was made for planned staff exchanges from ADB to AFD.

We recommend the following: 1) consider re-allocating the AFD secondee to a new sector within AFD, perhaps non-sovereign operations or the environment. In doing so, AFD would seek to bring strong sectoral expertise to the ADB in order to develop a specific business line of co-financed projects; 2) as noted above, a staff exchange from ADB to AFD has to be secured to ensure good coordination between the organizations.

Recommendation 10: Re-institutionalizing the partnership to ensure long-term durability

The renewal of the MoU for the period 2010-2015 represents a major milestone. Both organizations feel the need to deepen the partnership. In particular, the new Partnership Framework Agreement represents an opportunity to explore new areas of convergence, notably private sector and non-sovereign financing; to expand beyond the 'traditional' geographical areas of collaboration; to expand areas of collaboration beyond co-financing (which has been the major tool to implement joint activities).

To re-emphasize, we recommend that both AFD and ADB agree upon the modalities for better cooperation. We highlighted some important points to include in such an agreement: nature and purpose of the project (objectives); areas of cooperation over the period; estimation of the resources to be mobilized over the medium term (up to three years); implementation and executive arrangements (focal points at both AFD and ADB); channels of communication and notice; protocols for joint missions; and dispute resolution mechanism.

A press release should be issued and a media event convened when the signing of the new MoU takes place in order that information on future directions for the partnership can be widely disseminated.

Annex 1: Author of the report

Thierry Senechal is an economist and public administration specialist by training, with particular expertise in development aid, policy evaluation, public financial management and strategic planning for public organizations. With extensive experience in the design, implementation and evaluation of development policies in Africa, the Middle East and Europe, he gained a very good knowledge of the UN system (UNDPA, BCPR/UNDP, UNHCR, UNSC…), bilateral development aid agencies (AFD, DFID), the development banks network (IFC, EBRD, ADB, World Bank, IADB), civil society and the corporate world.

For more than 18 years Thierry Senechal has been in the forefront of the challenges of economic development, poverty alleviation and trade development, promoting policies to help all parts of the world to benefit from expanding economic opportunities and well-being. His experience combines significant accomplishments while managing complex development and public administration projects, interspersed with applied policy research and teaching at a leading academic institution (Sciences Po Institute Paris). His research covers the causes and consequences of civil war and conflicts on population (*e.g.* displaced populations in Iraq, Palestinian refugees), access to finance, the effects of aid and the problems of democracy in low-income countries, and the evaluation of public policies.

Mr Senechal has held international postings at senior management levels. Between 1997 and 2001, he served as Senior Officer at the United Nations. In this capacity he led teams of professionals and economists managing multi-billion-dollar war recovery programs, mostly in the Middle East region. As Director of Public Policy & Regulatory Affairs (2002-2005) at Mazars, a leading European audit and expertise group with more than 10,000 staff, he served as a member of the senior management staff and supervised missions in the field of public policy and government reforms. In 2007, he joined the International Chamber of Commerce (ICC) as Senior Policy Manager. At ICC he also created the Anti-Money Laundering Task Force.

Mr. Senechal graduated in Economics and Philosophy from Columbia University (*Magna Cum Laude*, Phi Beta Kappa). He holds advanced degrees from Harvard Kennedy School of Government and London Business School. He also completed a Master of Business Administration (MBA) at the Massachusetts Institute of Technology (MIT) and co-founded the Sloan School Social Impact Group with a mission to explore how the business community can learn about today's social and development problems.

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Annex 2: Terms of reference of the mission

Rationale and purpose of the evaluation study

From an AFD perspective, after 13 years of successful cooperation with ADB, this 4th Retreat will take place at a turning point as AFD is expanding its activities to new emerging countries in Asia, and is in the process of revising its strategy in Asia.[4] These anticipated in-depth evolutions in terms of financial products, expanded geographical coverage, strategic priorities, may affect the way and the areas of cooperation that AFD used to have with ADB until now.

A fourth Retreat will be held on 8-9 March 2010 and will be opened together by the President of ADB, Mr. H. Kuroda, and by AFD Chief Executive Officer, Mr. J.-M. Severino.

The forthcoming Retreat will provide a timely opportunity to take stock of the ADB-AFD partnership, discuss operational and thematic issues, and identify potential areas of future cooperation between both institutions.

From ADB's perspective, the collaboration with AFD has been successful in establishing a mature partnership through co-financing of investment projects in a wide range of sectors (including rural development, infrastructure, private sector development, financial sector, education). While ADB-AFD collaboration on sector issues has been broadly positive, resulting in some instances in adoption of a common position in the policy dialogue with key official counterparts, there is certainly scope for enhancement of such dialogue and possibly increased collaboration through joint sector work as well as knowledge-sharing activities.

At the conclusion of the last ADB-AFD Retreat in February 2009, AFD and ADB agreed to undertake an evaluation of their partnership. AFD has proposed to engage and finance this evaluation as a follow-up of the first work which was carried out by AFD in 2006. This evaluation would aim at providing to the management of both institutions recommendations to enhance their institutional and operational partnership. The evaluation study should be carried out in the steps:

1. Describe and assess ADB-AFD institutional and operational (co-financing and research products) cooperation;

2. Provide recommendations on possible ways to strengthen ADB-AFD partnership, including in the area of knowledge-based activities and to address global issues (aid effectiveness, strategic priorities, areas of mutual interest, partnership monitoring process);

3. Highlight key success factors and areas for improvement for ADB-AFD partnership, and outline for ADB and AFD management the challenges and prospects ahead for the enhanced partnership between both institutions, including concrete proposals in terms of strategic focus, institutional framework, collaboration arrangements at headquarters- or field-levels and any other suggestions to help foster effective collaboration notably in new sectors or countries.

[4] In June 2009, the French Government allowed AFD to expand its activities in Bangladesh, the Philippines and Sri Lanka and explore the potential for expansion in Central Asia (Uzbekistan and Kazakhstan).

Objectives

Objective 1. Take stock of the ADB-AFD partnership, by updating the evaluation carried out in 2006 by assessing the outcomes of their cooperation. The consultant will extend the study to the three following areas:

- Institutional cooperation (MoUs, retreats, high-level meetings, secondment, other joint activities). The consultant will assess how the institutional dialogue evolved during the recent period, which kind of institutional arrangements have been set up, how they worked and to what extent they impacted the operational activities;

- Co-financing activities (volume, sectors, countries and regions, project processing and monitoring performance, financial (lending and non-lending) products, aid management efficiency, results management). In addition to an overall ADB-AFD co-financing portfolio performance, the consultant will conduct a detailed review on a sample of 6 co-financing arrangements representing around 20% of the portfolio of public sector projects: this review focused on the public sector projects will (i) compare ADB and AFD respective processing and implementation processes, (ii) assess the project management performance and results, (iii) sum up the lessons learned (strengths and weaknesses, pending issues, etc.) from these co-financing arrangements;

- Knowledge-based activities, including research and project evaluation. The consultant will inventory the joint activities in this area. Beyond this cooperation, the consultant will examine whether and how AFD and ADB use or take advantage of knowledge products coming from the partner institution.

Based on this assessment, the consultant will recommend areas of improvement for AFD-ADB current cooperation.

Objective 2. From the assessment above, analyse the ways to strengthen ADB-AFD partnership and address global issues (aid effectiveness, strategic priorities, areas of mutual interest, partnership monitoring process…). In this respect, the consultant could adopt a two step-approach:

- First, examine how ADB and AFD respective organisations, strategies and other structural features (business culture, procedures, etc.) determine the scope of their cooperation and analyse their respective incentives for enhancing their partnership. The consultant could also outline the possible difficulties and limitations to the cooperation in its present state;

- Second, analyse the challenges, opportunities and prospects for an enhanced cooperation in terms of:
  - Strategic topics (sector, region or country strategies) ;
  - Portfolio management at regional and country level;
  - Co-financing programming and follow-up;
  - Co-financing arrangement modalities;
  - Project processing, implementation and monitoring;
  - Aid effectiveness (harmonization of procedures, mutual recognition of procedures, joint evaluation);
  - Knowledge sharing and management (research activities, conferences, etc.).

Considering the respective procedures, policies and strategies of both institutions, the consultant will have to analyse the areas of convergence or of mutual interest, and how specific difficulties might be overcome.

Objective 3. Outline the cooperation challenges and prospects by:

- Summing up the strengths and the limitations of ADB-AFD partnership, as reflected by the partnership assessment, and recommending ways of improving the current cooperation;
- Identifying the global and strategic challenges that ADB and AFD should address by intensifying their partnership for their mutual interest, and outlining the opportunities in this respect.

Methodology and deliverables

The evaluation study should be completed by 28 February 2010. Two deliverables are expected:

1. A temporary report by 15 February 2010 providing the overall assessment of ADB-AFD partnership (objective 1) and stressing the draft outcomes of the partnership analysis for enhancing future ADB-AFD cooperation (objective 2 and 3). This first report will be reviewed by a joint AFD-ADB steering committee (see below);
2. A final report by 28 February 2010. AFD plans to use this evaluation report for a publication.

The estimated time requirements for the evaluation study are 40-day staff. The study will comprise a 10-day mission to Manila at ADB Headquarters (tentative dates: 11-15 January). The consultant will conduct the study (i) from reference materials to be provided by both institutions (data reports, general documentation, projects documents, etc.) and from interviews with key ADB and AFD representatives. An indicative list of contacts is given at Annex 3.

ADB and AFD commit themselves to make their best efforts at facilitating the consultant's work, give him/her access to the relevant data and documents, help organize the field mission to ADB and AFD headquarters.

The evaluation study will be monitored by AFD Evaluation Division (EVA) and Asia Operations Division (GOE). EVA will assist the consultant to comply with the study framework and GOE will provide the required background and knowledge for the study. A joint ADB-AFD steering committee will be set up to review, comment and validate the reports. This steering committee will be composed of: 3 AFD Staff from GOE (Asia Division), EVA, REL; 3 ADB Staff from SERD, ADB's Strategy and Policy Department (SPD), OCO.

Annex 3: List of persons interviewed

Agence Française de Développement

1. Frédéric Audras, Local Authorities and Urban Development
2. Carl Bernadac, Project Manager, Energy and Climate
3. Alexis Bonnel, Operational Department
4. Luc Le Cabellec, Senior Advisor, Asia Division
5. Anne-Marie Cabrit, Deputy Director, Asia Department
6. Stéphane Carcas, Task Team Leader, Infrastructure and Environment Division
7. Françoise Chalier, Human Resources Department
8. Jean-Raphael Chaponnière, Senior Economist, Asia Division
9. Benoit Chassatte, Senior Project Officer, Jakarta Office
10. Laurent Demey, Deputy Chief Executive Officer, Proparco
11. Nils Devernois, Senior Economist, Research Department
12. Maryse Dugué, Health and Social Protection Division, Technical Department
13. Yves Ficatier, Evaluation and Capitalisation Unit, Research Department
14. Francis Frey, Senior Programme Officer, Department of Strategic Planning
15. Jean-Yves Grosclaude, Director, Operational Department
16. Dominique Heurtevent, Project Officer, Department of Strategic Planning
17. Xavier Hoang, Senior Sector Specialist, Infrastructure and Environment Division
18. Pierre Jacquet, Managing Director for Strategy, Chief Economist
19. Dimitri Kanounnikoff, Senior Climate Change and Environment Specialist
20. Armand Rioust de Largentaye, Senior External Relations Specialist
21. Jacques Moineville, Managing Director, Operations Department
22. Emmanuel Mouren, Project Manager, Infrastructure and Environment Division, Technical Department
23. Jean-David Naudet, Director, Evaluation Division
24. Bich-Viet Nguyen, Regional Coordinator, Asia Division
25. Robert Peccoud, Director, Research Department
26. Stéphanie Picard, Regional Coordinator, Asia Department
27. Ana-Maria Quevedo Solares, Regional Coordinator, South America and Caribbean Department
28. Dominique Richard, Infrastructure and Environment Division
29. Nicolas Rossin, Multilateral Banks and Non European Bilateral Donors Officer, External Relations and Communication Division
30. Sophie Salomon, Vietnam office
31. Jean-Michel Severino, Director General

32. Martha Stein-Sochas, Director, Asia Division
33. Yves Terracol, Director Pakistan Office
34. José Tissier, Agriculture and rural Development Div
35. Veronika Zenk, Regional Coordinator, Asia Division

Asian Development Bank

1. Jaseem Ahmed, Director, Finance Sector, Public Management and Trade Division, Southeast Asia Department
2. Ed Baardsen, Senior Infrastructure Specialist, SEEW (*via* videoconference)
3. Michael Barrow, Director, Infrastructure Finance Division 1, Private Sector Operations Department
4. Richard Bolt, Advisor, SEOD
5. Sandrine Boucher, Senior Economist, Office of the Director General, Southeast Asia Department
6. Douglas H. Brooks, Assistant Chief Economist, Development Indicators and Policy Research Division, Economics and Research Development
7. Indu Bhushan, Director, Strategy, Policy and Interagency Relations Divison, Strategy and Policy Department, Chair, Health Sector Community of Practice
8. Bayanjargal Byambasaikhan, Energy Specialist, Energy and Natural Resources Division, Central and West Asia Department
9. Ilaria Caetani, Planning and Policy Specialist, Strategy, Policy and Interagency Relations Division
10. Tom Crouch, Deputy Director General, Southeast Asia Department
11. Edgar A. Cua, Advisor, Office of Director General, East Asia Department
12. Arnaud Dauphin, Urban Development Specialist (Transport), CWUS
13. Robert Dobias, Senior Advisor for Climate Change, Climate Change program Coordination Unit, regional and Sustainable Development Department
14. Hua Dua, Advisor, Office of the Director General, Central and West Asia Department
15. Dennis Ellingson, Senior Natural Resources Management Specialist, SEAE (*via* videoconference)
16. Marco Gatti, Senior Evaluation Specialist, Operations Evaluation Department
17. Tatiana Gallego-Lizon, Senior Planning and Policy Specialist, Strategy, Policy and Interagency Relations Division
18. Edimon Ginting, Economist (Trade and Financial Sector), SEFM
19. Arjun Goswami, Advisor, Head of Regional Cooperation and Integration group, Office of the Director General, Southeast Asia Department
20. Sohail Hasnie, Principal Energy Specialist, Energy and Water Division, Southeast Asia Department
21. Neeraj K. Jain, Country Director, Philippines Country Office, Southeast Asia Department
22. Antony Jude, Director, Energy and Water Division, Southeast Asia Department
23. Chai Sun Kim, Principal Treasury Specialist, Financial Policy and Planning Division, Treasury Department
24. Zeki Kiy, Senior Co-financing Officer, Office of Co-financing Operations
25. Tadashi Kondo, Head, Office of Co-financing Operations
26. Jeffry Kongoasa, Country and Regional Cooperation Specialist, Country Coordination and Regional Cooperation Division, Southeast Asia Department

27. Antoine Kunth, Infrastructure Specialist, Southeast Asia Department (*via* videoconference)
28. Werner Liepach, Deputy Director General, Central and West Asia Department
29. Michael Lindfied, Lead Professional, Urban Development
30. James P. Lynch, Director, Transport and Urban Development Division, Southeast Asia Department
31. Ian W. Makin, Senior Water Resources Management Specialist, Agriculture, Environment & Natural Resources Division, Southeast Asia Department
32. David McCauley, Principal Climate Change Specialist
33. Javed Hussain Mir, Director, Agriculture, Environment & Natural Resources Division, Southeast Asia Department
34. Juan Miranda, Director General, Central and West Asia Department
35. Rajat M. Nag, Managing Director General
36. Tariq H. Niazi, Senior Public Sector Management Specialist, Governance, Finance and Trade Division, Southeast Asia Department
37. Manmohan Parkash, Principal Transport Specialist, Transport Division, East Asia Department
38. Stephen Pollard, Principal Economist, PAOD
39. Vivek Rao,Senior Finance Specialist (Public-Private Partnership), SAOD
40. Kunio Senga, Director General, Southeast Asia Department
41. Sean O'Sullivan, Deputy Director General, Strategy and Policy Department
42. Soo Nam Oh, Deputy Head of Missop, Thailand Resident Mission
43. Kazu Sakai, Director General, Strategy and Policy Department
44. David Salter, rural Development Specialist, Agriculture, Environment & Natural Resources Division, Southeast Asia Department
45. Olivier D. Serrat, Principal Knowledge Management Specialist, Knowledge Management Center, Regional and Sustainable Development Department
46. Pil-Bae Song, Director, Energy and Natural Resources Department
47. Florian Steinberg, Senior Urban Development Specialist, Transport and Urban Development Division, Southeast Asia Department
48. Ancha Srinivasan, Senior Climate Change Specialist, Agriculture, Environment & Natural Resources Division, Southeast Asia Department
49. Deepak Taneja, Treasury Specialist, Financial Policy and Planning Division, Treasury Department
50. Anil Terway, Senior Advisor and Practice Leader (Energy), Regional and Sustainable Development Department
51. Bui Duy Thanh, Energy Economist, Infrastructure Division, Southeast Asia Department
52. Arjun Thapan, Former Director General, Southeast Asia Department
53. Mookiah Thiruchelvam, Project Implementation Officer, SLRM (*via* videoconference)
54. Yuji Tsujiki, Financial Analysis Specialist, Southeast Asia Department
55. WooChong Um, Deputy Director General, Regional and Sustainable Development Department
56. Robert Valkovic, Head, Project Administration Unit, Southeast Asia Department
57. Christopher J. Wensley, Lead Professional (Water resources), Agriculture, Environment & Natural Resources Division Southeast Asia Department
58. Xiabin Yao, Director General, Regional and Sustainable Development Department
59. Victor L. You, Senior Advisor to the Managing Director General, Office of the President

Annex 4: Standardized evaluation grid for interviews

This evaluation has been organized around a set of specific evaluation questions that relate to standard evaluation criteria. In the above pages, we have presented the three evaluation objectives. We now list the interview grid that lists the questions for the interviews. Please note that we do not necessarily intend to follow in a strict manner such a grid. Depending on the organizational function of the person interviewed, we may need to adapt the questioning.

Objective 1: Review the AFD-ADB partnership and its strategic orientation(s)

- What is the precise extent of the needs justifying the joint AFD-ADB partnership? Have the needs been assessed? Jointly? How and by whom? How was the partnership created? By a formal strategy? Over time, step-by-step, from experience? What is the role played by the MoUs?
- Is there a discernable strategy well articulated with both partners? How is such strategy translated into official documents? Has the partnership been institutionalized to ensure long-term durability of intervention? How was it done?
- What are the objectives of the partnership? Retrospectively, the question will also become a question as to whether the strategy and the objectives of the interventions are still appropriate given changing circumstances today.
- What are the areas of greatest emphasis and perhaps the identifiable strategic gaps (thematic, beneficiary groups, geographical areas, timeframes, etc.)?
- To which extent has the AFD-ADB partnership been consistent and complimentary with other policies, strategies or actions of major partners or other stakeholders?
- What is the level of integration of the partnership within the AFD and ADB senior management?
- To what extent has the 2006-2010 strategy incorporated lessons learned from the experiences of the 2006 evaluation?

Objective 2: To what extent has the AFD/ADB partnership been successfully implemented from an operational, management and inter-agency coordination perspective?

Coordination:

- Was it efficient in terms of time and appropriateness? Has a coherent approach been institutionalized regarding coordination? What is the coordinating structure? Is coordination explicit in the overall strategy?
- How much time and what resources were/are spent on coordination? How do AFD and ADB cooperate on 1) technical assistance and feasibility assessment, and 2) programming of projects?
- What are the communication and reporting mechanisms? Is coordination a component of the expected evaluation reporting?
- Are issues of staff turnover and/or resource mobilization hampering the coordination of actions? How does the exchange of staff work between AFD and ADB?

Financing/co-financing and operational effectiveness:

- What are the financing and co-financing resources/instruments put in place and do they diverge from AFD's and ADB's perspectives?
- What are the processing and implementation mechanisms in place? Are tools and practice developed to monitor and assess performance on an on-going basis?
- Are there any major differences in the project cycle of AFD and ADB? What are the fund allocation/disbursement policies?

Knowledge management, M&E, results focus:

- Do we find evidence of reciprocity in the flow of information between the partners?
- Are there knowledge-sharing opportunities/tools to exchange content and information between AFD/ADB (Monitoring, evaluation, MIS…)
- What are the tools available for reporting and conducting operational alignments?
- What are the objectives of the retreats and what are the outcomes in terms of sharing knowledge and (re)-orienting the strategy?

Objective 3: What lessons can be drawn as a guide to future AFD-ADB partnership?

- Have the AFD and ADB partners been able to create an appropriate environment that will allow the partnership and the interventions to continue in the future?
- What steps have been taken to create long-term processes, structures and institutions for such partnership?
- Has legitimacy in addition to capacity-building of strong leadership been addressed?
- Is the technical content of the partnership sufficiently developed to ensure the full continuity of actions?
- What are the potential future arrangements for grant-making and co-financing, sovereign and non-sovereign?

Annex 5: Reference material

AFD-ADB Joint Material

- 1st ADB-AFD Retreat, Paris, 30 January 2006
  - a. Summary of proceedings
  - b. ADB-AFD Retreat 2006, Program
  - c. ADB-AFD Retreat 2006, Concept Paper (ADB Internal Document)
  - d. ADB-AFD Retreat 2006, Background Notes (ADB Internal Document)
  - e. Evaluation of ADB-AFD Partnership and Co-financing Operations (AFD Document)

- 2nd ADB-AFD Retreat, Manila, 28-29 June 2007
  - a. Report on ADB-AFD Consultations, including at Appendix 3: Proposed Plan of Action on ADB-AFD Cooperation (ADB Internal Document)
  - b. ADB-AFD Retreat 2007, Program of meetings
  - c. ADB-AFD Retreat 2007, Concept Paper (ADB Internal Document)
  - d. ADB-AFD Retreat 2007, Annotated Agenda of Meetings (ADB Internal Document)
  - e. Lessons learned from ADB-AFD 2nd Retreat (ADB Internal Document)
  - f. Notes on ADB-AFD Co-financing Portfolio Performance (1997-2006)
  - g. ADB-AFD Consolidated Co-financing Data (1997-2006)

- 3rd ADB-AFD Retreat, Paris, 3-4 February 2009
  - a. ADB-AFD Work plan 2009-2010
  - b. ADB-AFD Retreat 2009, Summary of proceedings
  - c. Summary of proceedings of the High Level Meeting of European Development Partners with ADB, 3 February 2009

- 4th ADB-AFD Retreat, Manila, 8-9 March 2010
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  - b. Retreat 2010 Concept Paper

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- AFD's Asia Strategy & cooperation with JICA, 1st Retreat JICA – AFD, 8-9 February 2010
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- Annual Reports 2006, 2007, 2008
- *Cadre d'Intervention Régional pour l'Asie* (Regional Strategy Paper for Asia), 2006-2008 (in French only) and 2010-2012 (in French, draft document under processing)
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- *La communauté des donateurs au Vietnam : un engagement de plus en plus soutenu*, 3/11/2009
- Financing Access to Sustainable Energy, Proparco
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- Increasing and Demonstrating Aid Effectiveness
- *L'activité du Groupe de l'Agence Française de Développement au Vietnam*
- *Manuel de procedures opérationelles, identification, version 14*, 8/12/2008
- *Manuel de procedures opérationelles, évaluation-négociation, version 21*, 15/09/2009
- *Manuel de procedures opérationelles, presentation à l'instance de décision, version 11*, 18/12/08
- *Proparco Eléments Clés* 2009
- *Système d'orientation stratégique, Partie 2 : Focus 3 – Asie* (in French only), pp. 33-37
- The Six Bank Initiative in Vietnam, Internal Note, 1 July 2009

ADB Material

- A New Paradigm for Sustainable Urban Transport, 2009
- ADB Products and Financing Modalities for Sovereign and Sovereign Guaranteed Loans and Grants
- ADB's Financial Products
- ADB's Financing Partnership Strategy, July 2006
- ADB Programs Climate Change, December 2009
- ADB's Strategy 2020
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- Building Climate Resilience in the Agricultural Sector of Asia and the Pacific, ADB (CD ROM)
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- Organization Chart
- Operations Manual Bank Policies
- Partnership Framework on Development between the Asian Development Bank and the Australian Agency for International Development, 2009-2016
- Private Sector Finance, Catalyzing Private Investment in the Asia and Pacific Region, 2008
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- Project Performance Reports for Selected Projects
- Promoting Sustainable Low Carbon Transport in Asia
- Report to the Board: 2008 Financing Partnerships, 6 August 2009
- Report on ADB-AFD Consultations, Manila, 28-29 June 2007
- Review of Implementation of ADB's Program Lending Policy, August 2008
- Sri Lanka: Country Operations Business 2010-2012, 17 December 2009
- Under the Weather and the Rising Tide, 2009
- Work Program and Budget Framework 2010-2012, October 2009

Annex 6: AFD-ADB Co-financed Projects

Non DVA=Non Direct Value Added Cofinancing

DVA P=Direct Value Added Cofinancing in Parallel (Non ADB administered and called “Collaborative”)

DVA A=Direct Value Added Cofinancing (ADB administered with a legal cofinancing agreement and fees)

Project Title (All figures in USD Million)	Total cost	ADB	AFD	Loan type	ADB %	AFD %	ADB appro date	AFD appro date	ADB cum disbur	AFD cum disbur
Public Sectors Projects										
VIETNAM										
Rural Infrastructure Sector Project	150.00	105.00	14.78	Non DVA	70.0%	9.9%	1997	1997	92.0%	97.0%
Vocational and Technical Education	98.00	54.00	15.00	Non DVA	55.1%	15.3%	1998	1999	46.0%	96.0%
Third Provincial Towns Water Supply and Sanitation	98.00	60.00	11.00	Non DVA	61.2%	11.2%	2000	2001	72.0%	62.0%
Second River Basin Sector project	156.20	70.00	30.00	Non DVA	44.8%	19.2%	2001	2001	67.0%	90.0%
Financial Sector Development Program Loan II (subprogram I)	200.00	56.01	19.00	Non DVA	28.0%	9.5%	2002	2002	100.0%	100.0%
Phuc Hoa Multipurpose Water Resources	164.60	90.00	34.00	Non DVA	54.7%	20.7%	2003	2003	41.0%	22.0%
Central Region Urban Environmental Improvement	96.00	44.00	33.00	DVA P	45.8%	34.4%	2003	2003	42.0%	65.0%
Financial Sector Development Program Loan II (subprogram II)	70.00	35.00	15.50	Non DVA	50,0%	22.1%	2004	2002	72.0%	100.0%
SME Development Program (subprogram I)	150.00	61.59	18.00	DVA P	41.1%	12.0%	2004	2004	100.0%	100.0%
Northern Power Transmission Sector (Phase I)	273.00	120.00	50.00	DVA P	44.0%	18.3%	2004	2005	73.0%	82.0%
SME Development Program (subprogram II)	45.00	20.00	16.40	Non DVA	44.4%	36.4%	2006	2004	0.0%	100.0%
GMS Yen Vien-Lao Cai Railway Upgrading	160.00	60.00	40.63	DVA Ad	37.5%	25.4%	2006	2006	1.0%	1.0%
Integrated Rural Development Project in the Central Provinces	168.20	90.00	53.40	DVA Ad	53.5%	31.7%	2007	2007	6.0%	0.0%
Hanoi Metro	1 020.00	293.50	143.65		28,8%	14.1%	2010	2009	67.0%	70.0%
TOTAL	**2 849.00**	**1159.10**	**494.36**		**40.7%**	**17.4%**				
CAMBODIA										
Stung Chinit Irrigation and Rural Infrastructure	24.00	16.00	2.60	Non DVA	66.7%	10.8%	2000	2000	73.0%	100.0%
Provincial Power Supply	24.00	21.31	2.50	Non DVA	88.8%	10.4%	2000	2001	91.0%	99.0%
Northwest Irrigation Sector Project	30.87	18.00	3.74	Non DVA	58.3%	12.1%	2003	2004	30.0%	80.0%
TOTAL	**78.87**	**55.31**	**8.84**		**70.1%**	**11.2%**				

INDONESIA										
Java Bali Distribution Performance Improvement Project	115.00	50.00	50.00		43.5%	43.5%	2010	2009	0.0%	0.0%
TOTAL	**115.00**	**50.00**	**50.00**		**43.5%**	**43.5%**				
LAO PDR										
Decentralized Irrigation Development and Management	24.20	15.50	2.70	Non DVA	64.0%	11.2%	2000	2000	100.0%	100.0%
Vientiane Urban Infrastructure and Services	37.00	29.30	4.40	Non DVA	79.2%	11.9%	2001	2002	90.0%	100.0%
Nam Ngum river Basin Development Sector Project	23.00	15.00	3,.80	Non DVA	65.2%	16.5%	2002	2003	89.0%	100.0%
GMS Nam Theun 2 Hydropower Project	1 250.00	20.00	33.50	Non DVA	1.6%	2.7%	2005	2005	91.0%	90.0%
TOTAL	**1 334.20**	**79.80**	**44.40**		**6.0%**	**3.3%**				
Public Sector Projects										
PAKISTAN										
Energy efficiency: Compact fluorescent lamps (CFL)	60.00	40.00	20.00	DVA Ad	66.7%	33.3%	2009	2009	0.0%	0.0%
TOTAL	**60.00**	**40.00**	**20.00**		**66.7%**	**33.3%**				
PHILIPPINES										
Local Gov Financing and Budget Reform Loan I (subprogram II)	441.00	225.00	216.00	DVA P	51.0%	49.0%	2009	2009	0.0%	0.0%
TOTAL	**441.00**	**225.00**	**216.00**		**51.0%**	**49.0%**				
PRC										
GMS Western Yunnan Roads Development	582.00	250.00	38.00	DVA P	43.0%	6.5%	2003	2003	100.0%	100.0%
GMS Yunnan Dali-Lijiang Railway	548.00	180.00	40.00	DVA P	32.8%	7.3%	2004	2004	74.0%	84.0%
TOTAL	**1 130.00**	**430.00**	**78.00**		**38.1%**	**6.9%**				
SRI LANKA										
Tsunami-Affected Areas Rebuilding Project	262.80	218.70	70.40	DVA Ad	83.2%	26.8%	2005	2005	51.0%	82.0%
TOTAL	**262.80**	**218.70**	**70.40**		**83.2%**	**26.8%**				
MULTI-COUNTRY										
GMS Project Preparation Fund (Channel Financing Agreement)	1.80	-	1.80			100.0%	2005	2004		
GMS Power Trade and Development TA	1.00	-	1.20			120.0%	2006	2005		
GMS Phom Penh Pan	3.30	1.00	0.90		30.3%	27.3%	2007	2008	89.0%	100.0%
TOTAL	**6.10**	**1.00**	**3.90**		**16.4%**	**63.9%**				
TOTAL PUBLIC SECTOR PROJECTS	**6 276.97**	**2 258.91**	**985.90**		**36.0%**	**15.7%**			**54.0%**	**50.0%**

Private Sector Projects								
VIETNAM								
Far East Medical Vietnam Ltd.	40.00	10.00	4.50	Non DVA	25.0%	11.3%	2001	2001
Phu My 2,2 Power Project (Mekong Energy Co. Ltd.) Vietnam	480.00	75.00	40.00	Non DVA	15.6%	8.3%	2002	2002
TOTAL	**520.00**	**85.00**	**44.50**		**16.3%**	**8.6%**		
LAO PDR								
GMS Nam Theun Power Co (Nam Theun 2 Hydropower Project)	-	100.00	27.00	Non DVA			2005	2005
TOTAL Lao Private Sector Projects	**0.00**	**100.00**	**27.00**					
AFGHANISTAN								
Telephone Development Company Afghanistan B.V.	165.50	35.00	10.00	Non DVA	21.1%	6.0%	2004	2004
AFG Roshan Phase II Expansion (Afghanistan)	95.00	85.00	10.00	Non DVA	89.5%	10.5%	2006	2006
AFG Roshan Phase II Expansion (Afghanistan)	90.00	70.00	20.00	Non DVA	77.8%	22.2%	2008	2008
TOTAL	**350.50**	**190.00**	**40.00**		**54.2%**	**11.4%**		
MULTI-COUNTRY								
ASEAN-PRC SME Investment Fund	125.00	15.00	5.00	Non DVA	12.0%	4.0%	2003	N/A
Fegace Asian Sub-Fund L.P. (FE Clean Energy Global Asian Fund)	56.00	20.00	5.00	Non DVA	35.7%	8.9%	2004	N/A
TOTAL	**181.00**	**35.00**	**10.00**		**19.3%**	**5.5%**		
TOTAL PRIVATE SECTOR PROJECTS	**1 051.50**	**410.00**	**121.50**		**39.0%**	**11.6%**		
TOTAL ADB-AFD GROUP CO-FINANCING (PUBLIC + PRIVATE)	**7 328.47**	**2 668.91**	**1 107.40**		**36.4%**	**15.1%**		

Sources: AFD-ADB.

Annex 7: AFD-ADB co-financing project indicators

	Indicator	VIETNAM				INDONESIA	PAKISTAN
		Phuc Hoa Multipurpose Water Resources	SME Developement Program (subprogram I + II)	Northern Power Transmission Sector (Phase I)	GMS Yen Vien-Lao Cai Railway Upgrading	Java Bali Distribution Performance Improvement Project	Energy efficiency: Compact fluorescent lamps (CFL)
Financing Indicators	Total Financing	164.00	195,00	273.00	160.00	115.00	85.00
	AFD Financing (USD)	34.00	34.40	50.00	40.63	50.00	25.00
	ADB Financing (USD)	90.00	81.59	120.00	60.00	50.00	40.00
	AFD Financing (%)	20.73	17.64	18.32	25.39	43.48	29.41
	ADB Financing (%)	54.88	41.84	43.96	37.50	43.48	47.06
	Disbursement to net AFD	22.00	100.00	82.00	1.00	0.00	0.00
	Disbursement to net ADB	41.00	75.00	73.00	1.00	0.00	0.00
	Financing rate AFD	PS1 + PTC minus 2,5% (2.7 ME at 1%) 20 years and 7 delayed	PS1 Euribor 6 months minus 2% (3.5 ME at 1%) 30 years and 10 delayed	PS3 Euribor 6 months 15 years and 5 delayed	Euribor 6 months minus 2% (20 years) GMS Trust Fund (Channel Financing Agreement of 17/03/2005)	PS3 Euribor flat USD equivalent (15 year-term + 5 years grace)	PS3 Euribor 6 months 15 years + 5 years delayed
	Financing rate ADQ	ADF	ADF	OCR	ADF	OCR: LIBOR + 20bp (25 years + 5 years grace period)	OCR: LIBOR + 20bp (25 years + 5 years grace period)
Process indicators	Cofinancing type	Non DVA	DVA P (I) and Non DVA (II)	DVA P	DVA Ad		DVA Ad
	Processing time AFD (in days)	849	287	170	251	N.A.	180
	Processing time ADB (in days)	2 736	678	726	553	N.A.	
	AFD - FIP date	24/07/2001	04/03/2004	20/07/2004	14/04/2006	10/03/2009	03/04/2009
	AFD - Board Approval	20/11/2003	13/12/2004	06/01/2005	21/12/2006	30/09/2009	30/09/2009
	AFD - Financing signing	13/08/2004	30/11/2005	06/10/2005	08/02/2007	N.A.	N.A.
	AFD - Number of months between PTTA and signing	3.06	1.74	1.21	0.82	N.A.	N.A.
	ADB - PTTA date	31/05/1996	13/12/2002	18/12/2002	14/06/2005	N.A.	N.A.
	ADB - Board Approval	27/11/2003	12/12/2006 (II)	13/12/2004	19/12/2006	N.A.	N.A.
	ADB - Financing signing	08/04/2004	09/11/2004	25/08/2005	16/01/2007	N.A.	N.A.
	ADB - Number of months between PTTA an signing	7.86	1.91	2.69	1.59	N.A.	N.A.

Sources: AFD-ADB.

List of acronyms and abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
AFD	*Agence Française de Développement*
ANR	Agricultural and Natural Resources
ASEAN	Association of South East Asian Nations
ATF	Asian Tsunami Fund
AusAID	Australian Government Overseas Aid Program
BIMP-AEGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN (Association of Southeast Asian Nations) Growth Area
bp	Basis points
CCF	Climate Change Fund
CCPL	Climate Change Program Loans
CEFPF	Clean Energy Financing Partnership Facility
CFD	Country Framework Document
CFL	Compact Fluorescent Lamp
CIR	*Cadre d'intervention régional* AFD (Regional Intervention Framework)
CSP	Country Strategy Program
CTF	Clean Technology Fund
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development (UK)
DMC	Development Member Countries
DVA	Direct Value Added
EC	European Commission
EDF	European Development Fund
EIB	European Investment Bank
ERD	Economics and Research Department (ADB)
EU	European Union
EURIBOR	European Interbank Offered Rate
FAS	Financial Accounting Standards
GDP	Gross Domestic Product
GMS	Greater Mekong Subregion
G5B	Group of Five Banks
HIPC	Heavily Indebted Poor Countries
IADB	Inter-American Development Bank
IDB	Islamic Development Bank
IFC	International Finance Corporation

IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
LDCs	Least Developed Countries
LIBOR	London Interbank Offered Rate
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MFF	Multitranche Financing Facility
MICs	Middle-Income Countries
MIS	Management Information System
MoU	Memorandum of Understanding
MRV	Measurement, Reporting and Verification
mtoe	million tons of oil equivalent
MW	Megawatts
NS	Non-sovereign
OCO	Office of Co-financing Operations
OCR	Ordinary Capital Resources
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PFR	Periodic Financing Request
PhD	Doctor of Philosophy
PPTA	Project Preparation Technical Assistance
POS	Strategic Orientation Plan
PRC	People's Republic of China
PSOD	Private Sector Operations Department (ADB)
REDD	Reducing Emissions from Deforestation and Forest Degradation
REP	Regional Environment Program
RSDD	Regional and Sustainability Development Department (ADB)
SME	Small and Medium-sized Enterprise
SOE	State-owned enterprise
SPD	Strategy and Policy Department (ADB)
SS	Sub sovereign
TA	Technical Assistance
TFFP	Trade Finance Facilitation Program
USD	United States Dollars