How Effectively is the Asian Development Bank Responding to COVID-19? An Early Assessment

Azusa Sato, Rakan Aboneaaj, and Scott Morris

Abstract

In 2020, the Asian Development Bank (ADB) joined efforts by other multilateral development banks (MDBs) to rapidly scale up support to developing countries to address COVID-19. Beyond headline numbers, there has been less focus on how ADB's support was distributed by country income group, sector, modality, and product. Using an updated dataset on commitments and disbursements between 2018 and end of December 2020, we compare "pre-crisis" and "crisis period" trends. We overlay ADB data on other publicly available datasets reflecting population size, mobility levels, and government fiscal stimulus to evaluate the responsiveness and size of ADB support vis-à-vis other MDBs. Our findings show ADB's response was most significant in the countries that most needed support—low income economies with sharp GDP declines and limited fiscal response capacity. The health and public sector management sectors had significant surges in commitments, and impacted the modality used. While there was a rise in grant and concessional financing in 2020, non-concessional loans and sovereign operations still dominated during the crisis period. We suggest further work on how these changes impact development outcomes, with a view to recalibrating the bank's strategies in some sectors and products in the medium term.

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1. Introduction: What were ADB's key responses to COVID-19?

The COVID-19 pandemic triggered mass mobilization of development finance, with the highest level ever recorded volume of overseas development assistance (ODA) in 2020, at over $161 billion.[1] In line, multilateral development banks (MDBs) like ADB significantly increased the volume and speed of support to developing countries.

ADB's COVID-19 response and recovery efforts are marked by two packages. The first was an initial $6.5 billion announced mid-March 2020, comprised of $3.6 billion in sovereign operations (from reprogramming the 2020 pipeline) to address health and economic consequences of the pandemic; $1.6 billion in non-sovereign operations for micro, small and medium-sized enterprises, domestic and regional trade, and firms; and the remainder in concessional resources through reallocations from ongoing projects. This initial $6.5 billion was increased to $20 billion in mid-April 2020 (Appendix Table 1). As part of the additional package, ADB expanded the resources available for non-sovereign operations and allocated approximately $13 billion for the establishment of the COVID-19 Pandemic Response Option (CPRO).[2]

As a new instrument, the CPRO provides quick disbursing fiscal support for governments to implement countercyclical expenditure programs to mitigate the impacts of the pandemic. CPRO was created by modifying the conditions under the existing Countercyclical Support Facility[3] and represents a variation on conventional policy-based lending (PBL).[4] However, unlike conventional PBLs, which require fulfilment of policy actions prior to disbursement, CPROs only require evidence of eligibility, as measured by access criteria (Box 1). A range of indicators relating to health, economic or fiscal measures are monitored post-disbursement.

[1] https://devinit.org/resources/oda-2020-what-does-oecd-dac-preliminary-data-tell-us/
[2] https://www.adb.org/sites/default/files/institutional-document/579616/adbs-comprehensive-response-covid-19-pandemic-redacted-version.pdf
[3] https://www.adb.org/documents/enhancing-adbs-response-global-economic-crisis-establishing-countercyclical-support
[4] https://www.adb.org/sites/default/files/institutional-document/31483/om-d4.pdf

Box 1. COVID-19 Pandemic Response Option (CPRO) access criteria

Adverse impact of exogenous shocks: Severe decline in growth and fiscal or financial stress, demonstrated through the economic, health and population impacts of the pandemic, with a focus on poor or vulnerable groups.

Countercyclical development expenditures: Government has an effective countercyclical development expenditure/policy program and is committed to its implementation. Measures directly target poor or vulnerable groups.

Pre-shock record of generally sound macroeconomic management: Assessment that quality and size of planned macroeconomic adjustment measures being pursued under the countercyclical expenditure program are conducted within a sound budgetary framework.

Structural reforms: Demonstration that credible and proactive steps are being taken to address the spread of COVID-19 and mitigate its economic impacts on the population, particularly poor and vulnerable groups.

Debt sustainability: Specific reference made to the size of the CPRO assistance and support from other development partners.

IMF coordination: Assessment letter from IMF confirming soundness of government's macroeconomic management and other policies.

The second package, the Asia Pacific Vaccine Access Facility (APVAX), was announced in December 2020 and allocated $9 billion specifically for COVID-19 vaccine procurement and vaccination program implementation.[5] APVAX funds are largely made available following reprogramming of regular resource allocations, reallocations of savings and cancellations within existing portfolio, as well as mobilization of additional resources (Appendix Table 2). APVAX access criteria are: (i) demonstrated adverse impact of the COVID-19 pandemic; (ii) completion of a needs assessment acceptable to ADB and a national vaccination allocation plan that indicates prioritization of vaccine access consistent with international norms and safeguards against exclusion of marginalized and vulnerable groups; and (iii) the presence of an effective development partner coordination mechanism and a clear role for ADB within this platform. In addition, there are also vaccine eligibility criteria to ensure that the vaccination programs being supported are safe and effective by international standards.[6] In parallel to these two support packages, ADB remained committed to ongoing operations that did not necessarily have a dedicated COVID-19 response component.

[5] https://www.adb.org/sites/default/files/institutional-document/662801/adb-support-covid-19-vaccine-access.pdf

[6] The original criteria stated ADB procured vaccines must meet one of the following criteria: (i) the vaccine has been selected for procurement through COVAX on behalf of its participating countries, or (ii) the vaccine manufacturer is prequalified by the WHO, or (iii) the vaccine is authorized by a stringent regulatory authority (SRA) for manufacture in an SRA country or the SRA has authorized its manufacture in a non-SRA country. This criteria is subject to change as vaccines authorizations and vaccination rollout progress become evident.

2. Analysis: A closer look at ADB crisis lending data

This paper analyzes an updated dataset of ADB approved projects and programs incorporating information on commitments and disbursements on short- and longer-term finance[7] between 2018 and end of 2020.[8] We overlay this dataset on other publicly available datasets tracking population size, mobility levels, and government spending, to evaluate timing, relative size and suitability of ADB support. These analyses can inform ADB operations to support developing countries on their paths to recovery and influence development outcomes in the post-crisis period. Further details on data are in the Appendix.

We first analyze patterns in overall commitments and disbursements. Primarily owing to the COVID-19 response packages, ADB saw a 31% increase in long-term commitments per annum from $21.6 billion in the pre-crisis period (2018 and 2019), to $28.2 billion in the crisis period starting in 2020. Disbursements increased at a faster rate in 2020 to $24.1 billion, up from $16.3 billion the previous year (representing a 48% rise).[9] The $28.2 billion committed and $24.1 disbursed by the ADB in 2020 is the largest volume of lending of any regional MDB[10]—the runner up, IDB, committed $21.1 billion and disbursed $19.7.[11] In addition to its performance in absolute terms, the year-on-year growth in ADB financing has outpaced other leading MDBs during the crisis period—ADB's 31% growth in commitments from 2019–2020 is the highest of the regional MDBs (though the World Bank's commitments grew 55%), and its 48% growth in disbursements surpasses any MDB, including the World Bank.[12]

Income level: Poorer countries benefit more, but only when population size is accounted for

The increase in commitments across 2019 and 2020[13] is reflected across all ADB country income groups.[14] At first glance, upper middle income countries have seen the largest increase by volume between 2019–2020, rising from $9.6 billion to $14.3 billion year-on-year

[7] Analysis of short term financing operations like the Trade and Supply Chain Finance program (TSCFP) and technical assistance is limited to Figure 8, as the data on these projects is more limited than longer term projects.
[8] This paper complements the recently released policy paper 'Review of ADB's Comprehensive Response to the COVID-19 Pandemic Policy (2020)'; https://www.adb.org/documents/review-adb-comprehensive-response-covid-19-pandemic-policy-2020
[9] These figures do not include short-term programs or technical assistance, on which further information can be found around Figure 8.
[10] CGD analysis covered the following international multilateral development banks (MDBs): International Bank of Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), as well as the following regional development banks: the European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), and the Asian Development Bank (ADB).
[11] The IDB figures include short-term programs such as trade finance, which are not included in the ADB figures. If ADB short-term programs were to be included, the absolute amount of ADB commitments and disbursements would be even greater ($31.3 billion).
[12] A more in-depth cross-MDB analysis of COVID-19 response is forthcoming from CGD, and will include comparisons across sector, income groups, and regions.
[13] ADB reports fiscal year by calendar year.
[14] ADB classifies countries into groupings (Group A, B and C), according to (i) gross national income (GNI) per capita, and (ii) creditworthiness for regular ordinary capital resources (OCR) loans or market-based resources. Here, to ease interpretation, we use 'low income' to denote Group A, 'lower middle income' for Group B, and 'upper middle income' for Group C. Please note that the terms 'low', 'lower-middle' and 'upper middle' do not correspond to the World Bank's income classification criteria; for example, countries that ADB classify as low income in this text may be considered lower middle income or upper middle income by the World Bank institutions (and vice versa). See Appendix C for further details.

(representing 3% and 49% respectively, year-on-year), with low and lower middle income countries seeing more modest increases. ADB's data mirror other MDBs', which show that while commitments to low income countries rose marginally between 2019 and 2020, there was a reduction in the share (from 14% in 2019 to 11% in 2020) due to much larger increases in commitments to lower middle income countries.[15]

Figure 1. ADB commitments by year, income group (USD billions)

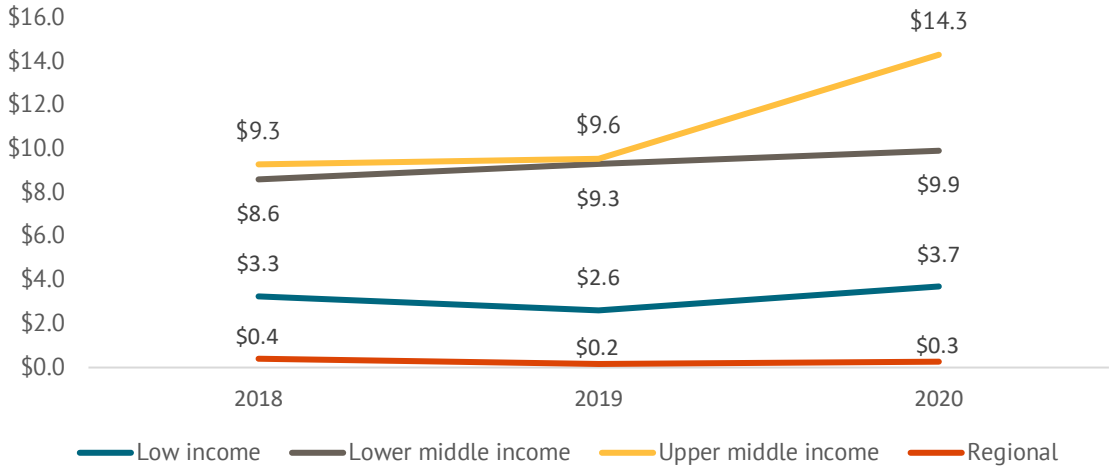
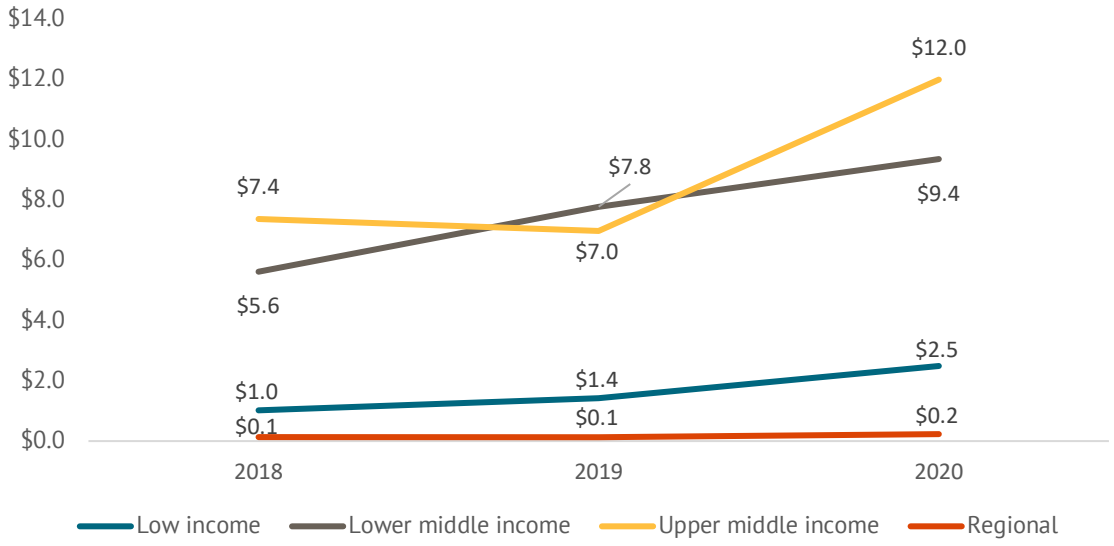


Figure 2. ADB disbursements by year, income group (USD billions)



When population weights are taken into account and we calculate commitments per capita, this picture changes. Figure 3 shows commitments per capita are significantly higher for low income countries than lower middle and upper middle income countries in 2018, 2019 and 2020. Across all years, upper middle income countries see the lowest level of commitments

[15] https://devinit.org/resources/how-aid-changing-covid-19-pandemic/

per capita. Disbursement ratios[16] are also presented in Table 1 and show consistently rising disbursement of committed funds per capita in low income countries, reaching 67% in 2020.[17]

Figure 3. Commitments and disbursements by ADB income group, by year—per capita (USD)[18]

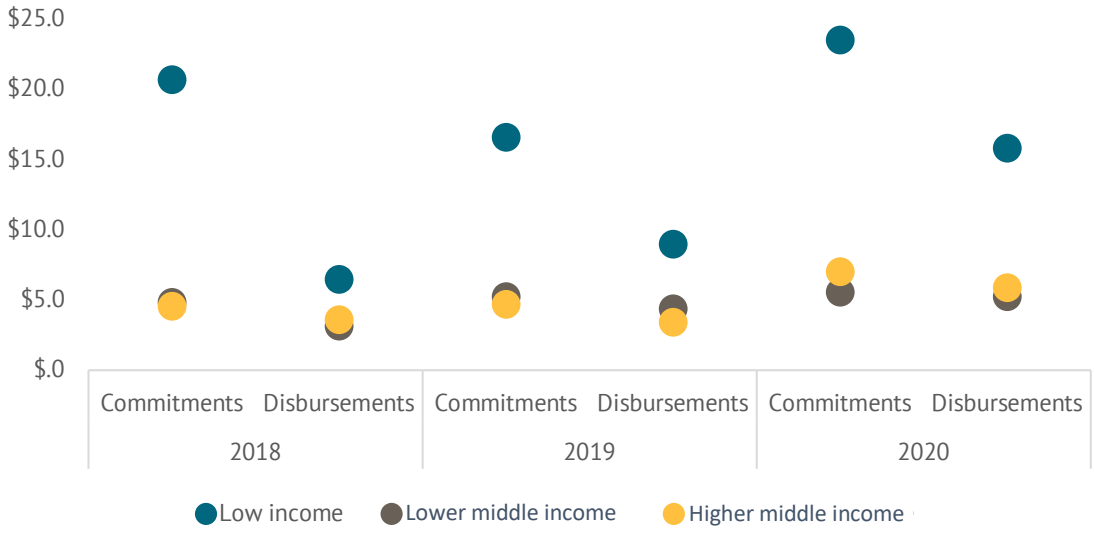


Table 1. Disbursement ratios by ADB income group, by year—per capita

	2018	2019	2020
Low income	31%	54%	67%
Lower middle income	65%	83%	94%
Upper middle income	79%	73%	84%
Total	**65%**	**75%**	**85%**

The fact that poorer countries benefit more from ADB support once population size is accounted for aligns with ADB's goal of building resilience in low income countries with smaller populations, like the 11 countries classed as 'small island developing states (SIDS)'.[19] Many of these nations belong to the Pacific region characterized by geographic remoteness and dispersion, small populations, narrowly based economies, low fiscal revenue, and high transactions costs, and include countries such as the Cook Islands, Kiribati and Vanuatu. 8 SIDS countries are also classed to be in 'fragile and conflict-affected situations' (FCAS).[20] FCAS countries are generally characterized by political instability, weak governance and

[16] Defined as disbursement amount divided by commitment amount, see Appendix G for further information.
[17] See Appendix H for information on population weighting methodology.
[18] Regional per capita amounts are not shown, because population affected varies by project.
[19] Cook Islands, the Federated States of Micronesia (FSM), Fiji, Kiribati, the Marshall Islands, Maldives, Nauru, Niue, Palau, Papua New Guinea, Timor-Leste, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu
[20] Afghanistan, FSM, Kiribati, the Lao People's Democratic Republic, the Marshall Islands, Myanmar, Nauru, Papua New Guinea, Solomon Islands, Timor-Leste, and Tuvalu.

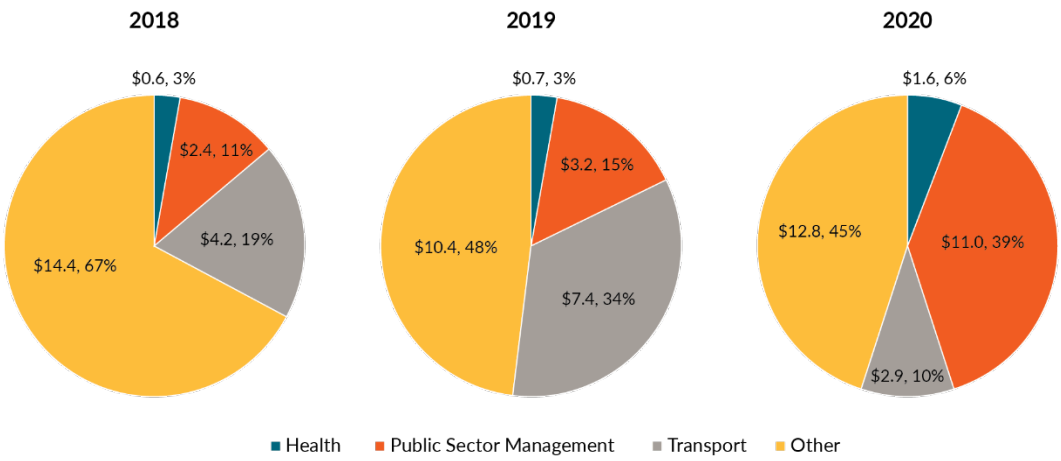
limited institutional capacity. Both SIDS and FCAS countries are particularly vulnerable to the effects of climate change, natural hazards, and the COVID-19 pandemic. When analyzing FCAS and SIDS countries separately, we see a similar prioritization as with low income countries more generally. In 2020, FCAS countries saw a 36% spike in commitments per capita, to nearly $21 dollars per person. SIDS commitments growth was even more dramatic, rising 248% to $98.7 per capita.

As SIDS and FCAS populations are relatively small compared to many other countries supported by ADB, small absolute lending can have an 'outsized' per capita impact relative to operations in lower or upper middle income countries. Thus, using differentiated, country-specific approaches can be effective and should be further pursued.

Sector: Big pushes in health and public sector management

ADB's crisis response has entailed a significant sectoral reallocation, with large increases in health sector financing and public sector management (Figure 4). Health, represented in blue, has increased from $0.7 billion in 2019 to $1.6 billion in 2020, while public sector management, represented in orange, has increased from $3.2 billion in 2019 to $11 billion in 2020. The increases in health and public sector management are offset by reductions in commitment in the transport sector, represented in grey, and all other sectors,[21] represented in yellow.

Figure 4. ADB commitments by year, sector (USD billions)



Year	2018	2019	2020
Total	$21.6	$21.6	$28.2

In percentage terms, the health sector saw a 137% jump in commitments in 2020. This is due to emergency response measures including provision of medical equipment, supplies and institutional support. The 137% increase signifies over 5% of total ADB commitments for 2020 and nearly 4 times as many loans and grants processed between 2019 and the end of

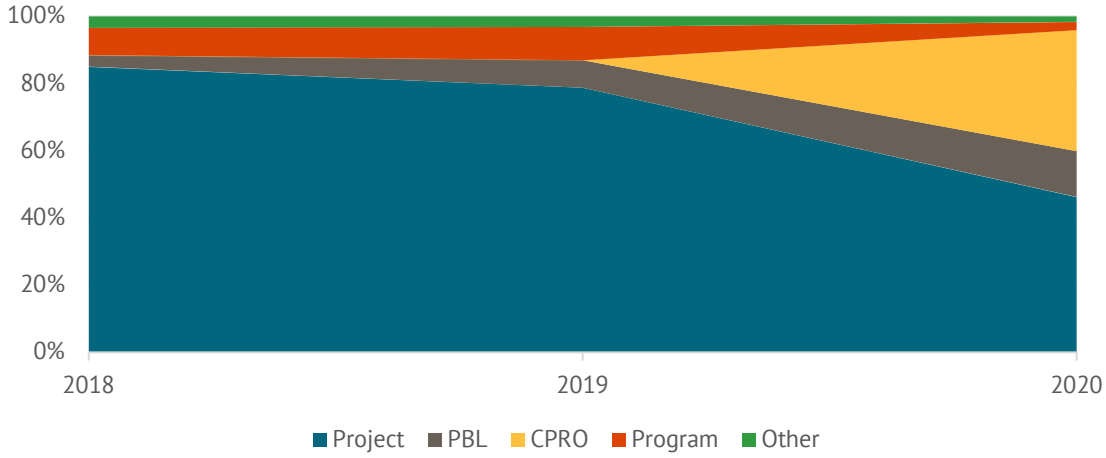
[21] Including agriculture, education, energy, finance, industry and trade, information and communication technology, multisector, water and urban infrastructure, and for classification.

2020 (from 13 to 50). Health operations will grow to an even greater volume in 2021, as countries draw upon the APVAX Facility made available in December 2020. At this time, it is unclear how operations may look in 2021 and 2022, but given that developing countries might need booster shoots for some time[22] and will need to strengthen their health systems against future crises, health is likely to remain a critical sector for ADB.

Public sector management saw a 242% increase in 2020 (largely due to the new CPRO made available in April 2020), and comprised 40% of all commitments in 2020. Public sector management operations contributed significantly to buffering governments' economic stimulus packages, which included measures for health, social protection, and small and medium enterprises.[23]

Changes in public sector management commitments are closely reflected in modality trends. 88% of public sector management operations used CPROs and 10% used conventional policy-based-lending (PBLs). Both these modalities are quick to disburse compared to projects, with CPROs designed to be even faster than conventional PBLs to lend immediate support to countries without stringent conditionalities. CPROs provided liquidity to fund government stimulus and economic packages and asked governments to report results quarterly after funds were disbursed. This contrasts with conventional PBLs, which require conditionalities to be fulfilled before funds are disbursed, and projects, which require procurement processes before disbursements can be made.[24] As seen in Figure 5, across ADB modalities, CPROs showed the greatest growth in share during 2020, reaching 36% of all operations that year (rivaling projects, which made up 46% in 2020, and approximately 80% in other years).

Figure 5. Share of commitments by modality, year



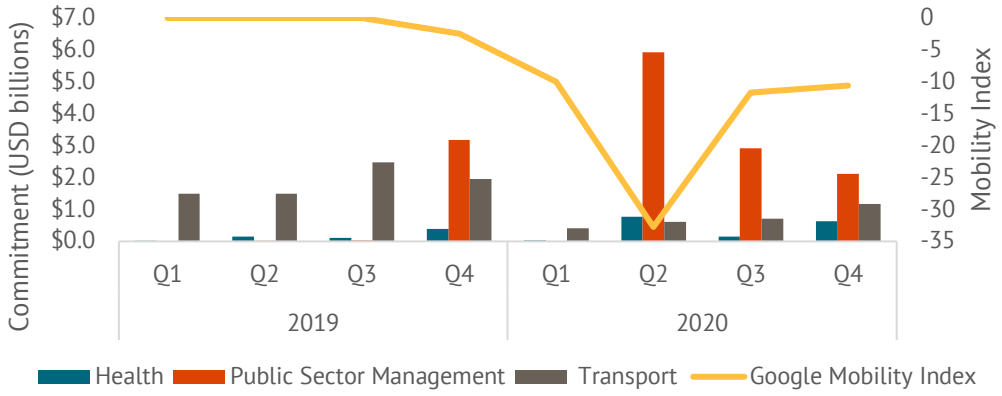
[22] https://www.cgdev.org/blog/international-community-has-one-job-getting-covid-19-under-control
[23] In this sense, figures reflected in the health sector may be undercounted given public sector management packages also funded the health sector. Similarly, the social protection portfolio is classed within health or education sectors, and its growth has not been reflected separately in this analysis.
[24] https://www.cgdev.org/publication/world-bank-budget-support-time-covid-crisis-finance-strings-attached

Mobility: As mobility fell, so did transport commitments

In contrast to health and public sector management, transportation commitments fell significantly in 2020, by 61%. There are only marginal changes in cumulative commitments for sectors other than health, public sector management, and transportation.[25] When broken down quarterly (Figure 6), we see that the timing of these shifts across sector are associated with different periods within the crisis, with transportation commitments falling sharply in the early stages of the pandemic (Q1 and Q2 2020), but then rising as lockdowns ease.

To get a sense of the precise timing of mobility restrictions, we overlaid a trend line using data from Google's Community Mobility reports, which document mobility levels in different regions in countries relative to a pre-pandemic baseline. The comparison shows that the fall in transportation commitments coincides with a sharp fall in mobility levels across ADB countries, as well as a spike in public sector management commitments. Planning new transport sector projects likely became much less feasible during a period of strict lockdowns and halt in construction in ADB's client countries around Q2 and Q3 2020. By Q4 2020, with mobility moving closer to its baseline, transport commitments stabilize somewhat, while public sector management commitments appear to have declined, mostly due to limited capacity to borrow for budget support amidst burgeoning budget deficits.

Figure 6. Health, public sector management, and transport commitments and ADB region mobility levels[26]



Despite transport sector commitments falling nearly 50% year-on-year, disbursements within the sector were more stable, and even surpassed commitments by 5% in 2020. This may be explained by the fact that long-term project lending can take years to disburse, so even if ADB's priorities change, disbursements in that year, or even in the following year, might not reflect the full magnitude of the shift. ADB also used the crisis to apply future thinking and foresight in the transport sector to develop new comprehensive transport sector approach fit for a post-COVID world.[27]

Given the expanded need for social spending, and the reduced feasibility of transportation infrastructure investments, ADB's pivot towards health and public sector management make

[25] Agriculture, natural resources, and rural development; energy; finance; industry and trade; transport; water and other urban infrastructure and services.
[26] Index values prior to Q1 2020 were not available and have been artificially set for smoothness.
[27] https://www.youtube.com/watch?v=qgUM7Panzks

intuitive sense. In addition, ADB's pattern of increasing health and public sector management operations while decreasing transport commitments in response to COVID-19 is also reflected in ODA patterns of international financial institutions (IFI), which doubled social sector investments between 2019 and 2020 from $13.6 billion to $28.4 billion. However, investments needs to be sustained beyond this rapid response for equipment and vaccines to address the underlying system weaknesses that lead to the pandemic crisis in the first place. Similarly, as share of total ODA between March 2018 and February 2021, there was an 8.8% drop in contributions from IFI to the 'transport and storage' sector.[28]

Non-ADB fiscal stimulus: ADB contributes significantly beyond government's own resources

ADB's introduction of CPRO, alongside increases in policy-based loans, resulted in a pronounced shift toward direct fiscal support for client governments. To evaluate the contribution of ADB's commitments to government resources, we compare ADB's commitments to International Monetary Fund (IMF) data on domestic fiscal stimulus and GDP growth outlooks, as well as data on World Bank commitments to ADB client countries. According to our analysis, upper middle income countries saw the sharpest decline in GDP growth, falling -7.81%, compared to -6.95% for low income countries, and a much smaller -3.47% for lower middle income countries. Domestic fiscal stimulus counteracts the shock somewhat in lower middle and upper middle income economies, equating 1.8% and 3.2% of GDP on average respectively. Low income countries have the lowest level of fiscal stimulus at 1.6% of GDP. Both ADB and the World Bank have contributed to bolstering fiscal spending in 2020, with ADB commitments growing by an average of 0.03% of GDP in upper middle income countries, 0.01% of GDP in lower middle income countries, and 0.52% of GDP in low income countries. The World Bank's commitments grew an average of 2.11% of GDP in low income countries and 1.05% of GDP in lower middle income countries. It is encouraging to see that low income countries have received the greatest amount of support from major MDBs. Nevertheless, this analysis shows that ADB and World Bank operations are a drop in the bucket of fiscal need that countries face.[29] Moreover, the economic losses of the pandemic will continue to grow as developing countries struggle to gain access to vaccines. Given that these countries are also the least capable of mobilizing domestic fiscal resources against the pandemic, the continued systemic support of ADB and other MDBs will be vital in minimizing long-lasting economic damage.[30] In this respect, ADB has ramped up its domestic resource mobilization program and launched a tax hub[31] to enhance domestic resource mobilization and international tax cooperation in May 2021.[32]

[28] https://devinit.org/resources/how-aid-changing-covid-19-pandemic/#note-iLmHajYEZ
[29] https://www.adb.org/publications/macroeconomic-policy-adjustments-due-covid-19
[30] https://www.cgdev.org/blog/more-1-trillion-mdb-firepower-exists-we-approach-covid-19-break-glass-moment
[31] https://www.adb.org/news/adb-launches-tax-hub-enhance-domestic-resource-mobilization-international-tax-cooperation
[32] https://www.adb.org/news/adb-launches-tax-hub-enhance-domestic-resource-mobilization-international-tax-cooperation

Figure 7. Fiscal support as a percentage of GDP by source, 2019–20[33]

Note: Bars reflect a population-weighted average of year-on-year changes in individual countries' GDP growth rates, as well as changes in ADB and World Bank commitments (post-COVID commitments minus pre-COVID commitments for each institution), and fiscal stimulus measures. All these metrics are divided by countries' respective GDPs, resulting in the percent of GDP values recorded on each bar. Please note that low values for 'change in ADB commitment' in this chart do not equate low absolute quantities of commitments; figures for 2020, pictured, are presented relative to 2019.

Capital adequacy: Increase in capital utilization strongly supported expansions in operations

Of the $29 billion ($20 billion for the health and economic responses plus $9 billion for vaccine access) made available by ADB, approximately $22.5 billion is sourced from regular Ordinary Capital Resources (OCR). Much of this was made possible by increasing the capital utilization ratio (CUR),[34] from 62.1% to 69.1% between 2019 and 2020.[35] ADB's Financial Report for 2020[36] states that ADB is well capitalized, and able to absorb stress from the pandemic crisis. Further, the CUR remains robust and able to support planned expansion of operations, and has continued to increase in 2021. Such findings are consistent with research which shows ADB entered the crisis with large aggregate lending headroom. However, development related credit exposure and pressure on sovereign ratings can erode this capacity quickly and there is mounting uncertainty on whether there will be any new

[33] For more information on the methodology used to create this chart, see Appendix K.
[34] Starting in 2020, ADB reports the capital utilization ratio, defined as the ratio of the total economic capital used to total available capital. Economic capital covers the capital requirement for credit, market, operational, and other risk types. This indicator replaces reporting on the equity–loan ratio.
[35] ADB Annual Report 2020
[36] https://www.adb.org/sites/default/files/institutional-document/691766/adb-financial-report-2020.pdf

injection of fresh resources by shareholders in the immediate future given recent capital increases and pressure on public budgets.[37]

In late February 2020, the Board of Directors approved the Review of ADB's Capital Adequacy Framework. The Framework is designed to protect the risk-bearing capacity of ADB without relying on callable capital, and maintain ability to lend even during crises. Further, the Framework aims to ensure that high risk events do not lead to a downgrade of ADB's AAA rating. ADB may need to explore more creative ways to increase treasury net income to strengthen capital adequacy, to ensure stability in the long-term lending trajectory and the speed at which capital is consumed.[38] This could also include new financial products which cater better to lower and lower middle income country needs.

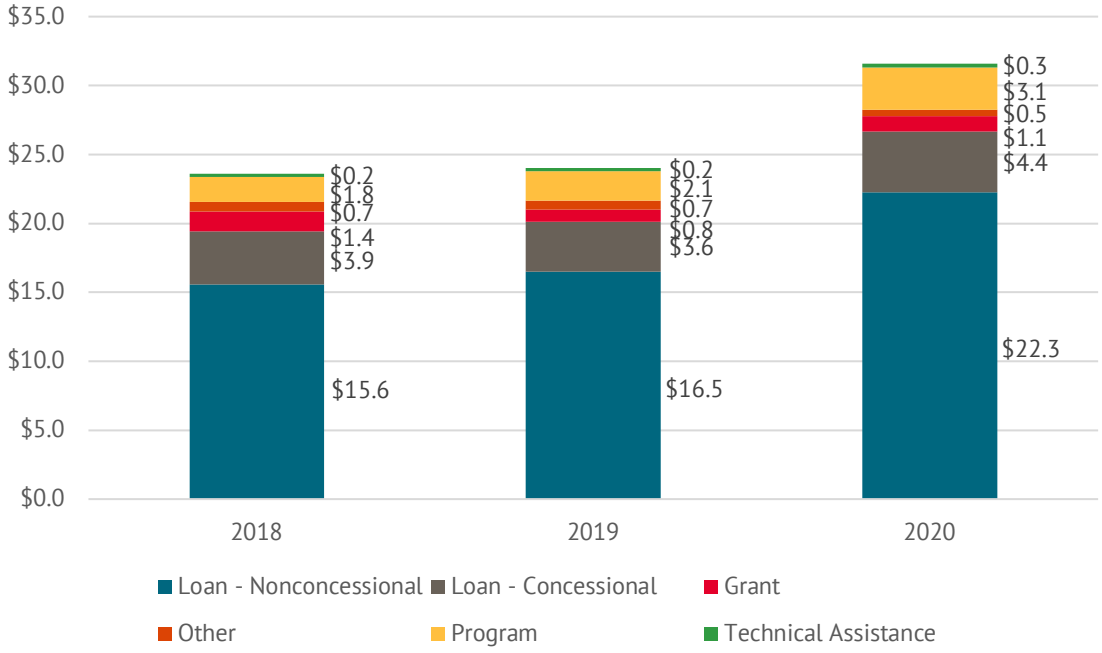
Product type: The portfolio is still dominated by non-concessional loans

Our analysis by quarter shows that some sectors other than health and public sector management also saw a rise in commitments at the onset of the pandemic, suggesting that in addition to increasing CUR and reprogramming pipelined projects, ADB swiftly reallocated existing resources from ongoing projects, drew on savings and cancellations, and made available existing grant resources. This speaks for ADB's effective performance as financier. The reallocation and expansion of grant resources is particularly important in light of the generally limited volume of concessional loans and grant funds. According to our analysis, non-concessional loans predominate, comprising 69% and 71% of the total ADB portfolio in 2019 and 2020, respectively. In volume terms, that equates an increase of $5.8 billion between 2019 and 2020 (Figure 8). While the volume of grants and concessional loans also increased between 2019 and 2020 spiking at $1.1 and $4.4 billion each respectively, combined they comprised only 17% of the total commitment in 2020. Moreover, a significant portion of these operations does not go to low income countries—40% of concessional loans and 11% of grants in 2020. Even if both grants and concessional loans meet their 2020 levels in 2021, non-concessional lending will still make up the majority of ADB operations, representing a substantial area for improvement in the bank's work with the poorest countries for which non-concessional loans may been too onerous during crisis periods.

[37] https://www.bancaditalia.it/pubblicazioni/qef/2021-0598/QEF_598_21.pdf

[38] In addition to the cross-MDB COVID-19 response analysis mentioned early in this piece, an analysis of the capital adequacy of all the major MDBs, including ADB, is also forthcoming from CGD.

Figure 8. Commitments by product type (USD billions)[39]



Short-term programs: A spike in short-term programs is not enough to counteract an overall decline in non-sovereign operations

The above chart reveals the predominance of short-term program (i.e., the Trade and Supply Chain Finance program, TSCFP, and Microfinance program) lending among non-sovereign operations. Commitments to these programs have increased steadily since 2018, growing from $1.8 billion to $2.1 billion in 2019, to an all-time high of $3.1 billion in 2020.[40] The speed and flexibility of these types of operations make them suitable to crisis response, which, as we have noted elsewhere in this analysis, is dependent on rapid disbursement, whether on the sovereign or non-sovereign side. Nevertheless, the rise in short-term programs masks an overall decline in overall non-sovereign operations which fell by 12%, and in particular, long-term operations fell from $3 billion in 2019 to $1.4 billion in 2020. While the volume of operations fell, the number of operations was flat, at 38 in 2019 as well as 2020. This dynamic presents a stark contrast to the dramatic expansion in ADB's operations in general, however, it optimizes use of ADB's unified balance sheet of non-sovereign and sovereign operations. During the crisis, ADB has taken advantage of the flexible use of capital, by supporting rapidly to governments through the sovereign side,[41]

[39] Unlike other charts, this figure includes short-term financing programs and technical assistance operations, making totals for each year higher than elsewhere in the report. Figures for these categories are based on publicly available ADB Annual Report data. Due to changes in reporting in 2019, the figure for short-term programs in 2018 is an estimate which reflects the bank's upper limits for the two largest short-term programs—Trade Finance and Supply Chain Finance—combined with the 2018 Annual Report's figure for microfinance operations.
[40] Commitments to short-term programs are not included in other analyses featured in this report due to aforementioned data limitations.
[41] https://www.adb.org/sites/default/files/institutional-document/695916/defr-2020.pdf

while relying on short-term lending programs on the non-sovereign side. Further, per Strategy 2030, the focus has been primarily on increasing the number count of non-sovereign operations, targeting deals which lead to greater development impact in new sectors and markets. These, while smaller in dollar value, are strategically kept so due to their high-risk nature.

Technical assistance and knowledge: TAs were deployed for supplies and health systems strengthening and knowledge work accelerated

The above chart also illustrates a significant expansion in the magnitude and scope of TAs expanded in 2020. TAs in 2020 amounted to over $294 million, signifying a 24% rise on 2019's volume. The majority ($282 million) was dedicated to the sovereign side, with over $128 million specifically for COVID-19 response. ADB utilized TAs in three different ways in 2020. Firstly, it immediately topped up existing TAs to provide emergency response and capacity development to help governments purchase COVID-19 equipment and supplies, effectively using TAs as grant resources. Secondly, it called upon regional TAs to broaden the number of countries supported at an instance, with one unique TA providing $68.6 million for supplies and health systems strengthening, later including support for vaccine rollout. Third, ADB ramped up provision of knowledge services, working with global experts, nongovernmental organizations, private sector and academia to aid governments in their COVID-19 response. By partnering with technical experts worldwide, ADB was able to bring the latest knowledge to the table, supporting governments to be one step ahead of the pandemic. In 2020, ADB produced 352 significant, larger knowledge products and services, including COVID-19 sector and thematic guidance notes. An online mapping tool on medical supplies was launched, and macroeconomic data and projections were effectively made available. To further the work, ADB has partnered with a wide range of organizations specializing on issues related to COVID-19. ADB also recognized that knowledge was key to advancing longer-term agendas, but that there is still more room to develop a more knowledge-inducive culture. During the crisis, ADB developed a new approach for country knowledge programming to enhance the value and impact of ADB's knowledge work for countries and to ensure effective support for the recovery.

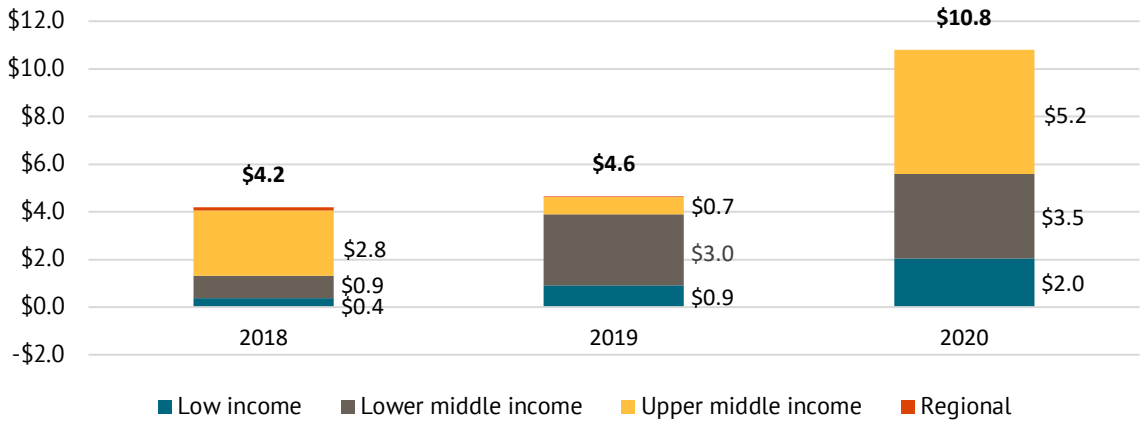
Net flows: Net flows to governments have more than doubled during the crisis period

The volume of grants versus loans impacts the realized net flows, or resource transfer[42]—and therefore debt burden—to governments. As shown in figure 9, net flows from ADB in 2020 reached $10.8 billion, more than double the amount in 2019. However, while grants and concessional loans contributed to this pickup somewhat, most of the increase came from Ordinary Capital Resources (OCR). This is because the bulk of the overall increase in net flows—$4.5 of the overall $6.2 billion—went to upper middle income countries, most of which are ineligible for grants or concessional lending. On the other hand, grants and

[42] The net amount of disbursements in excess of payments of principal, interest and other charges, together classed as 'loan service repayments.'

concessional assistance make up nearly 80 percent of the $1.1 billion increase in net flows to low income countries. This suggests that while disbursements to upper middle income countries are larger and drove overall trends in net flows, disbursements to low income countries, though smaller in volume, are more concessional in nature. Indeed, 89% of total grants and 60% of concessional loans went to low income countries in 2020. Still, ADB could help to relieve debt burden and fiscal distress even more by increasing the volume of grants to poorer countries.

Figure 9. Net flows by income group, yearly (USD billions)



Note: Discrepancies in column totals are due to rounding.

To further boost grant resources, in November 2020, the Board of Governors adopted a resolution for the 12th replenishment amounting to $4.06 billion of the Asian Development Fund (ADF).[43] The replenishment will provide grant financing to 2024 and will be funded by donor contributions ($2.34 billion), OCR net income transfers ($1.17 billion), and other sources including ADF 12 and liquidity investment income ($0.55 billion).

3. Policy implications

The quicker the better?

In addition to volume expansion, ADB's crisis response was also quick. As noted in the discussions of sector and lending instruments, the bulk of ADB lending expansion took place in the public sector management sector, which was nearly 90% CPRO, the fastest disbursing and least stringent modality ADB offers.

Countercyclical budget support is imperative in crisis periods when governments require urgent financing and have limited resources and options. The Independent Evaluation Report for 2020, released in April 2021, shows ADB approved CPRO budget support in record time: initial evidence shows that the time from approval to effectiveness for CPRO budget support was 13 days, compared with the average of 68 days from 2016 to 2019 for budget support. As a result of its quick action, ADB was able to commit $16.1 billion (97%)

[43]https://www.adb.org/documents/resolution-no-408-12th-replenishment-adf-and-7th-regularized-replenishment-tasf

of the $16.6 billion that it approved in 2020.[44] Budget support, both PBLs and CPROs, are well suited to further ADB's Strategy 2030 agenda and have the potential to bring greater processing efficiency and to mobilize more co-financing than standalone investment projects.

As our CGD colleagues have pointed out,[45] not all MDBs' crisis response operations have been so flexible, or so quick to disburse. The World Bank's fastest disbursing modality, budget support operations, have continued to come with conditionalities, the majority of which are unrelated to COVID-19. The World Bank's own Independent Evaluations Group has noted that operations laden with conditions unrelated to the crisis at hand, even if they are in line with a country's medium-term economic goals, are less likely to be effective in mitigating the shocks of a crisis.[46] This makes ADB's CPRO expansion particularly noteworthy given its emphasis on post-disbursement monitoring rather than pre-disbursement conditionalities, and increases the likelihood that the ADB's funds will rapidly alleviate the most detrimental fiscal and socioeconomic consequences of the pandemic. Accordingly, CRPOs, which fall under the policy-based lending category of operations, achieved high ratings, with 84% deemed 'successful.'[47]

ADB's health sector will need to recalibrate

Prior to COVID-19, the health sector was set a target to achieve 3–5% of total commitments. This analysis proves that ADB is more than capable of realizing this target, but gives rise to a multitude of questions, including how ADB will shape its health sector going forward—what level of resources ought to be dedicated to health? What trade-offs will need to be made vis-à-vis other sectors to make room for this? What kind of funding resources can support potential expansion? What kind of investments within health will bring both clients and ADB the best value for money and return on investments? There is no doubt that at least three dimensions shape and support ADB's future involving the health sector: (i) more human, people-centered investments; (ii) better knowledge management and big-data analytics for evidence-based policymaking, and (iii) multi-stakeholder leadership and strategic partnerships, not least of which includes private sector involvement.[48] We hope the new Health Sector Strategic Framework 2021–2030, in design, will analyze some of these questions and set a vision for the next decade taking into account ADB's comparative advantages and available resources.

Sovereign versus non-sovereign operations and impact on capital utilization

Given the ADB's robust commitment growth overall, the decline in non-sovereign operations is surprising at first glance. However, ADB's Strategy 2030 has focused primarily on increasing the number count of non-sovereign operations as opposed to volume, so the decline in commitment volume may not be detrimental. It might also show a shift to smaller

[44] https://www.adb.org/documents/2020-annual-evaluation-review-adb-s-project-level-self-evaluation-system
[45] https://www.cgdev.org/publication/world-bank-budget-support-time-covid-crisis-finance-strings-attached
[46] https://ieg.worldbankgroup.org/sites/default/files/Data/reports/meso-devpolfinancing.pdf
[47] ADB 2020 Development Effectiveness Review scorecard; https://www.adb.org/documents/development-effectiveness-review-2020-report
[48]https://www.cgdev.org/blog/covid-19-financing-and-development-pathways-initial-reflections-asian-development-bank

and more development-oriented private sector investments. Further, as noted earlier, ADB's unified balance sheet implies that any expansion of sovereign sector operations may result in declining volumes of non-sovereign operations. Given that the bulk of immediate crisis response, especially fiscal and health, falls on the shoulders of governments, the surge in sovereign operations is in keeping with ADB's trend of focusing its activity on the sectors most in need. However, ADB should strive to maintain malleability in their lending activities and use capital flexibly. As developing countries slowly move from crisis response to crisis recovery, it will be critical to revisit priorities and ensure sufficient resources in the medium to longer term, including by regular analysis of the CUR, taking on additional risk, or implementing innovative off-balance sheet structures.[49] As cited by many, responding to COVID-19 requires a whole-of-society and whole of institution support, signaling a strong role for non-sovereign operations, in line with the visions outlined in Strategy 2030.

Lending terms and grants

Earlier reforms to ADB's financial model made the institution significantly less dependent on donor contributions to support a shrinking pool of countries eligible for concessional and grant financing. In light of this, it is striking during the crisis period the degree to which TA has been used as a grant-based instrument to donate crisis-related goods and services such as PPE on a country and regional basis. Going forward, the institution and its shareholders and donors should consider the role that grants can play beyond their historical role in subsidizing normal lending to low income countries and rather use grants to de-risk innovative demonstration projects, develop capacity in governments to design complex projects and build institutions. With a more constrained replenishment program, ADB will need to consider new ways to fundraise where there is a compelling need for grants and subsidized lending. Relatedly, significant debt risks in some countries may put a greater call on concessional resources over a sustained period for the ADB. Together, these prospects suggest that the bank may be overly-dependent on a non-concessional lending model.

Knowledge work

COVID-19 has highlighted the importance of real-time and proactive knowledge to inform policy decisions. ADB has recognized this through the approval, amidst the height of the pandemic, of the Knowledge Management Action Plan 2021–2025[50]. The plan contains actions to ensure country-focused, quality knowledge solutions that focus on sustainability, not merely economic growth, for recovery. While at the beginning of its implementation, ADB will need to invest in staff learning, bolster country teams' ability to lead policy dialogue and transform ADB's culture to realize the plan's vision.

4. Conclusion

Overall, ADB's response to COVID-19 has been effective, given it was fast, sizeable and tailored to governments' needs. These unprecedented levels of support have led to a fundamental shift in ADB's operations, most notably in the health sector. While this study

[49] https://www.cgdev.org/stretchfund
[50] https://www.adb.org/documents/knowledge-management-action-plan-2021-2025

provides additional analysis to the headline findings of ADB's COVID-19 response, we believe more research is needed to: (i) further analyze the sectors, sub-sectors and instruments that offer the greatest returns on investment value for money in terms of the trade-off between speed and development impact using effective knowledge solutions. This will necessitate revisiting ADB's strategy, particularly for health and public sector management, to reflect the extended duration of the crisis and anticipate future needs; (ii) explore how to sustainably balance non-sovereign with sovereign, and concessional versus non-concessional operations, possibly through increased utilization of less commonly used product types and modalities including grants; (iii) compare and consolidate similar research for other MDBs, especially those who operate in the Asia Pacific region, to better understand the landscape of development finance and how cross-institutional synergies might be achieved during the ongoing crisis response and recovery. This will help to anticipate longer term needs, modalities and availability of ADB resources. Such research will provide more clues on how MDBs can support governments on their paths to recovery in a sustainable, inclusive and resilient manner.

Appendix[51]

a. **Data construction:** Our analysis draws on both publicly available Annual Report data[52] and ADB's proprietary management dashboard,[53] which contains more granular and up-to-date data on commitments as well as disbursements. Our data construction began by downloading the most complete tables available from the management dashboard for each year from 2018–2020. This data included only long-term development lending, excluding technical assistance and short-term financing programs (e.g., the Trade and Supply Chain Finance Program, TSCFP). These two categories of operations are analyzed in Figure 8, using data from Annual Reports in combination with data from the management dashboard. While our base management dashboard data was generally more detailed than publicly available ADB datasets, for every year of our analysis we strove to maintain alignment, and double checked our analysis with publicly reported and available figures.

b. Data analysis: From ADB's proprietary management dashboard, we downloaded separate datasets for commitments and for disbursements in each year ranging from 2018–2020. We then collated separate yearly datasets into single sheets spanning 2018–2020, resulting in four datasets: sovereign commitments, non-sovereign commitments, sovereign disbursements, and non-sovereign disbursements. We analyzed each dataset separately, and consolidated the multiple analysis outputs into single bank-level figures wherever necessary.

c. Income group: Low, lower middle, and upper middle income designations used throughout this report correspond to ADB's A, B, and C country income groupings, respectively. We based our income group analysis on ADB country income groupings because they offer a detailed, region-specific view of different levels of country development. Groupings determine the countries' eligibility for the bank's concessional resources and are in turn based on (i) gross national income (GNI) per capita, and (ii) creditworthiness for regular ordinary capital resources (OCR) loans or market-based resources. ADB uses the World Bank's GNI per capita estimates based on the Atlas method and the International Development Association's operational cutoff for eligibility which is updated periodically. The three resultant groupings are: group A (concessional assistance-only countries), group B (OCR blend countries), and group C (regular OCR-only countries), which include the following countries.

   i. **Group A (low income):** Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Federated States of Micronesia, Lao People's Democratic Republic, Maldives, Marshall Islands, Myanmar,

[51] To the extent possible we will upload compiled and analyzed data to CGD's internal site.
[52] https://www.adb.org/documents/series/adb-annual-reports.
[53] Data from the ADB's management dashboard are not publicly available and are accessed internally.

Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Tonga, Tuvalu, Vanuatu

ii. **Group B (lower middle income):** Bangladesh, India, Mongolia, Pakistan, Palau, Papua New Guinea, Timor-Leste, Uzbekistan

iii. **Group C (upper middle income):** Armenia, Azerbaijan, People's Republic of China, Cook Islands, Fiji, Georgia, Indonesia, Kazakhstan, Malaysia, Philippines, Sri Lanka, Thailand, Turkmenistan, Viet Nam

d. Sector: Sector analysis is based on ADB sector divisions, which are as follows: agriculture, natural resources and rural development (AGR); education (EDU); energy (ENE); finance (FIN); industry and trade (IND); information and communication technology (ICT); multisector (MULT); public sector management (PSM); transport (TRA); water and other urban infrastructure and services (WUR); and for classification (FOR CLASS, used when sector is yet to be determined). Where possible, we disaggregated MULT sector projects into their component sectors, resulting in sometimes negligible figures. Because of this, in some graphs, small or marginal sectors like MULT are consolidated or excluded for readability. However, overall amounts for commitment and disbursements are inclusive of all sectors.

e. Product type: Product type categories describe the general category of lending instrument used for an ADB instrument and are inclusive of all ADB operations. The complete list of long-term ADB product types is the following: loan, grant, debt security, equity, and guarantee. On Figure 8, debt security, equity, and guarantee have been consolidated into one "other" stacked bar for ease of viewing. To this list of long-term products, we have added short-term products (i.e., ADB's Trade and Supply Chain Finance Program, TSCFP, and Microfinance program) as well as technical assistance to give an exhaustive view of ADB operations. Neither of these product types is represented in the datasets from the management dashboard that drive the rest of the analysis, so we relied on Annual Report tables to give the yearly totals for each. Additionally, TSFCP amounts were not reported in the 2018 Annual Report, so for that year we estimated commitments using the newly increased upper limit for TSCFP combined with the yearly total for the Microfinance program. ADB data fit neatly into one of the resulting product type categories, the only exception being two direct investment projects co-financed by a Japanese fund in the management dashboard, which we excluded from analysis given its co-financing nature.

f. Modality: Modality categories offer a more granular division of the different types of lending that make up ADB's operations, and in thus somewhat less comparable across other financial institutions. Our categories for modality are based off the management dashboards, and are as follows: project, policy-based lending (PBL), program, COVID-19 Pandemic Response Option (CPRO), and other, which consolidates equity

investment, sovereign guarantee, non-sovereign guarantee, debt security, and technical assistance (TA, excluded from our analysis except for in Figure 8). Notably, while there is some overlap with product type (for example, equity), modality and product type are by no means interchangeable—for example, the project modality can include both grants and loans, as can CPRO. The composition of each different modality is listed below:

i. **Project:** project, sector, special assistance, contingent disaster financing, results-based lending loans/grants, TA loans, multi-tranche financing facility (MFF) tranches, development financing institutions, credit lines, and activity subgrants

ii. **PBL:** programmatic approach and stand-alone policy-based lending loans/grants

iii. **CPRO:** COVID19 Pandemic Response options and grants

iv. **Program:** sector development program loans, program loans/grants

v. **Other:**

- **Equity investment:** equity, direct investments
- **Sovereign guarantee:** partial credit guarantees
- **Non-sovereign guarantee:** non-sovereign guarantees
- **Debt security:** debt security

g. **Disbursement ratio calculation:** contrary to definitions elsewhere, we define disbursement ratio more intuitively as below, expressed in a percentage:

$$disbursement\ ratio = \frac{disbursement\ amount}{commitment\ amount} * 100$$

h. **Population weighting methodology:** we attained per capita amount of both commitments and disbursements for given income groupings by calculating the following:

$$amount\ per\ capita\ (USD) = \frac{total\ amount}{(\sum_{n=1}^{n\ countries\ in\ group} population\ of\ country\ n)}$$

Population data was obtained from ABD's own Basic Statistics dataset and are current as of 2021.[54]

i. **Mobility index methodology:** the quarterly mobility index is used to compare public sector management commitments to mobility trends. The index is based on Google's COVID-19 Community Mobility Reports[55] and

[54] https://data.adb.org/dataset/basic-statistics-asia-and-pacific
[55] https://www.google.com/covid19/mobility/

was obtained using the following methodology. First, we consolidated weekly reports into quarterly figures by averaging all the weeks in a given quarter, resulting in quarterly mobility indices for 137 countries, each comparing mobility levels in a given country in given quarter to a baseline mobility level (calculated as the median value for mobility in that country across the six-week period spanning January 3rd to February 6th of 2020). Next, we removed any non-ADB country included in the consolidated report, and then averaged the remaining ADB countries' indices to get one quarterly index. This index itself was composed of figures for six different categories of locations: retail, grocery, parks, transit, workplaces, and residential. Following Google's recommendation, we disregarded the residential index (because even during lockdown, residential mobility remains high due to time spent at home). We also disregarded the parks index, which is highly dependent on seasons and weather. We then averaged the remaining four categories into a single number, resulting in the quarterly ADB mobility used in our analysis. For more information on how the disaggregated COVID-19 Community Mobility Reports were produced, please consult Google's documentation.[56]

j. **Net flows**: Nets flows in Figure A2 are reported in ADB's publicly available annual report,[57] and are calculated as total disbursements minus loan service repayments.

k. **Fiscal gap:** We calculated the GDP growth decline by comparing GDP growth rates in 2019 to those of 2020, as reported in the IMF's April 2021 World Economic Outlook (WEO).[58] Fiscal stimulus amounts were obtained from World Bank's World Development Indicator (WDI) data.[59] Additional World Bank commitments are from the World Bank's IBRD and IDA Commitments and Disbursements dataset[60] and the World Bank Net Flows dataset,[61] both publicly available on the World Bank website. ADB commitments are based on the same dataset detailed in Appendix A. All bars in Figure 7 reflect an average of country-level absolute amounts divided by country-level GDP (as reported by WEO).

[56] https://support.google.com/covid19-mobility/answer/9824897?hl=en&ref_topic=9822927
[57] https://www.adb.org/documents/series/adb-annual-reports
[58] https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021
[59] https://datacatalog.worldbank.org/dataset/world-development-indicators
[60] https://finances.worldbank.org/Financial-Reporting/IBRD-and-IDA-Commitments-and-Disbursements-Country/k6tm-smim
[61] https://finances.worldbank.org/Loans-and-Credits/IBRD-and-IDA-Net-Flows-Commitments/7ipw-i7ht/data

Figures

Figure A1. ADB commitments by quarter, by sector (USD billions)

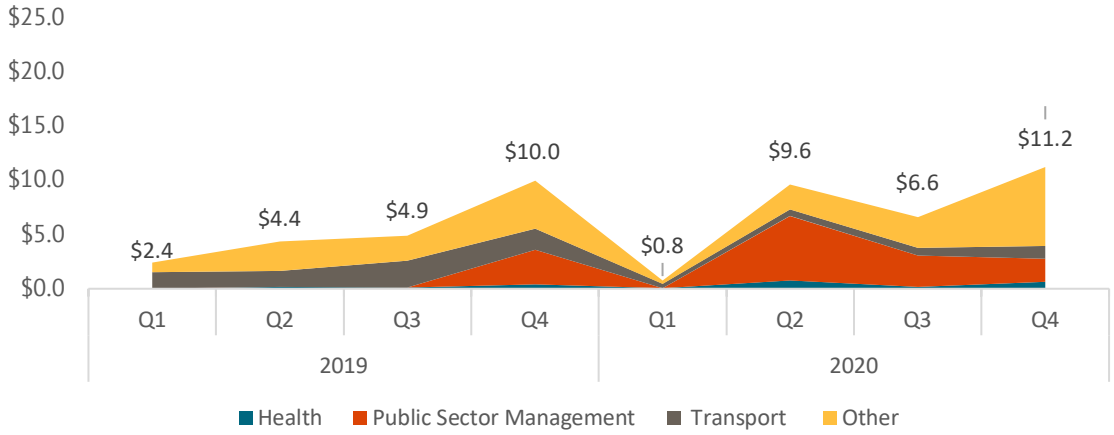


Figure A2. Net flows by year (USD millions)

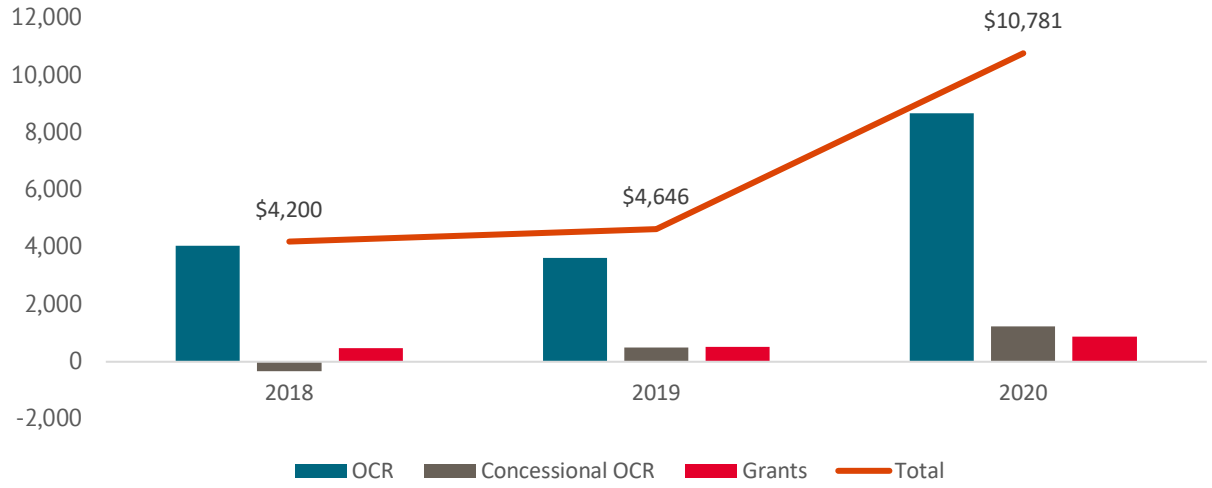


Table 1. Summary of available resources for $20 billion package

Financing sources	Sovereign operations	Non sovereign operations
Additional	**13.75b**	
Regular OCR	13b*	
Concessional	704m	
Grant	50m*	
Reprogramming of 2020 pipeline projects	**3.72b**	**1.64b**
Regular OCR	2.7b	
Concessional	800m	
Grants	211m**	
Reallocation of existing resources from ongoing projects	**366m*** (concessional and grants)	**200m**
Savings and cancellations of ongoing projects	**281m** (concessional and grants)	
Making available existing grant resources	**38.4m** (concessional and grants)	
TOTAL	**18.16b**	**1.84b**

Notes: OCR=ordinary capital resources
*denotes additional to initial $6.5b package
**denotes partial addition to initial $6.5b package ($81m)

Table 2. Summary of available resources for $9 billion APVAX facility

Funding source		Amount
Additional resources, savings and cancellations, reprogramming	Regular OCR	$6.8 b
Additional resources, savings and cancellations, reprogramming	Concessional	$1.9b
Expanded Disaster Response Facility under Asian Development Fund 13, front-loading, savings and cancellations, reprogramming	Grant	$263m

Note: OCR=ordinary capital resources