

ASIAN DEVELOPMENT BANK

FURTHER ENHANCING COUNTRY STRATEGY AND PROGRAM AND BUSINESS PROCESSES

August 2006

ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
CSP	–	country strategy and program
CSPU	–	country strategy and program update
DMC	–	developing member country
ERD	–	Economics and Research Department
MRM	–	management review meeting
OCO	–	Office of Cofinancing Operations
OED	–	Operations Evaluation Department
OGC	–	Office of the General Counsel
PSD	–	private sector development
PSOD	–	Private Sector Operations Department
RCSP	–	regional cooperation strategy and program
RSDD	–	Regional and Sustainable Development Department
TA	–	technical assistance

NOTE

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

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I. INTRODUCTION

A. Background and Rationale

1. The innovation and efficiency initiative—one of the core initiatives of the Asian Development Bank (ADB) reform agenda¹—was introduced to modernize ADB's business model, including by offering new innovative products² and refining operational procedures and approaches.³ A working group on country strategy and program (CSP) and business processes was formed from staff of various departments and offices. It formulated proposals to refine CSP and business processes. This paper is generally based on those proposals. It also reflects CSP-related aspects of ADB's enhanced poverty reduction strategy,⁴ managing for development results, and middle-income and ordinary capital resources (OCR)-borrowing countries' initiatives, findings of a final report of a private sector development (PSD) task force,⁵ and recommendations of a review of the governance and anticorruption policies.⁶

2. This paper's proposals reinforce objectives of the global development agenda formulated under the Paris Declaration. Specifically, they address requirements to all members of the development community, including ADB, to demonstrate improvement in country ownership, harmonization, alignment, results, and mutual accountability.⁷

3. Section II focuses on CSP-related changes. Section III covers processing of sovereign operations.⁸ Section IV elaborates on complementary conditions, benefits, and resource implications of the proposed changes. Section V defines a monitoring and evaluation framework for the proposals. Section VI specifies their effectivity and disclosure requirements.

B. Objectives of Further Enhancing CSP and Business Processes

4. This paper proposes improvements to the current business procedures on CSP preparation and project processing, which are primarily specified in the Board information paper on Business Processes for the Reorganized ADB, approved by Management in 2001.⁹

5. The improvements aim to make ADB programming and operations processing more responsive, relevant, and results-oriented by ensuring the following:

- (i) strategic clarity at the country level and selectivity in operations pipelines,

¹ ADB adopted a comprehensive reform agenda on 14 June 2004.

² In 2005, a number of new financial instruments and modalities were introduced under the innovation and efficiency initiative (see ADB. 2005. *Pilot Financing Instruments and Modalities*. Manila; and ADB. 2005. *Introducing the Local Currency Loan Product*. Manila). In addition, ADB revised its policy on supplementary financing (ADB. 2005. *Review of the Policy on Supplementary Financing: Addressing Challenges and Broader Needs*. November. Manila.) to better help borrowers complete, restructure, or expand investment operations where warranted.

³ New guidelines on procurement and consulting services were approved by the Board of Directors and became effective in April 2006 (see ADB. 2006. *Revising the Procurement Guidelines*. February. Manila; and ADB. 2006. *Use of Consultants by the Asian Development Bank and Its Borrowers*. February. Manila).

⁴ ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila.

⁵ ADB. 2006. *Private Sector Development: A Revised Strategic Framework*. Manila.

⁶ ADB. 2005. *Review of the Implementation of ADB's Governance and Anticorruption Policies: Findings and Recommendations*. Manila; and ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

⁷ *Paris Declaration on Aid Effectiveness*. High Level Forum, 28 February–2 March 2005. Paris.

⁸ Sovereign operations are those extended to sovereign borrowers (i.e., developing member country [DMC] governments) and to public sector entities when fully secured by a sovereign (government) guarantee.

⁹ ADB. 2001. *Business Processes for the Reorganized Asian Development Bank*. Manila.

- (ii) results-orientation and operational quality at entry, and
- (iii) overall efficiency improvement.

II. DEVELOPING COUNTRY STRATEGIES AND BUSINESS PLANS

A. Issues

6. The working group compared CSPs approved in 2002–2004¹⁰ and identified the following key issues:

- (i) CSPs' strategic clarity is uneven and the quality of their underlying assessments¹¹ varies. Selectivity is not a key feature of many CSPs; ADB runs similar operations lines and remains broad-based in most countries.¹²
- (ii) Many CSPs have insufficient focus on managing an operations program for results.
- (iii) Rigidity in developing a country assistance operations program limits the ability to offer flexible and effective responses.
- (iv) Few PSD activities are identified in the context of sector road maps.

7. There is no system to review an ongoing country strategy. CSP updates (CSPUs) are annual, and, as such, focus primarily on the country assistance operations program.

8. The 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.

B. Proposed Changes

9. To overcome the weaknesses in CSP development and to improve country ownership, harmonization and alignment, and focus on results, the proposed reform aims to achieve the following:

- (i) emphasize country development context and ensure strategic clarity;
- (ii) mainstream results-based CSPs;
- (iii) enable a more rational approach to formulating country strategies and operations programs; and
- (iv) ensure an integrated business platform approach to CSPs that (a) includes public sector operations and PSD; and (b) reflects, to the extent feasible, mutually

¹⁰ This analysis does not reflect experience with piloting results-based CSPs, which started in late 2004. The first biennial retrospective review of CSPs approved in 2004–2005 and of a sample of projects mandated by an enhanced poverty reduction strategy (footnote 4) was initiated in January 2006. Such reviews are expected to enhance ADB's system for monitoring the quality at entry of CSPs and projects.

¹¹ Principal assessments include macroeconomic and poverty analyses; thematic (environment, gender, governance and institutions, private sector, and capacity development) assessments; and sector diagnostics.

¹² All CSPs, approved in the period under consideration, have been assessed for their strategic content and the nature of the operational pipelines derived from them. Criteria used include the degree of selectivity, depth of the macroeconomic and poverty assessments, sector diagnostics, integration of thematic assessments with these diagnostics, and the rationale and soundness of project concept papers and all the backup TA mandates.

reinforcing features of CSPs and relevant regional cooperation strategies and programs (RCSPs).

10. In principle, the proposals to enhance CSP processes may apply to RCSPs. However, a certain flexibility in applying proposed approaches may be allowed, depending on the circumstances of different regional programs.

1. **Emphasizing Country Development Context and Ensuring Strategic Clarity**

a. **Emphasizing the Country Development Context**

11. **Highlighting Partnership with Developing Member Countries (DMCs).** ADB considers DMCs to be partners in development. Through sharing of information and knowledge; strong interaction in country strategy formulation and project preparation and implementation; and extensive consultations and debates on policy and sector reforms with country stakeholders (government, civil society, nongovernment organizations [NGOs], and the private sector), ADB cooperates and works with DMCs to ensure better development impact, sustainable economic growth, and poverty reduction.

12. The principle of partnership applies to all DMCs, regardless of their territory size, classification as low- or middle-income countries (in terms of GNP per capita), or borrowing status (having access to the Asian Development Fund and/or OCR). The nature and focus of this partnership may vary depending on country circumstances and needs, degree of economic and social development, and development plans and priorities. ADB recognizes the particular character of the partnership it has with a certain country and tailors its strategy objectives and principles according to a specific country context. In line with the current business processes, CSPs are formulated in a fully participatory manner, involving government and nongovernment stakeholders to ensure broad commitment to, and ownership of, the country strategy and operations program. Through partnerships, ADB aims to (i) create strong collaboration with DMC development stakeholders, including government, civil society, NGOs, and the private sector; (ii) enhance ADB's responsiveness to local needs and issues; (iii) build strong relationships with other development partners and strengthen donor cooperation through joint country programming and portfolio reviews, and program-based approaches, leading in aid coordination, where possible.

13. To emphasize ADB's vision and understanding of the principal nature of its relationship with DMCs and to further strengthen country ownership, ADB will rename CSPs country partnership strategies (CPSs) and enhance their focus on building a partnership to meet medium- and long-term development needs.

14. **Tailoring a Strategy to Country Development Needs.** In preparing a CPS, staff members should exercise professional judgment and clearly understand that what counts is the proposed strategy content rather than its format.¹³ The CPS should be a customized document that:

- (i) clearly reflects major country-specific development issues and constraints;
- (ii) is based on an analysis of the DMC's development priorities and poverty reduction programs, and is consistent with ADB's strategic priorities;
- (iii) assesses development partners' current country strategies, ADB's comparative advantage, and possible areas for joint activities and partnerships, including financial partnerships and program-based approaches;

¹³ The latest results-based CSP for the Philippines (ADB. 2005. *Philippines: Country Strategy and Program*. Manila) may serve as a good example of such an approach.

- (iv) is grounded on a sound analytical basis justifying the strategy's sector and/or thematic focus areas;
- (v) specifies key approaches to remove constraints on country development, and explicitly states the strategy's objectives; and
- (vi) displays the strategy's results orientation.

15. Such an approach should enable staff members to clearly demonstrate to Management and the Board the rationale of the proposed strategy actions to be implemented in partnership with the country.

b. Ensuring Strategic Clarity

16. To enhance ADB's relevance in meeting the region's key development challenges, CPSs should be consistent with identified long- and medium-term strategic priorities. In particular, in 2006–2008, their strategic thrusts need to be aligned with the Medium-Term Strategy II.¹⁴ Core macroeconomic, poverty, thematic, and other analyses will clearly identify the country's key development challenges, issues, and opportunities, and form the basis for discussion and reaching agreement with the government on priority sectors and expected sector outcomes.¹⁵ This process should help harmonize and align selectivity based on ADB's strategy and comparative advantage in the country and the DMC's diverse needs.

17. **Modifying Current CSP Assessments.** The proposed CPS key principles are expected to result in greater attention given to country strategies and their quality, and clearer analyses of trade-offs and alternatives. These principles need to be reinforced by modifying the nature and sequencing of several core supporting assessments. A flowchart summarizes and provides a general description of the CPS analytical framework, which reflects these changes (Figure). The CPS will be aligned with the DMC's development plan, and its preparation with the DMC's development planning cycle. Where appropriate, ADB will help DMCs conduct diagnostics and analytical work and closely collaborate with development partners in producing DMC development plans. ADB will exert greater effort to undertake assessments by drawing on existing diagnostic and analytical work and make adequate resources available for these purposes.¹⁶ To ensure CPS quality, the following major changes to CSP assessments are proposed:

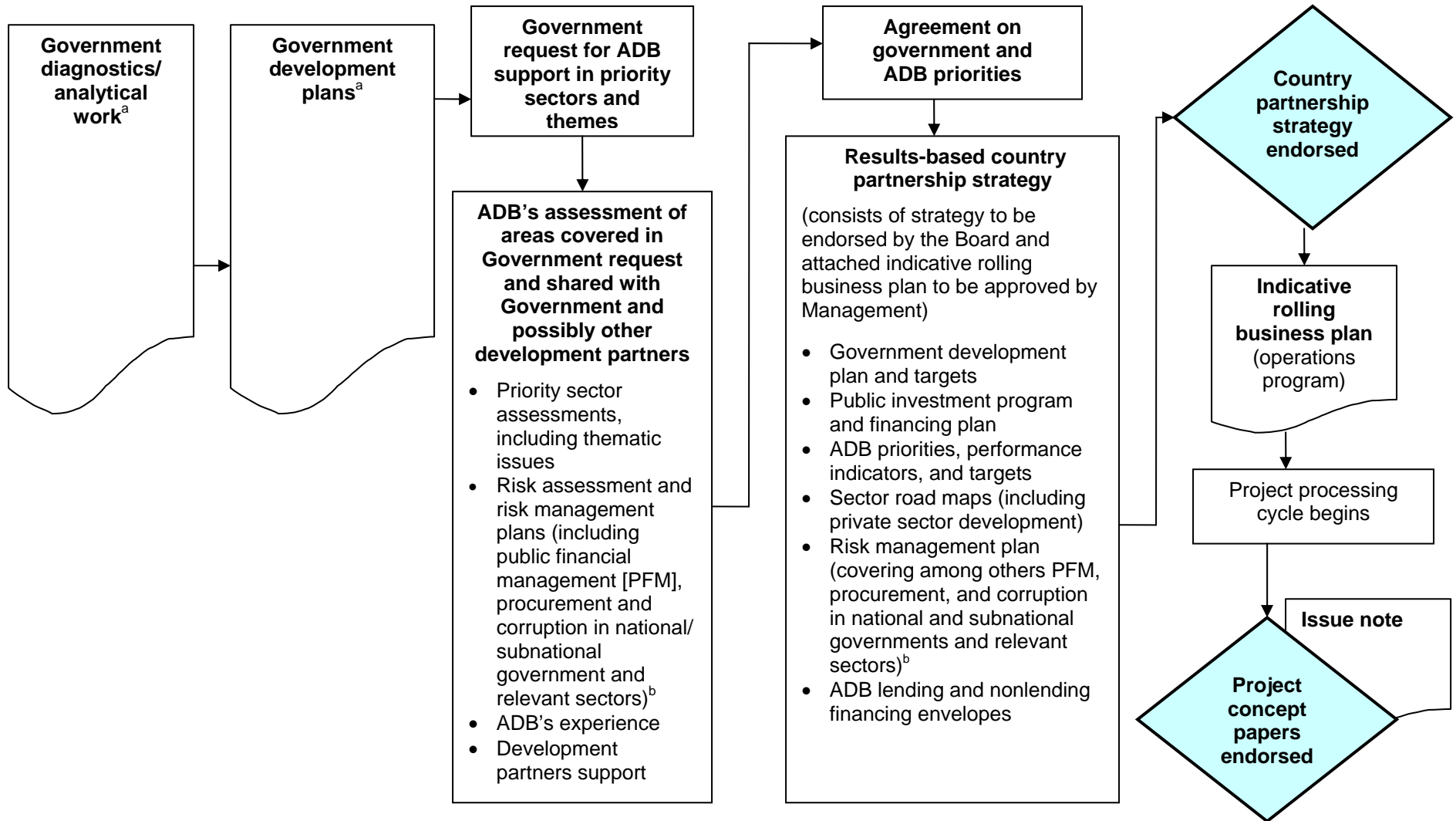
- (i) **Support for government diagnostics and analytical work.** In preparing their development plans, DMCs carry out various diagnostics and analytical work, including macroeconomic and poverty analyses, thematic analytical work, and sector diagnostics. The macroeconomic analysis, as a primary task, will enable to identify and prioritize constraints on development. It will help ensure that resource allocation is economically justified. The poverty analysis will be done at the same time as the macroeconomic analysis. These analyses will identify the most suitable areas for interventions and available opportunities. The thematic analytical work will identify issues that may contribute to defining priority sectors and themes. Government diagnostics and analytical work, conducted with ADB's and other development partners' support where appropriate, will lead to formulation of government development plans.

¹⁴ ADB. 2006. *Medium-Term Strategy II (2006–2008)*. Manila.

¹⁵ The Operations Evaluation Department's (OED) draft 2005 Annual Report on Loan and Technical Assistance Portfolio Performance suggests indicators that can be used to measure sector focus in DMC loan portfolios (Appendix 5).

¹⁶ The paper on enhancing effectiveness of TA management being prepared is expected to include proposals on possible options on financing of sector and thematic assessments from TA resources.

Country Partnership Strategy: Analytical Framework and Key Steps



^a Supported where appropriate by development partners.

^b Sector diagnostics and/or analytic work covers among topics the institutional analysis, legal and regulatory framework, capacity, PFM, procurement, and corruption. Risk assessment and risk management in relation to PFM, procurement, and corruption will be guided by the second governance and anticorruption plan, including its phased implementation.

- (ii) **In-depth sector assessment and integration of thematic issues.** In-depth assessments are to be conducted by ADB for priority sectors covered in DMCs' requests for support to examine specific constraints on DMC sector development plans, their causes, and opportunities. Thematic issues will be assessed as an integral part of sector assessments.¹⁷ Specific thematic issues may be looked at in more detail in the priority sector context if required (para. 18).
- (iii) **Risk assessment and risk management plan.** All CPSs should have an adequate risk assessment and risk management plan, including issues such as debt sustainability, public financial management, procurement, and corruption, and covering national, subnational, and operationally relevant sectors where ADB is planning to operate or has a lending program.¹⁸
- (iv) **Evaluation of cost-sharing and expenditure eligibility criteria.** As part of preparing a CPS, ADB will evaluate cost-sharing and expenditure eligibility criteria in line with requirements of the relevant paper approved by the Board.¹⁹

18. In assessing priority areas covered in the government's request, recent analytical work and data of the government and assessments of development partners will be used, with possible updating as required. ADB will share its assessments with the government and other development partners. Where feasible, joint assessments with development partners are encouraged to avoid duplication and to save time and resources of the DMC and development partners, including ADB. Depending on the availability of government's diagnostics and data and development partners' assessments, staff may prioritize their own assessments in terms of time and resources to be devoted to each of them: more time and resources can be spent on those considered most critical in the country or sector development context. In particular, if certain thematic issues (e.g., PSD) are considered critical in a specific country or sector context, an in-depth assessment may be conducted in addition to the available analytical work and data.

19. Past experience and lessons, particularly those relating to findings of independent country assistance program evaluations by the Operations Evaluation Department (OED), and recommendations of the Development Effectiveness Committee of the Board, need to be incorporated into CPSs.²⁰ Findings of CPS completion reports on lessons from previous CPS should be considered.²¹

¹⁷ Sector assessments will (i) assess constraints and opportunities, including those in thematic areas; and (ii) identify medium-term investment and TA requirements. This proposal is not prescriptive. Some countries (particularly smaller ones) and sectors may require fewer assessments.

¹⁸ The second governance and anticorruption action plan (footnote 6) recommends, in the startup or interim phase, preparing risk assessments and risk management plans for public financial management, procurement, and corruption for two priority sectors in the 2007 CPSs. Regional departments are encouraged to select priority sectors where DMCs are willing to participate. Where time is insufficient to incorporate risk management plans into the 2007 CPSs, the CPS could include a timetable for preparing these plans during implementation. In these circumstances, the risk management plans are incorporated into the CPS during the CPS midterm review (paras. 32 and 33).

¹⁹ ADB. 2005. *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila.

²⁰ At the same time, CPS preparation needs to be aligned with the DMC's own planning cycle (para. 17). Therefore, regional departments need to discuss with OED the desirable timing of the country assistance program evaluation well in advance.

²¹ CPS completion reports (self-evaluation by regional departments) that are mandated by the enhanced poverty reduction strategy (footnote 4) are being piloted. CPS completion reports are expected to be mainstreamed from 2007. CPS completion reports will be attached to CPSs. Details will be provided in guidelines on results-based country partnership strategies to be prepared in the third quarter of 2006.

20. Besides development partner coordination in demarcating roles in assisting DMCs (in sector, subsector, or geographical interventions), proper coordination is important in the sector where development partners provide complementary or joint assistance (e.g., in the form of sector-wide approaches [SWAps]). CPSs should provide clear details on the degree of development partner coordination—programs, areas, and volume, including issues relating to selectivity and focus of assistance, joint efforts (e.g., program-based approaches, including SWAps), and cofinancing opportunities.

2. Mainstreaming Results-Based Country Partnership Strategies

21. ADB piloted its first results-based CSP in Nepal in 2004. Since then, several other results-based CSPs (for Cambodia, Bhutan, Bangladesh, Mongolia, Philippines, and Uzbekistan) have been prepared. The results-based CPSs will be designed to enhance development effectiveness in DMCs over the long run and strengthen ADB operations' impact by applying a results orientation to planning, monitoring, and evaluation.

22. When applied as a monitoring and management tool, a results-based CPS aims to (i) put results at the center of the process; (ii) strengthen country partnership, and alignment with a national poverty reduction strategy and development plans and priorities; (iii) help improve selectivity and sector and thematic focus; (iv) contribute to developing country monitoring and evaluation systems; (v) enable capacity development through learning by doing; and (vi) help get the sequencing right so that country outcomes drive the strategy, which, in turn, will lead programming. A results-based CPS aims to demonstrate how its objectives are to be achieved: It clearly defines measurable outcomes, baseline and outcome indicators in the results framework. A results-based CPS is expected to improve development partner coordination by recognizing each partner's strengths and comparative advantage. Overall, the process itself of preparing the CPS plays a great role in ensuring its results orientation and focus on quality.

23. ADB considers it important to analyze its experience with results-based country strategies, improve the process and guide staff based on lessons learned.²² It acknowledges the challenges in preparing, and the complexity in implementing, results-based CPSs: these relate to difficulties in identifying simple and realistic targeted outcomes, ensuring the preparation of good results frameworks, focusing on the transition from measurement to management, and establishing adequate in-country capacity for results management.

24. Change management is thus critical. Accountability for constructive learning, sustained leadership at all levels, a supportive culture of results, and an adequate incentive system should lead to application of change management to results-based CPSs. Clear reflection of specific tasks relating to contribution in preparing results-based CPSs in work plans of regional (including sector division) and support department staff members who are involved in CPSs should encourage more active staff participation and better CPS preparation.

²² See ADB. 2005. *Practice Note on Results-Based Country Strategies and Programs*. September. Manila; and ADB. 2006. *Learning by Doing: The Nepal Results-Based Country Strategy and Program: A Pilot for Achieving Country Outcomes*. March. Manila.

25. Based on experience and lessons learned, all CPSs are proposed to be results-based. Detailed staff guidelines on preparing them are expected to be written in 2006. These guidelines will cover the results-focused content and detailed processing procedures.²³

3. Enabling a More Rational Approach to Formulating Country Strategy and Operations Programs

26. To rationalize the formulation of a CPS, it is necessary to ensure better focus of the country strategy and a practical and yet flexible approach to preparing an operations program formulated as an indicative rolling country operations business plan. To achieve these, the following are proposed:

- (i) The CPS is to be prepared as a concept document consisting of a country strategy and an attached country operations program, which includes specific interventions. The CPS will reflect a results-based approach, with a clear results chain between country strategy, sector road maps, and individual interventions.
- (ii) To enable synchronization and flexibility with respect to DMC's planning and budget processes and preferences, the country operations program is to be formulated as an indicative rolling country operations business plan that is consistent with the strategy.

a. Country Strategy and Business Plans

27. The country strategy will identify binding constraints on development and potential opportunities, outline medium-term national development and poverty reduction priorities and ADB's strategic approach to address them, identify agreed priority areas of interventions, and define SMART (specific, measurable, adequate, realistic, and time-bound) outcome indicators and monitoring and evaluation mechanisms to track performance over the CPS cycle, usually covering 5 years. The country strategy will also provide indicative annual financing figures or the "envelope" over the medium term (normally 3 years on a rolling basis), indicating total expected finance in lending and nonlending operations for priority sectors and themes, with flexibility to change the amounts between years, depending on the indicative rolling business plan (para. 29).

28. Country strategy formulation will be more clearly delineated from business plan preparation. A results-based country strategy will be prepared and discussed with Management and, upon Management clearance, will be submitted to the Board for discussion and endorsement. The Board can also discuss a country strategy initiating paper that may include preliminary findings of available analytic work at an informal Board seminar during country strategy preparation. At the CPS stage, the country strategy submitted for Board discussion and endorsement will be

²³ ADB issued interim staff guidelines in January 2005. The final staff guidelines will incorporate principal procedural changes being proposed in this paper and provide more detailed guidance. This guidance is envisaged to reflect the findings of the first biennial retrospective review of CSPs and projects on quality at entry (footnote 10); the ongoing Economics and Research Department (ERD) 2005 retrospective exercise on strengthening relevance, responsiveness, and results in ADB operations through quality economic analysis; and stocktaking on pilot results-based CSPs initiated by the Strategy and Policy Department (SPD).

accompanied by the indicative rolling country operations business plan for the first 3 years of the CPS to ensure meaningful discussion.²⁴

29. The indicative rolling country operations business plans, which include proposed individual ADB priority sector and theme interventions, will be approved by Management.²⁵ Country teams will develop indicative 3-year rolling business plans annually, identifying specific lending and nonlending operations for processing. Delivery of specific projects will be over a more flexible period. The plans will be prepared by country programming missions and approved by Management before a work program and budget framework is finalized (with a cut-off date of end of August each year). This will include priority operations for processing in the years ahead. Current program confirmation missions, normally fielded after completion of the budget process, may not be needed anymore: in exceptional cases, resident missions can reconfirm operations programs.

30. Concept papers will not be bundled in CPSs but rather subjected to a Management review as part of a project-processing cycle to ensure (i) better quality and the required level of upstream support and due diligence consistent with project complexity (para. 57), and (ii) adequate time and resources to develop concept papers. The business plans will include brief preliminary summary information (about two or three paragraphs on objectives, expected results, and deliverables) on each proposed intervention for the first year of an indicative rolling country operations business plan compiled in an appendix.

31. The Board will be informed of the annual status of country business plans upon completion of country programming exercises and before finalization of the work program and budget framework. Annual CSPUs will no longer be required. These will be replaced by a CPS midterm review normally to be conducted in the third year of the usual CPS's 5-year cycle and indicative rolling country operations business plans.

32. The midterm review will focus on the continued rationale and validity of the strategy, progress in achieving CPS outcomes, consistency of sector and/or theme road maps with the strategy, and if required, provide for a midcourse adjustment. Annual progress will be monitored through country portfolio review missions. To facilitate the midterm review, results-based CPSs should specify intermediate indicators. The midterm review does not preclude changing a country strategy at any time if the situation substantially changes in a relevant country. The need for a CPS review may be triggered by a change in underlying CPS assumptions or by the occurrence of risks. In exceptional cases, when a CPS is prepared for 3 or 4 years because of objective reasons, conducting the midterm review may not be practical unless specific events, as described above, trigger the need for the CPS review.

33. A concise CPS midterm progress review paper that includes an attached indicative rolling country operations business plan for the next 3 years is to be submitted to the Board for information or, if a midcourse adjustment of the strategy is required, for endorsement on a no-

²⁴ The proposed changes are not expected to affect the application of summary procedure for approval of financial assistance by the Board. The relevant Board paper (ADB. 2005. *Revision of the Summary Procedure*. Manila) specifies only one condition relevant to the CPS: "[t]o be eligible for Board consideration under summary procedure, the loan, guarantee, ADF grant, or equity investment proposal must be consistent with the relevant CSP..." A CPS and a CPS midterm review report (paras. 32 and 33) submitted to the Board will include attachments with 3-year indicative rolling country operations business plans. In addition, at any time, "Board members may make a formal request for a full Board discussion of a project proposal submitted under summary procedure."

²⁵ Substantial variations are generally not expected in an amount of overall indicative financing "envelopes", as specified in a CPS or a CPS midterm review report. However, such cases may emerge in disaster and emergency situations (tsunami, earthquake). As in the past, such situations and relevant changes in an operations program are normally discussed with the Board.

objection basis.²⁶ Appendix 1 briefly summarizes the major stages in the proposed process of preparation and approval and/or endorsement of the CPS, midterm review, and business plans.

34. Appendixes 2, 3, and 4 provide indicative formats for the CPS, the midterm review report, and the business plan. The indicative CPS format is not prescriptive and should be adapted to reflect diverse DMC needs. To permit greater harmonization with development partners, promote donor coordination, and ease the burden on countries, especially those with limited capacity, flexibility in reporting formats in case of joint country strategy and programming initiatives in partnership with key bilateral and/or multilateral donors may be allowed with the approval of the relevant operations vice-president at the CPS initiating paper stage. However, in both cases, the CPS should be based on the major principles stated in para. 14.

b. Application to Small Pacific DMCs²⁷

35. The common rules on preparing the CPS, midterm review, and indicative rolling country operations business plans will apply to Pacific DMCs. However, specific approaches, as reflected below, are permissible, considering the unique needs and circumstances of these isolated, small island countries.

36. ADB may conduct joint analytical work with Pacific DMCs and development partners to identify a regional approach to development. Based on this analytical work and requests for support from DMCs, ADB will undertake relevant sector and thematic assessments to prepare a Pacific strategy. The strategy will include thematic studies and analytical work, such as poverty analysis, the private sector, regional cooperation, and gender, covering the Pacific region as a whole. The analytical work and subsequent assessments can be used as the basis for individual CPSs. This will be a more efficient and practical approach to preparing CPSs in the Pacific island countries. The Pacific strategy will be discussed at an informal Board seminar, and informal Board seminars for small Pacific DMCs' CPSs may be conducted if requested by the Board.

37. CPSs for these countries are expected to be briefer than CPSs of bigger countries. Therefore, for small Pacific DMCs, more than one CPS at once will be permitted for consideration at a management review meeting (MRM) or for discussion and endorsement by the Board. Since, in many cases, changes in operational programs of these countries are rare, indicative rolling country operations business plans will be updated as required.

c. Application to Middle-Income DMCs with Limited ADB Engagement

38. This category includes middle-income DMCs for which ADB currently does not have new operations (or has limited operations, focused basically on nonlending, knowledge transfer, and/or PSD interventions) although they have not yet graduated.²⁸ Examples of such countries are Thailand and Malaysia.

39. ADB has started to restore partnerships and engagement with some of these countries to respond to their development needs. In particular, progress and an understanding have been achieved with Thailand.²⁹

²⁶ Processing of a CPS midterm progress report will generally follow the current procedures for CSPUs.

²⁷ These countries generally include small island Pacific countries, except for Papua New Guinea and Fiji.

²⁸ The CPS approach will not apply to ADB's graduate member countries. However, ADB would welcome other forms of partnership with these countries, particularly in providing support to other DMCs and regional cooperation and integration.

²⁹ ADB is jointly preparing a CPS with Thailand.

40. The common rules on CPS preparation should apply to these countries as well. In certain cases, establishing thematic rather than sectoral priorities in the CPS and associated business plans may be more practical.

41. For middle-income countries for which ADB does not have a current strategy and program, a CPS with a fairly general description of possible areas for ADB operations may be initially prepared if discussions with the country on specific lending (sovereign and/or non-sovereign)³⁰ and nonlending interventions and/or other initiatives (e.g., on capital market development, country's involvement in relevant regional cooperation and integration initiatives, PSD, financial partnerships) are not finalized yet. These may be detailed in a subsequent business plan.

42. CPS preparation for these countries is not expected to be time- and resource-intensive in analytical work, since the governments' own diagnostics and development plans and required data are normally readily available.

d. Application to Developing Countries Joining ADB

43. The approach of initially preparing a CPS with a general description of possible areas for ADB operations will also apply to developing countries joining ADB.

4. Ensuring an Integrated Business Platform Approach to the CPS

44. **Integration of Private Sector Development in CPSs.** In line with the recommendations of the Final Report of the PSD Task Force (footnote 5), the CPS will incorporate indicative information on expected PSD operations. In this sense, the CPS will serve as an integrated business platform for public sector operations and PSD initiatives that focus on improving the private sector environment, public–private partnerships, and other financial partnerships.

45. To ensure this, the following principles will be applied in the CPS:

- (i) ADB's assistance for PSD in a DMC will be clearly defined.
- (ii) Synergies between public and private sector operations should be ensured by incorporating PSD discussions in sector road maps. The private sector environment should be analyzed, including the investment climate, guarantee opportunities and risk factors, and how the public and private sectors work together.
- (iii) Private sector operations should be pursued within agreed sector road maps.³¹ The inclusion of private sector operations in the road maps will be on a broad sector basis (not project-specific) as individual projects will depend largely on market conditions and demand.³²

³⁰ Non-sovereign operations are those extended (as a loan and/or an equity investment and an ADB guarantee) to (i) private sector entities, with or without a sovereign (government) guarantee; and (ii) sub-sovereign entities, local governments, and state-owned enterprises with or without partial sovereign guarantee. The ongoing review of ADB's credit enhancement products is expected to further elaborate on credit enhancement product scope, coverage, and financing instruments, particularly with respect to guarantees.

³¹ However, there should be an opportunity to undertake a private sector project if a substantial development impact is expected, even if it falls in a different sector or area that is not considered major in a CPS.

³² Business plans may not explicitly list specific private sector operations since they are difficult to program in advance. Private sector entities are normally reluctant to publicly reveal their plans for potential projects because they might lose their competitive edge and because the market environment could change.

- (iv) Business plans cover sovereign and non-sovereign operations. With respect to non-sovereign operations, business plans will generally indicate a potential financing “envelope” by priority sector, separately for non-sovereign public and private sector operations.³³

46. **Departmental Collaboration and Teamwork, Accountability for Non-Sovereign Operations.** To facilitate systematic collaboration and teamwork between regional departments and the Private Sector Operations Department (PSOD) in preparing CPSs, and to ensure better synergies between public and private sector operations in formulating sector road maps, PSOD will participate in the country teams³⁴ and contribute to the diagnostics of PSD in a country as appropriate. PSOD staff members will take part in CPS missions as required and help develop sector road maps and indicative rolling country operations business plans. When a PSOD staff member is assigned to a resident mission, she or he will report to the country director on administrative matters and jointly to the country director and PSOD director general on all operational matters, including activities relating to contribution to CPSs and business plans, and to assigned non-sovereign operations. Such staff member’s annual work plans will be reviewed by the directors general of regional departments and PSOD and the country director of the relevant regional department.

47. **Mutual Reinforcement of CPSs and RCSPs.** Although CPSs and RCSPs may have different shapes and priorities, certain thematic and sector interventions (e.g., in the similar sectors such as infrastructure, trade and investment) proposed under a CPS may support or complement overall regional cooperation priorities as specified in the RCSP. Such mutual support will reinforce country poverty reduction and economic growth efforts and regional initiatives.

III. MODIFICATIONS TO PROCESSING SOVEREIGN PROJECTS

48. Once a country strategy is cleared by Management and endorsed by the Board, and business pipelines developed, ADB will start project processing. Over the years, ADB has refined the way it processes and implements projects to improve quality and efficiency. ADB needs to further improve its business processes and practices to complement the modified CPS process. The following focuses on sovereign operations.³⁵

A. Issues

49. An assessment of project documents and processes—ranging from concept papers to technical assistance (TA) and reports and recommendations of the President (RRPs)—found that key constraints on the quality of preparation of sovereign operations are in concept development, project-specific work at the project preparatory TA stage, and the quality assurance process. These constraints are summarized below.

³³ In certain cases, indicating specific non-sovereign public sector operations, rather than specifying them on a broad-sector basis, in CPS that is agreed with the DMC’s government may not be appropriate either, since the country’s business community might interpret indicating such specific operations as an implicit potential government guarantee obligation. Such cases should be discussed with the DMC’s government.

³⁴ At present, country teams include staff from a relevant operational department and support departments such as the Central Operations Services Office, Regional and Sustainable Development Department (RSDD), Office of Cofinancing Operations (OCO), and ERD, but not from PSOD.

³⁵ Issues relating to processing non-sovereign operations will be addressed separately in the context of an action plan that was proposed under the Board information paper on Private Sector Development: A Revised Strategic Framework (footnote 5).

1. Insufficient Depth in Concept Papers

50. Concept papers are not considered separately by Management but are bundled into CSPs and/or CSPUs. Often, concept papers are prepared without sufficient sector and operation information. They do not adequately reflect complexity, due-diligence requirements, lessons from experience in design choices, financing plans, resources needed for processing, and delivery schedules.³⁶ As such, concept papers do not provide Management with a sound basis for decision-making.

2. Need for a Differentiated Approach to Project-Specific Work

51. Project preparatory TA is often used to finance sector and project work. In case of investment projects, this delays project-specific due diligence and project structuring.

3. Weakness in Quality Assurance Process

52. Despite recent improvements in project operational support³⁷ and other actions initiated,³⁸ the current interdepartmental commenting practice dilutes operations departments' accountability for quality control. In addition, these comments come too late in the process to add value.

53. The management review system does not differentiate between complex and non-complex projects. Entry points for management reviews take place at the CSP and project pre-appraisal stages. However, the lack of depth in concept papers included in the CSP document prevents Management from making adequately informed decisions at an early stage of project processing. At the pre-appraisal stage, Management guidance and instructions come too late to make meaningful changes in the project structure, cost estimates, and financing plan.

B. Proposed Changes

1. Subject Concept Papers to Management Reviews

54. Concept papers will be prepared as a first step in the project-processing cycle for potential individual interventions identified at the CPS stage. The project concept papers will be submitted for formal clearance by Management. They will provide information on the rationale and objectives of the operation, intended results linked to CPS results framework, the tentative cost estimates and financing plan, borrower information, processing schedule, implementation plan, processing team, and budget needs. A preliminary draft of a project design and monitoring framework may be attached to the concept paper. The paper will be accompanied by an issue note outlining the key due-diligence areas and a recommendation on the level of complexity structured into three categories (para. 57[i]), policy constraints, sector and thematic issues, capacity development needs applicable to country and executing agency systems, the work of other development partners and cofinancing opportunities, link to strategy framework, and safeguard and fiduciary frameworks. In particular, the issue note should provide a preliminary assessment of risks for

³⁶ The issue of ensuring an adequate level of scrutiny for concept papers was highlighted as critical in findings of the review of the implementation of new business processes in 2004 (ADB. 2004. *Review of the Implementation of New Business Processes*. Manila).

³⁷ The practice of comments on quality and restriction on direct operational support by RSDD were discontinued. Instead, upstream operational support became a centerpiece of RSDD's work (see ADB. 2005. *Regional and Sustainable Development Department: Towards Greater Relevance and Effectiveness*. Manila).

³⁸ The review of CSPs and sample of projects, initiated in January 2006, will reinforce quality assurance mechanisms by developing quality-at-entry criteria that will facilitate quality staff support and enable Management to improve quality control (see also footnote 10).

public financial management, procurement, and corruption, and should be informed by the risk assessment and risk management plan undertaken and/or prepared for the CPS. This classification of projects will form the basis for deciding the level of operational support from, and the various entry points for, supporting departments. Project preparatory, advisory, and regional TA projects must also have concept papers, although the classification proposal given for loan projects does not apply.

2. Unbundle Sector and Project Work Under Project Preparatory TA

55. Project preparatory TA will focus mainly on project work, including feasibility studies and preliminary project design. Although the bulk of in-depth priority sector analysis, as well as sector-specific policy dialogue, will be undertaken at the CPS stage (para. 17), additional sector work and policy dialogue focused on specific details, particularly in the case of program lending, sector development programs, and sector lending, may be undertaken if required. Overall, this will support a more strategic approach to project identification and speed up processing.

3. Improve Quality Assurance

56. Operations departments will continue to take full responsibility and will be accountable for project quality control. Quality is to be assured through a comprehensive system involving (i) upstream support from operations and non-operations staff, and (ii) departmental quality control exercised by directors and directors general (Box).

Quality Assurance

The aim of quality assurance is to help ADB produce good quality products. This can be achieved by

- (i) directly supporting the core processing team throughout the project cycle to enhance quality (quality support), and
- (ii) assessing a project's quality at discrete points in the project cycle (quality control).

Both roles can be performed within the operations departments or by external agents. That is, a quality assurance (support and control) system can be set up within the department, as well as outside that department (e.g., formal interdepartmental reviews and comments by the Economics and Research Department, Operations Evaluation Department, Office of the General Counsel, and Regional and Sustainable Development Department).

Source: ADB. 2005. *Regional and Sustainable Development Department: Towards Greater Relevance and Effectiveness*. Manila.

57. To operationalize this system, ADB will introduce the following changes:³⁹

- (i) **Project categorization.** Investment projects will be classified into three categories at the concept stage, depending on the level of complexity and processing readiness:⁴⁰ (a) category 1: very complex and/or high-risk projects; (b) category 2:

³⁹ To reinforce the quality assurance mechanisms, ADB is also developing quality-at-entry criteria and will review CPSs and projects to assess their quality at entry and identify issues and lessons. Both are required by the review of the poverty reduction strategy (footnote 4).

⁴⁰ The level of complexity will be determined by issues related to the project structure, cost estimates, financial plan, implementation plan, and various due-diligence (and thus risk) areas supporting the proposed transaction—technical, commercial, financial, legal, safeguards, social, capacity, and governance matters. Processing readiness will depend on the depth and quality of feasibility studies available at concept clearance.

medium complex and/or risk projects; and (c) category 3: repeat and less complex projects. Project categories will form the basis for determining (a) the level of due diligence required by ADB; (b) the level and form of assistance from, and the various entry points for, key supporting departments and offices; and (c) terms of reference for the engagement of consultants (project preparatory TA or otherwise).

- (ii) **Early integration of teams.** Category-1 and -2 projects will require the establishment of multidisciplinary teams comprising staff from operations and support departments and offices. The teams will work on project formulation right from the outset, and up to Board consideration stage. For category-2 projects, such support will be more selective and limited. Category-3 projects will call for the assistance of selected staff from supporting departments, most likely on an ad hoc basis and at fewer entry points (concept paper, fact finding, MRMs).
- (iii) **Subjecting concept papers to better scrutiny and management review.** To support the above changes, the following procedures are proposed for concept paper clearance. A responsible operations department will prepare a concept paper and an issue note (para. 54), and will ensure an adequate level of review and consultation with key support departments, including the Economics and Research Department (ERD), Office of Cofinancing Operations (OCO), OED, Regional and Sustainable Development Department (RSDD), and Office of the General Counsel (OGC). A meeting chaired by a director general of the operations department and comprised representatives of key support departments will be held on a concept paper.⁴¹ A director of a relevant division and/or a mission leader will make a brief presentation on the proposed transaction and receive immediate guidance on the issues. The meeting will determine the merits of the proposed concept paper and, if it is supported, decide on what category to recommend to Management based on the degree of project complexity and readiness. The concept paper, along with a summary of the main issues, minute decisions, and instructions given to the team, will be submitted by the operations department to the relevant operations vice-president for approval. The vice-president may convey a separate meeting with those involved in the concept paper and proposed project categorization, especially for complex transactions or projects with major policy issues, if deemed necessary. The project complexity and/or risk category may be updated based on new information gathered during project processing based on the operations department recommendation.

58. Complex (category 1) and medium-complex (category 2) projects are expected to be submitted to an MRM after fact-finding and to a staff review committee (SRC) meeting after appraisal. If required, the relevant vice-president may request a second MRM instead of an SRC meeting for complex projects. Less complex projects will have a single management review, and an SRC meeting will be optional as envisaged under the current business processes.

⁴¹ Upon review and consultation with key support departments, concept papers for TA (project preparatory, advisory, and regional) will be endorsed by directors general and/or heads of departments and offices concerned that bear primary responsibility for assuring the quality of concept papers. A memo endorsing a concept paper should be copied to the relevant operations vice-president or vice-presidents if the proposed TA falls within the areas of responsibility of two vice-presidents. The project categorization proposal given for loan projects does not apply to TA.

IV. COMPLEMENTARY CONDITIONS, BENEFITS, AND RESOURCE IMPLICATIONS

A. Complementary Conditions

59. **Early Assembly of Teams.** The proposed changes require an early assembly of support teams. It is particularly important to form at an early stage a multidisciplinary country team to work on various assessments as inputs to the CPS, and help select specific lending and nonlending operations. The country team, reporting to the regional department, will include staff members from departments and offices such as the Central Operations Services Office, Controller's Department, ERD, OCO, OGC, PSOD, the Results Unit of the Strategy and Policy Department (SPD), and RSDD.

60. **Measuring Achievements.** ADB recognizes operations upon Board approval. Although the approval level is an important indicator, the actual monitoring needs to be rebalanced towards loan effectivity since it is only upon effectivity that loans formally enter ADB's balance sheet. Similarly, staff performance should not be based on Board approval but on signing and effectivity. Other staff performance evaluation criteria may include project implementation records (e.g., project disbursements).

61. **Greater Management Attention to Project Portfolio Performance and Implementation.** Greater attention should be given to project portfolio and implementation performance, particularly the progress in signing, effectivity, and delivering other milestone activities.⁴² This is fundamental to achieving project outputs efficiently. Building on the improved project performance management system, the management committee will meet regularly—once a quarter at least—to review the quality of project portfolio and implementation and guide the removal of any constraints. Operations departments should strengthen their internal mechanisms to improve departmental oversight to ensure timely completion of tasks and delivery of project outputs.

B. Benefits

62. The proposed approach to refining CPS and business processes is expected to ensure the following:

- (i) better focus on quality of country strategies;
- (ii) clearer analyses of trade-offs and alternatives;
- (iii) improved country focus and selectivity;
- (iv) synchronization of country strategies, as a rule, with the countries' planning cycle;
- (v) improved results-orientation;
- (vi) improved ability of ADB to track and assess performance, learn from these assessments, and make adjustments or midcourse corrections;
- (vii) more flexibility in the program of assistance; and
- (viii) improved quality assurance of CPSs and projects, and adequate time and resources to develop concept papers.

⁴² ADB adopted an action plan to improve portfolio performance (ADB. 2005. *Action Plan to Improve Loan and Technical Assistance Portfolio Performance in Response to the 2004 Annual Report of the Operations Evaluation Department*. Manila).

C. Resource Implications

63. To achieve the objectives of the proposed changes, ADB should allocate adequate resources and create staff incentives. Given the overall budget constraints, these changes must be financed efficiently and creatively. They should be supplemented by ADB's overall commitment to managing for development results, improving human resource management and staff incentives,⁴³ and other completed or ongoing initiatives under the reform agenda.

64. **Expected Savings.** Substantial cost reduction is expected as a result of replacing CSPUs with a midterm CPS review and indicative rolling country operations business plans, which will reduce average operational and non-operational staff workload, and time and effort devoted to conducting annual CSPUs. To prepare a business plan, fewer processing stages will be required, with a country programming mission constituting a major event.⁴⁴ Savings will also result because country program confirmation missions will be discontinued as well.⁴⁵ Under the proposed approach, the quality of the programming exercise will not be affected.

65. These savings can be redirected to cover the increased costs of better quality assurance through upstream support in preparing CPSs, better scrutiny of concept papers, and improved due diligence at the initial stages of project preparation.

66. **Adequate Resources to Support Upfront Assessments.** To support various assessments, including an in-depth sector assessment, more resources may be required upfront. The ongoing initiative on enhancing effectiveness of TA management will elaborate on options to allocate TA resources to finance the cost of this work. The proposed reallocation may be justified on the grounds that high-quality upfront assessments will help governments and ADB agree on clearer strategic priorities, gain country ownership in the CPS process, improve project quality, and reduce time and costs during project processing and implementation. Conducting joint assessments with development partners may reduce ADB financing required to support the assessments for the share to be covered by them (para. 18).

V. MONITORING AND EVALUATION

67. Better monitoring and evaluation are expected for the following reasons:

- (i) A results-based CPS provides a greater opportunity to maintain constant monitoring and periodic reporting on the CPS and ADB's performance. Progress will be tracked according to the monitoring and evaluation mechanism (a results-based framework) defined in an individual country strategy.
- (ii) A good results framework allows adjustment if the results show that an assumption is flawed or if a risk begins to materialize.
- (iii) The country strategy will be subjected to a midterm review (rather than an annual CSPU) that will focus on strategy's continued rationale and validity and provide for a midcourse adjustment, if required.

⁴³ For example, the new performance management system, introduced under the 2004 human resource strategy, is expected to promote results- and quality-conscious behavior and staff contribution to teamwork.

⁴⁴ Replacing CSPUs with business plans could result in direct annual average savings of about \$300,000–\$400,000 over a 5-year programming cycle.

⁴⁵ Discontinuing country program confirmation missions could result in annual average savings of about \$150,000–\$200,000.

68. A CPS will be monitored and evaluated through completion reports by regional departments, country assistance program evaluations by OED, and biennial retrospective reviews of CPS quality at entry, and country portfolio reviews.

69. Improved scrutiny of concept papers, better-defined procedural steps, and quality assurance entry points in project preparation and processing will have a positive impact on overall project quality monitoring.

70. Progress in implementing the proposals to enhance CPS and business processes will be closely monitored and assessed on the basis of indicators and monitoring mechanisms suggested in a results-monitoring framework (Appendix 5). This will include an assessment of strategic clarity at the country level and selectivity in operations pipelines, results orientation, operational quality at entry, and overall efficiency improvements. Based on monitoring and assessment results, stocktaking will be undertaken in 3 years to incorporate experiences and lessons from implementing the proposed approaches as appropriate.

VI. DISCLOSURE AND EFFECTIVITY

71. CPSs will be subject to the same consultation and disclosure requirements applicable to present CSPs and specified in the current business processes (footnote 9) and ADB's public communications policy.⁴⁶ The preparation of the CPS midterm review report will follow the same consultation procedures currently used for CSPUs (footnote 26), and the report will be disclosed in a similar manner required for CSPUs, in conformity with ADB's public communications policy. In line with ADB's disclosure requirements, information contained in concept papers will be made publicly available within 30 days of their approval by Management through incorporation in a project information document available on ADB's website.

72. The proposals to enhance CPS and business processes outlined in this paper will take effect upon their approval by the President. SPD will work with departments and offices concerned to ensure smooth transition.⁴⁷

73. Relevant changes in Operations Manual sections⁴⁸ and document templates based on the proposed indicative formats will be completed in the third quarter of 2006. In consultation with the Budget, Personnel and Management Systems Department (BPMSD), briefing sessions and training seminars will be conducted as required.

⁴⁶ ADB. 2005. *The Public Communications Policy of the Asian Development Bank*. Manila.

⁴⁷ For CPSs that are on an advanced stage of processing (i.e., at the CPS finalization stage), it may not be possible to fully follow the proposals of this paper in terms of the proposed procedures. However, every effort will be made to ensure that the proposals are reflected to the extent feasible. In any case, every CPS will be results-based, selective, and country-focused (footnote 18).

⁴⁸ In consultation with departments and offices concerned, SPD will revise the Operation Manual sections on Country Strategy and Program, Processing Loan Proposals, and Technical Assistance.

MAJOR STAGES IN THE PREPARATION AND APPROVAL OF COUNTRY PARTNERSHIP STRATEGIES AND BUSINESS PLANS

The major stages in the proposed process of preparation and approval of a country partnership strategy (CPS), a midterm review, and an indicative rolling country operations business plan are summarized below.

Year	Process	Approval/Endorsement Authority
Year 0	Preparation of a results-based CPS (normally for 5 years), which includes an attached indicative rolling country operations business plan for years 1–3	CPS to be cleared by Management and submitted to the Board for discussion and endorsement of a country strategy ¹
Years 1 and 2	Preparation of an indicative rolling country operations business plan for the next 3 years	To be approved by Management and submitted to the Board for information
Year 3	Preparation of a CPS midterm progress review paper that includes an attached indicative rolling country operations business plan for the next 3 years. The review paper contains an updated risk assessment and risk management plan, if the update is required, and reflects in the attached business plan any changes resulting from the risk assessment as appropriate.	The review paper is approved by Management and submitted to the Board for information if no midcourse adjustment of the strategy is required. Otherwise, the review paper is submitted to the Board for endorsement on a no-objection basis.
Year 4	Preparation of an indicative rolling country operations business plan for the next 3 years	To be approved by Management and submitted to the Board for information
Year 5	A new results-based CPS is prepared	CPS to be cleared by Management and submitted to the Board for discussion and endorsement of a country strategy

¹ As a general rule, an informal Board seminar is conducted for the Board at the CPS initiating paper stage.

Indicative Country Partnership Strategy Format

COUNTRY PARTNERSHIP STRATEGY¹ [COUNTRY NAME]

Note: The main text should not be more than 25 pages, and the executive summary should be 2 pages at most.

EXECUTIVE SUMMARY

I. DEVELOPMENT CONTEXT: CURRENT TRENDS, ISSUES, AND CONSTRAINTS

Present a brief analytical overview of recent trends in the country's economic, political, and social development, including the structural causes of poverty identified in the country poverty analysis and progress in sections A–F. Use of visual presentations is encouraged, within the page limit. For subsections A, D, and F, refer to indicators in an appendix. Sections on thematic assessments will have separate guidelines. (The last sentence or paragraph before the next subheading will be Appendix 1, Table A1.1, indicating the country's progress toward the Millennium Development Goals [MDGs] and targets.)

A. Economic Growth and Poverty Reduction

Refer to the country economic indicator table in Appendix 1.

Refer to the country poverty and social indicator table in Appendix 1.

Discuss the long-term MDGs and medium-term targets in the national poverty reduction strategy (NPRS) and/or poverty reduction strategy papers (PRSPs), as applicable, and progress to date. For guidance on the poverty assessment, refer to the Handbook on Poverty and Social Analysis, available from the Regional and Sustainable Development Department (RSDD) and electronically from www.adb.org.

B. Political Environment

Briefly analyze the political environment.

C. Improving Public Financial Management and Procurement, and Combating Corruption for Development Management

Analyze issues related to public financial management, procurement, and corruption at the national and subnational levels and in operationally relevant sectors. Indicate performance measures and targets for relevant country systems, and describe recent improvements and the trajectory of change. For Asian Development Fund (ADF) countries, refer to the country performance assessment ratings and describe the recent trend together with the trajectory change.

D. Gender (and other social issues as appropriate)

Analyze social issues, particularly those related to gender.

¹ This indicative format should not be considered prescriptive. Its main purpose is to guide staff members on what information is generally expected in a CPS. However, a certain degree of flexibility in following the format is allowed to address distinctive country circumstances on understanding of the critical importance of having results-based, selective and country focused CPS.

E. Private Sector

Analyze private sector environment and how the public and private sectors work together.

F. Environment

Refer to the country environment indicator table in Appendix 1.

G. Regional Cooperation and Integration

Include this section if regional cooperation and integration (RCI) are to play a major role in the country's development. Describe how RCI initiatives may reinforce national economic growth and poverty reduction efforts.

II. THE GOVERNMENT'S DEVELOPMENT STRATEGY**A. Development Goals and Strategy**

Summarize the long-term development goals and medium-term objectives, NPRS, national development plans, and priority development programs.

B. Resource Mobilization and Investment

Review the public investment plan and approach to financing the development program (coordination of financing from development agencies, the private sector, foreign direct investment, the government's own efforts). Discuss the adequacy of the country's efforts to mobilize resources and the extent to which external assistance is being harmonized.

C. Role of External Assistance

Assess the role and amount of external assistance needed to finance the development program. Review the assistance strategies of major development partners, their comparative advantages, and the division of labor in funding external assistance.

D. ADB's Assessment of the Government's Development Strategy

Assess the country's development strategy and its feasibility.

III. ADB'S DEVELOPMENT EXPERIENCE**A. Development Impact of Past Assistance**

Summarize ADB's past assistance and assess its impact. Base the assessment on the strategic focus and objectives given in the previous CPS.

B. Portfolio Performance and Status

Present the portfolio performance, discuss trends, and highlight issues.

C. Conclusions and Lessons for the CPS

Discuss the major lessons learned from past assistance, with particular emphasis on Operations Evaluation Department's (OED) country assistance program evaluation (CAPE) findings and other evaluation reports and studies, country portfolio performance reviews, and a CPS completion report, and the implications for the new CPS.

IV. ADB'S STRATEGY

A. Summary of Key Development Challenges

Summarize the key development challenges drawn from the core assessments made in chapter I. Discuss the major challenges to and constraints on growth, development, and poverty reduction. Summarize the SWOT analysis (strengths, weaknesses, opportunities, and threats). These challenges should be linked with the CPS strategic focus discussed in section B of this chapter.

B. CPS Strategic Focus

Justification for the CPS's strategic thrust should be drawn from (i) the assessments of key development challenges and constraints facing the country; (ii) analysis of national development plans, priorities, and poverty reduction programs; (iii) ADB's comparative advantage in helping address these challenges and constraints, based on its experience in the country; and (iv) development partners' coordination. Clearly describe how national development plans and priorities, and poverty reduction efforts and ADB's long- and medium-term strategic priorities are aligned. Based on these analyses, specify priority sectors for ADB's assistance. The section may also reflect the CPS's strategic focus in terms of thematic issues, geographical areas, and/or regional cooperation and integration as appropriate.

C. ADB Assistance for the Strategic Priorities

Indicate agreed cost-sharing arrangements and expenditure eligibility financing parameters for the CPS period with reference to an appendix containing relevant details (see staff instructions of 15 March 2006, Cost-Sharing and Eligibility of Expenditures for Asian Development Bank Financing).

For each priority sector (and, where appropriate, thematic area), discuss (i) the overall development plan (long-term goals, medium-term objectives, monitorable performance benchmarks); (ii) how these are linked to a proposed (see below) operations program; and (iii) implementation issues, if any.

D. External Funding Coordination and Partnership Arrangements

Discuss approaches to collaborating and coordinating with DMC development stakeholders (including local and/or subnational governments, civil society, the private sector, other funding agencies, etc.) in implementing the CPS. Identify potential constraints on mobilizing cofinancing.

V. RISKS AND PERFORMANCE MONITORING AND EVALUATION

A. Risks

Assess possible risks to the success of the CPS, evaluate their probability, and recommend mitigating measures to inform the risk management plan, which should be included in the CPS. In particular, assess risks for issues such as debt sustainability, public financial management, procurement, and corruption, and cover national, subnational, and operationally relevant sectors as appropriate.

B. Results-Based Monitoring Process and Plan

Discuss how the strategic results orientation of the CPS is to be ensured, and describe the arrangements for monitoring and evaluation of the strategy.

Matrix: Country Partnership Strategy Results Framework

The matrix should also include intermediate outcome indicators to enable conducting a midterm review.

APPENDIXES AND TABLES

Note: List appendixes in order of their citation in text.

A1. Country and Portfolio Indicators

Table A1.1: Progress Toward the Millennium Development Goals and Targets

Table A1.2: Country Economic Indicators

Table A1.3: Country Poverty and Social Indicators

Table A1.4: Country Environment Indicators

Table A1.5: Development Coordination Matrix

Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings

Table A1.7: Portfolio Indicators—Disbursements and Net Transfers of Resources

Table A1.8: Portfolio Indicators—Evaluation Rating by Sector

Table A1.9: Portfolio Implementation Status

A2. Table: Country Performance Assessment Ratings *(for ADF and ADF blend borrowers only)*

A3. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters

A4. Country Partnership Strategy and Program Formulation *(Summarize the process of formulation. Incorporate a CAPE matrix reflecting how CAPE and the Board's Development Effectiveness Committee recommendations were considered in formulating the CPS)*

A5. Previous CPS Completion Report

A6. Country Sector and Thematic Strategies and Plans and/or Road Maps *(For priority sectors and/or thematic areas. Integrate both sovereign and non-sovereign public sector operations and private sector development)*

A7. Indicative Rolling Country Operations Business Plan²

² Refer to Appendix 4 of this paper for an indicative rolling country operations business plan format.

Indicative Country Partnership Strategy Midterm Review Report Format

MIDTERM REVIEW REPORT ON COUNTRY PARTNERSHIP STRATEGY [COUNTRY NAME]

Notes: (i) If there are no noteworthy developments and, thus, no country strategy adjustment required, this should be explicitly stated.
(ii) The main text should be 8 pages at most (excluding an updated country partnership strategy [CPS] results framework).

I. CURRENT DEVELOPMENT TRENDS AND ISSUES

Report briefly on what has happened in the country since the last CPS paper. The purpose is to (i) focus on the continued rationale and validity of the country strategy, and, if required, to provide for a midcourse adjustment; and (ii) present the current context for the new indicative country operations rolling business plan.

A. Recent Political and Social Developments

Summarize recent political and social events.

B. Economic Assessment and Outlook

Briefly assess the macroeconomic situation.

C. Progress in Poverty Reduction

Discuss the progress made in achieving the Millennium Development Goals, and the issues and targets related to the national poverty reduction strategy (NPRS) and/or poverty reduction strategy papers (PRSPs), as applicable.

D. Risk Assessment

Provide information on the outcome of the review of the risk assessment, and effectiveness of the risk management plan (particularly for public financial management, procurement, and corruption at the national and subnational levels and for operationally relevant sectors). Include an updated risk assessment.

E. Implications for the Country Strategy (if any)

Assess the impact, if any, of A, B, and C on the relevance, validity, and implementation of the country strategy. If no implication is expected, say so. Assess the impact, if any, of the updated risk assessment on the risk management plan and update the plan if required. If the plan does not require updating, say so.

II. IMPLEMENTATION OF THE COUNTRY PARTNERSHIP STRATEGY

A. Progress in the Country Partnership Strategy Focus Areas

Discuss the progress toward CPS outcomes. Summarize major progress made in the CPS's strategic focus and priority sector and/or thematic areas, and highlight any issues

that may affect country strategy implementation. For Asian Development Fund (ADF) and ADF blend borrowers, refer to Appendix 2 (Country Performance Assessment Ratings). If the strategy needs to be adjusted, propose changes, including on sector and/or thematic focus and modification in relevant sector and/or thematic road maps (provide a reference to Appendix 3).

B. Highlights in Coordination of External Funding and Partnership Arrangements

Highlight major achievements (or changes) in coordination of external funding (including cofinancing) and partnership arrangements. Provide a cofinancing plan or strategy for the next 3 years, based on a review of CPS implementation. The cofinancing plan or strategy should be consistent with the levels of direct ADB lending proposed in Appendix 4 (Indicative Rolling Country Operations Business Plan).

III. PORTFOLIO MANAGEMENT AND PERFORMANCE MONITORING ISSUES

A. Portfolio Performance

Present an overview of portfolio performance and status, disbursements, counterpart funding (if it is an issue), etc.

B. Results-Based Performance Monitoring and Evaluation

Discuss the degree of and factors influencing the achievement of CPS intermediate indicators as specified in the original CPS results monitoring framework. Recommend ways to update the framework, adjusting the indicative rolling country operation business plan (Appendix 4) to ensure envisaged development impact. This section should be linked with findings of sections I.D and II.A.

Matrix: Updated Country Partnership Strategy Results Framework

APPENDIXES

Note: List appendixes in order of their citation in text.

A1. Country and Portfolio Indicators

Table A1.1 Progress Toward the Millennium Development Goals and Targets

Table A1.2 Country Economic Indicators

Table A1.3 Country Poverty and Social Indicators

Table A1.4 Country Environment Indicators

Table A1.5 Development Coordination Matrix

Table A1.6 Portfolio Indicators—Portfolio Amounts and Ratings

Table A1.7 Portfolio Indicators—Disbursements and Net Transfers of Resources

Table A1.8 Portfolio Indicators—Evaluation Rating by Sector

Table A1.9 Portfolio Implementation Status

A2. Table: Country Performance Assessment Ratings (for ADF and ADF blend borrowers only)

A3. Updated Country Sector and Thematic Strategies and Plans and/or Road Maps (For priority sectors and/or thematic areas. Integrate sovereign and non-sovereign public sector operations and private sector development)

A4. Indicative Rolling Country Operations Business Plan¹

¹ See Appendix 4 of this paper for the plan's format.

Indicative Rolling Country Operations Business Plan Format

INDICATIVE ROLLING COUNTRY OPERATIONS BUSINESS PLAN¹ [COUNTRY NAME]

(XXXX–XXXX)

Note: The main text should be about 3 pages (excluding an updated country partnership strategy [CPS] results framework).

I. **Consistency of the Business Plan with the Current Country Partnership Strategy**

Confirm that the proposed indicative rolling country operations business plan is consistent with the current CPS and priority sectors and/or themes.

II. **Indicative Lending and Nonlending Program**

An indicative annual financing plan or “envelope” by ADB over the next 3 years should show total expected financing for lending products, credit enhancement products, such as guarantees, if applicable, and nonlending products and services for priority sectors and themes. Indicate this for sovereign operations and, on a broad sector basis, for non-sovereign interventions.

For Asian Development Fund (ADF) and ADF blend borrowers, the country’s performance and proposed lending levels are defined according to the performance-based allocation exercise.

If ADF grant financing is proposed,² provide a rationale for the use of grants to achieve national development objectives, including government priorities, as specified in the national poverty reduction strategy (NPRS) and/or poverty reduction strategy papers (PRSPs), and preferences, institutional capacity, and macroeconomic conditions. Describe anticipated uses and allocation of grant financing, including indicative estimates of the proportion of the program to be financed by grants.

For ordinary capital resource (OCR) borrowers, generally assess their needs and absorptive capacity, and propose lending levels.

III. **Summary of Changes to Lending and Nonlending Programs**

Summarize any changes to the indicative rolling business plan proposed in the appendix to the CPS (or the previous business plan) and the resource requirements. Discuss how the changes in lending and nonlending pipelines are reflected in priority sector and/or thematic road maps (provide a reference to Appendix 3).

IV. **Indicative Internal Resource Requirements**

Discuss the indicative internal staff resources (person-months or -years) estimated for timely delivery of the operations program under the proposed business plan.

V. **Results-Based Monitoring**

Discuss updates, if any, to the results-based framework of the current CPS as a result of changes in the assistance program.

¹ This indicative format will be used for the periods between CPSs and midterm reviews and as an appendix to the CPS and midterm review papers (see Appendixes 2 and 3 of this paper).

² For countries eligible for ADF IX grants, refer to the ADF IX Grants Program, staff instructions of 24 November 2004, available in the Compendium of Staff Instructions, ADB portal.

Matrix: Updated Country Partnership Strategy Results Framework

APPENDIXES AND TABLES

Note: List appendixes in order of their citation in text.

A1. Indicative Assistance Pipeline

Table A1.1. Indicative Assistance Pipeline for Lending Products *(may include credit enhancement products as appropriate)*

Table A1.2. Indicative Assistance Pipeline for Nonlending Products and Services

A2. Preliminary Summary Information on Proposed Indicative Lending and Nonlending Products and Services for the First Year of the Business Plan³

A3. Updated Country Sector and Thematic Strategies and Plans and/or Road Maps *(For priority sectors and/or thematic areas. Integrate sovereign and non-sovereign public sector operations and private sector development)*⁴

A4. Assistance Program for Current Year *(provided for information purposes)*

Table A4.1. Assistance Pipeline for Lending Products (Current Year)

Table A4.2. Assistance Pipeline for Nonlending Products (Current Year)

³ Normally includes two or three paragraphs on each intervention for the first year of the business plan, describing its objectives, expected results, and deliverables.

⁴ When an indicative rolling country operations business plan is attached to a CPS or a CPS midterm review report, Appendix 3 may be dropped, since the indicative CPS and midterm report formats contain a relevant appendix on sector and/or thematic road maps.

**RESULTS MONITORING FRAMEWORK
FOR THE REFINED CPS AND BUSINESS PROCESS PROPOSALS**

Objectives	Result Areas	Monitoring Indicators	Monitoring Mechanism	Assumptions and Risks
To make ADB programming and operations processing more responsive, relevant, and results-oriented	Greater strategic clarity at the country level, and greater selectivity in operations pipelines	<p>Improved strategic clarity at the country level</p> <ul style="list-style-type: none"> • Priority sectors and/or themes are selected based on identified development constraints and national development plans and priorities <p>Improved sector focus and selectivity in operations pipelines</p> <ul style="list-style-type: none"> • Baseline for selectivity: <ul style="list-style-type: none"> ▪ Average number of sectors with ongoing loans—6.5 (without Pacific DMCs but including PNG and Fiji, 2004–2005) ▪ HHI by number of ongoing loans—0.129 (2005)^a ▪ HHI by amount of ongoing loans—0.183 (2005) 	<p>CPSs</p> <p>Reports on retrospective reviews of CPSs</p> <p>OED's annual reports on loan and TA portfolio performance</p>	<p>Assumption</p> <p>Country ownership and borrower's clear vision of country's development strategy and priorities</p>
	Improved results orientation and operational quality at entry of CPSs and projects	<p>Results-based CPSs mainstreamed</p> <ul style="list-style-type: none"> • Baseline: One results-based country strategy in 2004 • Target: All CPSs are results-based from 2006 onward <p>Enhanced links between CPS results frameworks, sector and/or thematic road maps, and project design and monitoring frameworks</p> <ul style="list-style-type: none"> • Baseline: To be established during results-based CSP stocktaking exercise (second quarter 2006) 	<p>CPSs</p> <p>Reports on retrospective reviews of CPSs and projects</p> <p>OED's annual reports on loan and TA portfolio performance</p>	<p>Assumption</p> <p>Adequate capacity is established for results management</p>

Objectives	Result Areas	Monitoring Indicators	Monitoring Mechanism	Assumptions and Risks
		<p>Results of a retrospective review of quality at entry of CPSs and sample projects</p> <ul style="list-style-type: none"> • Baseline and refined quality-at-entry criteria to be established by the first review of CPSs and selected projects (initiated in January 2006) • Target: Continuous improvement in quality at entry <p>Better concept papers and upstream quality support based on expected project complexity and/or risks</p> <ul style="list-style-type: none"> • All project concept papers are subject to enhanced scrutiny and review 		
	Overall efficiency improvements	<p>Loan processing time (number of months from beginning of project preparatory TA fact-finding [or loan fact-finding if project processed without the TA] to Board approval):^b</p> <ul style="list-style-type: none"> • Baseline: 23.9 months (2004) • Target: 18 months by 2008 	<p>Project performance management system</p> <p>Project performance reports</p> <p>Country portfolio performance reviews</p>	<p>Assumption Borrower's country ownership results in streamlining its own internal procedures for clearing project-related issues and timely loan signing</p>

ADB = Asian Development Bank, CPS = country partnership strategy, CSP = country strategy and program, DMC = developing member country, HHI = Herschmann-Herfindahl Index, OED = Operations Evaluation Department, PNG = Papua New Guinea, TA = technical assistance.

^a The baseline data is from OED's draft 2005 Annual Report on Loan and Technical Assistance Portfolio Performance: "The Herschmann-Herfindahl Index (the sum of squared portfolio shares) is another test for the degree of homogeneity in DMC's loan portfolio. A perfectly heterogeneous portfolio (equal numbers of loans or amounts of lending in every sector) would yield a minimum HHI value of 0.1, and perfectly homogeneous portfolio (all loans or lending in a single sector) would yield a maximum HHI value of 1.0." It should be complemented by an analysis of data on sector focus of individual DMCs that is normally available in OED's annual reports on portfolio performance.

^b Source: ADB. 2005. *Work Program and Budget Framework (2006-2008)*. Manila.