

PRELIMINARY ANALYSIS OF SUPPORTING POLICIES AND STRATEGIES

A. Relevance: Supporting Policies and Strategies

1. Policies, strategies, and Operations Evaluation Department (OED) evaluations directly related to the strategic areas and cross-cutting themes are summarized in Table A2.1.

Table A2.1: Policies, Strategies, and OED Evaluations

Strategic Area	Policy	Strategy	OED Evaluation
Sustainable growth	Sector policies	Urban sector (1999) ICT (2003) MTS-I country strategies	Urban sector strategy and operations (1999) CAPEs SAPEs
Inclusive social development	PRS E - PRS Gender and development (1998) Indigenous peoples (1998) Involuntary resettlement (1995)	Social protection (2003)	Pathways out of rural poverty and the effectiveness of poverty targeting (2006) Indigenous peoples safeguards (2007) Involuntary resettlement safeguards (2006)
Governance for effective policies and institutions	Anticorruption (1998) Governance (1995) Combating money laundering and funding of terrorism (2003) GACAP II (2006)	X	Involvement of civil society organizations in Asian Development Bank operations (2006) Other related studies: Evaluation of ADF XIII and IX replenishments (due 2007)
Cross-Cutting Theme			
Private sector development	Private sector operations (2001)	Private sector development (2000)	Private sector operations (due 2007)
Supporting regional cooperation and integration	Regional cooperation (1994) RCIS (2006)	Regional cooperation (1994)	Impact evaluation study on GMS (1999)
Environmental sustainability	Environment (2002)		Environmental safeguards (2006)

ADF = Asian Development Fund, CAPE = country assistance program evaluation, GACAP = Governance and Anticorruption Action Plan, GMS = Greater Mekong Subregion, ICT = information and communications technology, MTS = medium-term strategy, OED = Operations Evaluation Department, PRS = poverty reduction strategy, RCIS = Regional Cooperation and Integration Strategy, SAPE = sector assistance program evaluation.
Source: Operations Evaluation Department.

2. Key features and developments in core strategies and policies are set out below.

1. Poverty Reduction Strategy

3. There are a variety of statements, which set out an overall direction for the Asian Development Bank (ADB). The charter defined the purpose of ADB as to "...foster economic growth and co-operation in the region of Asia and the Far East and to contribute to the process of economic development of the developing member countries in the region, collectively and individually."¹ The current vision of ADB is stated as "An Asia and the Pacific region free of

¹ ADB. 1967. *Agreement Establishing the Asian Development Bank*. Manila.

poverty” and its mission as “To help our developing member countries reduce poverty and improve their living conditions and quality of life.”² This strong focus on poverty reduction reflects the overarching poverty reduction strategy (PRS). The original PRS was prepared in 1999 and was subsequently reviewed in 2004,³ which resulted in an enhanced strategy being published in 2004.⁴ A report on the progress achieved by the strategy during 2004 was published in 2005,⁵ and a further annual report for 2005 was published in 2006.⁶ The PRS was especially important for the formulation of the long-term strategic framework (LTSF) in that it “reflected the vision of the institution in declaring poverty reduction its overarching objective.”⁷ This was also consistent with other multilateral development banks’ (MDB) strategies, as they also supported the overarching Millennium Development Goal (MDG) agenda.

4. The enhanced PRS set out three pillars for poverty reduction, which are virtually identical to those for the LTSF: pro-poor, sustainable economic growth; inclusive social development; and good governance. These pillars were complemented by (i) greater country focus—including the need for country focused poverty analysis, building partnerships around national poverty reduction strategies, country strategies, and results-oriented programming; and (ii) thematic priorities comprising gender equality, environmental sustainability, private sector development (PSD), regional cooperation, and developing capacity.

5. The PRS also proposed a strategy for implementation, which was focused around the Managing for Development Results (MfDR) and the establishment of a monitoring and evaluation framework; fostering learning and developing new tools; and building ADB’s capacity to implement the enhanced strategy.

6. The 2005 annual poverty reduction report concluded that there had been a general improvement in institutional performance, although findings varied at different levels of the results chain. At the impact level, progress on contributing to achieving the MDGs was mixed. Income poverty had continued to reduce in the region, while there was still insufficient progress on non-income MDGs. In the 2005 report, impact indicators relating to growth, basic infrastructure, and PSD were benchmarked. At the outcome level, results were mixed. While the assessment of completed loan and technical assistance (TA) projects had mixed results, staff assessments of governance and public sector management capacity in developing member countries (DMCs) indicated improvements.

7. Country assistance program evaluations (CAPEs) carried out in 2005 indicated satisfactory outcomes for one DMC, and mixed outcomes for two. A perception survey conducted by the Department of External Relations (footnote 1) suggests that ADB is seen as an effective development partner especially recognized for excellence in infrastructure and regional cooperation and economic integration. While many see ADB as doing an excellent or good job in reducing poverty, they also feel that ADB should place an even higher priority on poverty reduction and improving its procedures.

8. In 2005, ADB’s major outputs and activities increased significantly, particularly in lending, disbursements, and cofinancing. Ratings of the portfolio under implementation

² Source: No document containing definitive mission and vision statements can be found. These statements are drawn from the banners hanging in the main ADB foyer.

³ ADB. 2004. *Review of the Asian Development Bank’s Poverty Reduction Strategy*. Manila.

⁴ ADB. 2004. *Enhancing the Fight Against Poverty in Asia and the Pacific. The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

⁵ ADB. 2005. *Annual Report on the Implementation of the Poverty Reduction Strategy: An Assessment of the Asian Development Bank’s Progress and Changes Introduced to Fight Poverty*. Manila.

⁶ ADB. 2005 *Annual Poverty Reduction Report: Progress in Implementing the Poverty Reduction Strategy*. Manila.

⁷ LTSF, page 13.

improved. ADB also was seen to be developing more effective partnerships with nongovernment organizations (NGOs) and other development partners. Deployment of inputs improved. The administrative costs of project processing and disbursements decreased in 2005, and human resource indicators showed some improvements.

9. With the completion of the 2005 annual poverty reduction report, the process of developing an institution level monitoring system on progress in implementing the poverty reduction strategy has been considerably furthered.

2. Private Sector Development Strategy

10. The 2000 PSD strategy identified three strategic thrusts for PSD. The thrusts in public sector operations were to support DMC governments in creating enabling environments for business/investment promotion, and on generating opportunities for public-private partnership. In private sector operations, the thrust was to catalyze private investments through direct financing; credit enhancements and risk mitigation instruments; and contribute to development outcome, e.g., achieve further PSD and associated benefits.

11. These strategic thrusts were to be focused primarily on the operational areas of governance, financial intermediation, public-private partnerships, and regional/subregional cooperation. In addition, the strategy highlighted required internal changes including the staff skills mix, the need to bind PSD to operational strategies including the equivalent of country strategy and programs (CSPs), and the requirement to “think PSD” in public sector operations and to “think development impact” for those in the private sector.

12. The PSD strategy was revised in 2006.⁸ In response to an identified need to clarify the role of PSD and to solidify and improve the implementation framework and associated change management requirements, the three thrust areas were revised to (i) establish an enabling policy and institutional environment, (ii) promote public sector goods and services, and (iii) make direct private sector investments. An evaluation of ADB’s private (nonsovereign) sector operations is being finalized by OED.

3. Regional Cooperation and Integration Strategy

13. Despite the identification of RCI as a cross-cutting theme in LTSF, the strategy for this sector was not published until July 2006, after the publication of MTS-II. Prior to this date, there existed a policy document on the subject produced in 1994.⁹ This document emphasized the importance of the subject and concluded that regional cooperation is “.... a relevant means for the DMCs to achieve accelerated economic and social development....” and that “.... It is essential that support for regional cooperation be considered as relating to the principal responsibilities and operations of ADB’s various Departments and Offices.” Regional departments prepared regional cooperation strategies and program (RCSPs) (para. 23). In 2005, ADB also introduced a regional cooperation allocation from the Asian Development Fund (ADF) IX resources to finance subregional economic cooperation projects, e.g., in infrastructure, health.

14. The 2006 Regional Cooperation and Integration Strategy identifies four pillars: (i) regional and subregional economic cooperation programs, (ii) trade and investment cooperation and integration, (iii) monetary and financial cooperation and integration, and (iv) cooperation in regional public goods. ADB’s lending and nonlending operations for regional cooperation have shown an upward trend in recent years.

⁸ ADB. 2006. *Private Sector Development: A Revised Strategic Framework*. Manila.

⁹ ADB. 1994. *Bank Support for Regional Cooperation*. Manila.

4. Environment Policy

15. A strategy has not yet been produced for this cross-cutting theme of the LTSF, although a policy statement was produced in 2002.¹⁰ The policy contains five key elements: (i) promoting environment and natural resource management interventions to reduce poverty directly, (ii) assisting DMCs to mainstream environmental considerations in economic growth, (iii) helping maintain global and regional life support systems that underpin future development prospects, (iv) building partnerships to maximize the impact of ADB lending and nonlending activities, and (v) integrating environmental considerations across all ADB operations. OED has recently evaluated the environmental safeguard policy implementation, and a review of the environment policy by RSDD is under way.

5. Policies and Strategies Addressing Strategic Areas

16. There are no policies and strategies which comprehensively address the strategic areas of the LTSF. For example, and as can be seen in Table A2.1, under the strategic area of sustainable growth there are strategies for urban development and ICT information and communications technology, but not for social or physical infrastructure development, which is a major focus of ADB's operations.

B. Responsiveness: LTSF Implementation and Corporate Reform

17. **Medium-Term Strategies.** The LTSF envisaged implementation through three medium-term strategies (MTSs) each lasting for a period of 5 years. The role of the MTS is to act as the bridge between the LTSF and the activities that ADB will undertake in its DMCs over subsequent periods. MTS-I¹¹ covered the period 2001 to 2005 and defined operational priorities within the context of the strategic agenda that directly addressed the medium-term challenges for the region.

18. **MTS-I Priorities and Country Focus.** MTS-I was to contribute to development effectiveness in terms of economic growth and poverty reduction in DMCs. Top operational priorities were supporting policy and institutional strengthening of the DMCs through TA in several key areas, and financing the priority physical infrastructure necessary to promote growth and productivity in both rural and urban areas. Other operational priorities included lending and nonlending assistance to support (i) essential social infrastructure and services for human development, (ii) agriculture and natural resource management to promote growth and environmental sustainability, (iii) financial infrastructure and systems, (iv) strengthening of governance systems, and (v) PSD to create jobs. These operational priorities were implemented selectively at the country and subregional levels. The needs and priorities of each DMC for addressing poverty reduction and achieving the MDGs were expected to help determine the choices that ADB made in each country and for each subregion.

19. **Selectivity with Country Ownership.** MTS-I stated that ADB must ensure selectivity in its interventions; and in doing so, it would be guided by the operating principles specified in the LTSF. Applying the operating principles to its operations would help ADB ensure country ownership of the development agenda, develop long-term commitments with its DMCs, work in alliance with all development partners, and ensure development impact.

¹⁰ ADB. 2002. *Environment Policy of the Asian Development Bank*. Manila.

¹¹ ADB. 2001. *Medium-Term Development Strategy (2001-2005)*. Manila.

20. **MTS-I Priorities, Annual Planning Directions.** The priorities of MTS-I were to be incorporated into ADB's operational planning and budget framework. Each year, the President's Planning Directions would translate the MTS-I priorities into more specific areas of focus and broad region-wide targets.

21. **Country Strategy and Program.** Guided by MTS-I priorities and President's Planning Directions, operational departments would, in consultation with the DMCs, prepare CSPs and their updates, which contain a 3-year operational program, and are the main mechanism by which ADB's strategic agenda would be operationalized at the country level. CSPs were introduced in 2001 through the integration of country operational strategy (COS) study and country assistance plan processes and documents. They were to form the link between implementation of the MTS and ADB's country operations. The CSP for each country in a subregion would also specify the regional cooperation activities that ADB would undertake at the subregional level in congruity with RCSP for each subregion. Reviews of CSPs/COSs by CAPEs show that they were mostly evaluated as relevant and responsive (Appendix 7).

22. CSPs were to link to the ADB work program and budget. The CSPs would include all activities that would deliver the MTS priorities and targets in DMCs including activities that were a part of regional cooperation initiatives. Taken together, individual DMC CSPs were to constitute ADB's work program and budget framework. Ensuring consistent objectives, targets, and resources throughout this planning sequence was crucial from the MTS-I through the CSPs to the work program and budget framework.

23. Further, the strategy required that performance benchmarks and indicators would have been designed, and should have formed an important part of CSP preparation by 2005. In fact, MTS-I contained very few time-bound objectives, no action plan, and no indication of where responsibilities and accountabilities for CSP implementation lay. MDGs were restated, but no indication given of where and how ADB's country strategies would impact upon them.

24. A review of the CSP process in 2006¹² concluded that CSPs' strategic clarity was uneven, and based on underlying assessments of varying quality, had insufficient focus on MfDR, were too rigid, and contained few PSD activities defined in sector road maps. Overall, the study found that "...weaknesses at the CSP stage hamper ADB's capacity to achieve relevance and effectiveness. CSP reform is fundamental to assure that ADB plans for, and delivers, better results on the ground." As a result of this review, CSPs have been renamed country partnership strategies to ensure their focus on building a partnership to meet both medium- and long-term needs of DMC governments.

25. **Corporate Reform.** LTSF refers to a number of organization and human resource issues, which will impact on its implementation. These include (i) the role of RMs (as set out in the RM Policy)¹³ and the subject of a forthcoming evaluation; (ii) knowledge management and the need for ADB to become a learning institution, as set out in a subsequent paper;¹⁴ (iii) adjustments to business processes, which resulted in the publication of new business processes in 2001;¹⁵ and (iv) reorganization of ADB during 2001–2002,¹⁶ which was subsequently reviewed in 2003.¹⁷

¹² ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila.

¹³ ADB. 2000. *Resident Mission Policy*. Manila.

¹⁴ ADB. 2004. *Knowledge Management in ADB*. Manila.

¹⁵ ADB. 2001. *Business Processes for the Reorganized ADB*. Manila.

¹⁶ ADB. 2001. *Reorganization of the Asian Development Bank*. Manila.

¹⁷ ADB. 2003. *Implementation of the Reorganization of the Asian Development Bank. A Review of Progress After One Year*. Manila.

26. **Purpose of Reorganization.** ADB implemented its reorganization in January 2002, with major objectives to (i) mainstream governance and capacity building, environment and social development, and PSD; (ii) enhance country focus; (iii) enhance quality and expertise; (iv) strengthen knowledge management; (v) enable better subregional cooperation; (vi) maintain checks and balances; (vii) strengthen accountability for program delivery and implementation results; and (viii) with the foregoing, enhance ADB's capacity to effectively implement its development agenda.

27. **Key Organizational Changes.** The reorganization included introducing (i) the integration of programs and projects at departmental level, and (ii) a new RSDD. It established a Management Committee to provide high level advice and support to the President from an ADB-wide perspective; created an ADB-wide Knowledge Management Committee to oversee ADB's program and progress of delivery of knowledge products; mainstreamed operational support for strategic and thematic issues such as poverty, governance, social dimensions, and environment into sector divisions; and upgraded the private sector group to a department. The reorganization also introduced changes in the reporting arrangement for the Economics and Research Department, Office of External Relations (now a Department also), and the Office of Cofinancing.

28. Other changes to corporate processes, which have impacted and will impact on LTSF implementation include (i) the introduction of an MfDR framework in 2006¹⁸ (currently the subject of an OED evaluation); and (ii) Private Sector Development – A Revised Strategic Framework (footnote 18).

29. In response to a perceived need to “enhance the development effectiveness of its operations,”¹⁹ ADB adopted a reform agenda, which was “initiated during the Special Assembly of staff on 14 June 2004. It was later adopted on the basis of the President's Reform Agenda Note issued on 25 August 2004. It is a comprehensive and ambitious reform agenda to enhance development effectiveness of its operations through reform of policies, strategies, processes, and programs. The agenda aims to make ADB more effective in delivering country development outcomes and in reducing poverty in developing member countries.”²⁰

30. The reform agenda is guided by the Reform Coordination Committee under the chair of the Managing Director General. The role of this committee is critical for the successful implementation of the often complex and interrelated interventions required for achieving the objectives of LTSF (Appendix 1).

C. Results: Operational Impact of LTSF²¹

31. Has the LTSF influenced ADB's operations? Figures A2.1 and A2.2 show the distribution of public sector loans across the three core strategic areas identified in the LTSF and thematic classification.²² While the emphasis in the LTSF on governance and inclusive social

¹⁸ ADB. 2006. *An Introduction to Results Management. Principles, Implications and Applications*. Manila.

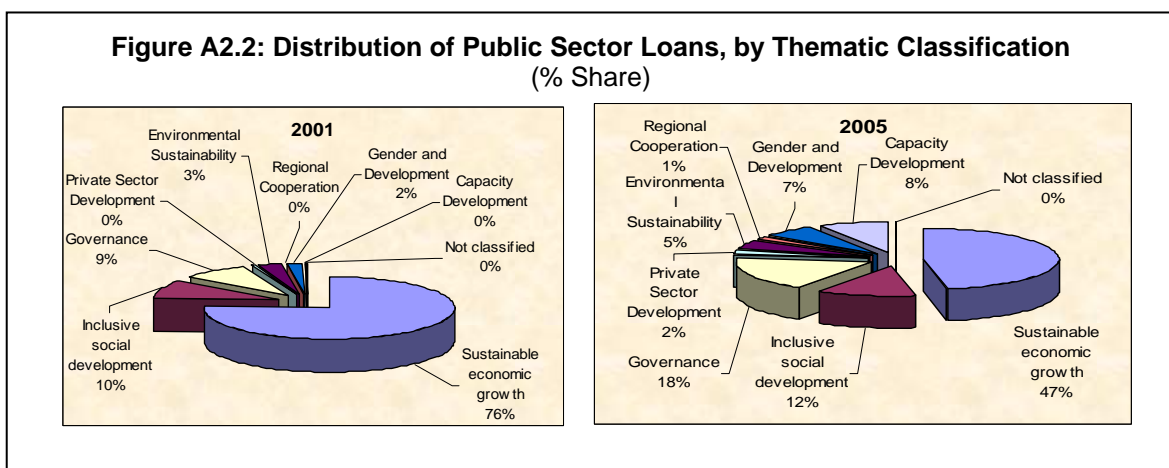
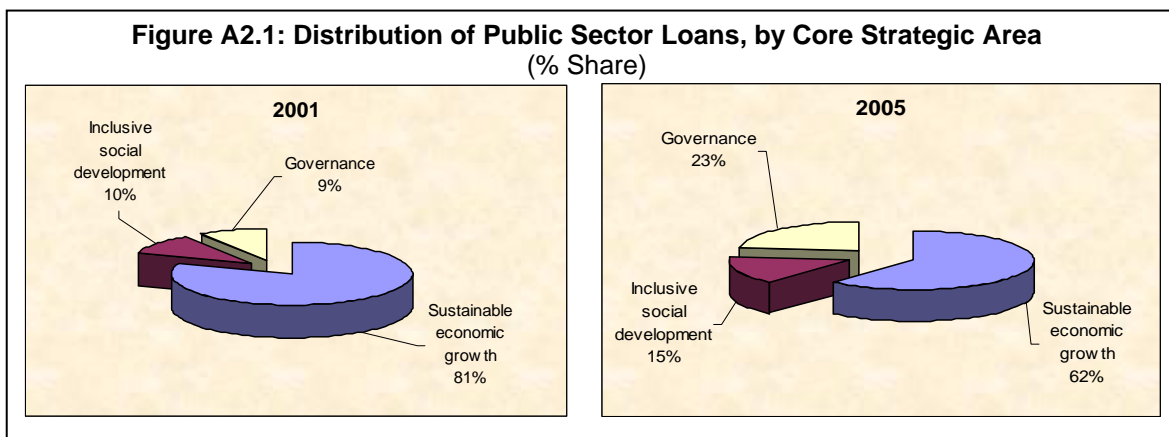
¹⁹ Available: <http://reformagenda.asiandevbank.org>

²⁰ Ibid.

²¹ It is difficult to get data that tracks ADB's achievement in the three core strategic areas or in the three cross-cutting themes. Data from the Central Operations Services Office do not classify loans and TAs according to LTSF priorities. Instead, ADB's thematic classification covers the three core strategic areas, the three cross-cutting themes, as well as gender and development and capacity development. It is not possible to isolate the achievement in each thematic area as most loans and TAs have multiple themes. The project processing information system only covers public sector loans and TAs. Data for private sector loans is not classified according to the thematic area used for public sector loans, thus limiting the analysis to public sector loans and TAs.

²² This does not cover all the loans approved during the period, as ADB's thematic classification of loans covers other thematic areas as well.

development resulted in the increased share of loans in these two areas in 2005 relative to 2001, sustainable economic growth remains the main area of lending activity.



32. The apparent differences in data between Figures A2.1 and A2.2 result from source data not being classified according to LTSF priorities (footnote 21). Looking at all priority thematic areas (Figure A2.2), the share of lending activities addressing sustainable economic growth has declined from 76% in 2001 to 47% in 2005 to accommodate the increasing share of loans to other priority areas identified by ADB. However, almost half of ADB's public sector loans are still focused on economic growth of DMCs. Regional cooperation increased to reach 1% of the total for the first time, as a result of further emphasis on the pursuit of assisting DMCs in RCI under the LTSF.

33. At the start of the decade, the distribution of approved loans and TAs was skewed in favor of infrastructure-related sectors, including social infrastructure (Table A2.2). Five years into the LTSF, the combined share of infrastructure-related loans and TAs went up from 42.6% in 2001 to 56.4% in 2005. The share of all other sectors went down in 2005. The share of loans in infrastructure-related sectors has gone up from 42.9% in 2001 to 57.1% in 2005. The share of loans in the agriculture and natural resources, governance and finance, multisector, and social sectors went down in 2005. TAs have initially focused on the governance and finance sectors in 2001. In 2005, however, more TAs supported infrastructure-related activities (29.6%), while governance and finance only came second (28.9%).

Table A2.2: ADB Loan and TA Approvals, by Sector Classification^a
(percentage distribution)

Sector	2001			2005		
	Loan	TA	Total	Loan	TA	Total
Agriculture and Natural Resources	12.7	18.7	12.8	6.0	16.4	6.2
Infrastructure-Related ^b	42.9	27.3	42.6	57.1	29.6	56.4
Governance and Finance	19.2	38.2	19.7	18.3	28.9	18.6
Social	5.6	12.5	5.8	2.2	10.1	2.4
Multisector	19.6	3.4	19.2	16.4	15.0	16.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

ADB = Asian Development Bank, TA = technical assistance.

^a Covers loans to the public sector only.

^b Includes transport and communication; energy; water supply, sanitation, and waste management; and industry and trade.

Source: ADB. 2006. *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2005*. Manila.

34. While there has been an effort to address the other thematic priorities of the LTSF, ADB activities have remained skewed in favor of one core strategic area—sustainable economic growth. This is being addressed by focusing resources in infrastructure-related activities. The MTS-II has placed importance on infrastructure, particularly road transport, energy, urban infrastructure, and rural infrastructure, by including them in ADB's core operational sectors (Group I).