



**ASIAN DEVELOPMENT BANK**

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January 2009

**Staff Instructions**  
**for the**  
**Revised Project Classification System**



# INTRODUCTION

## Background

1. ADB has always had a project classification system since the initiation of its operations. However, the focus since 2000 has moved from tracking financial inputs to sectors to monitoring development contributions by thematic and other strategic development goals. In 2004, the project classification system was further revised following the review of the Poverty Reduction Strategy to better reflect poverty reduction impacts through the introduction of the targeting classification. The system has been reviewed in 2007 in the context of ADB's new Long Term Strategic Framework (LTSF II, *Strategy 2020*) and other reporting requirements (e.g. Paris Agenda, World Trade Organization, Asian Development Fund X, Work Plan and Budget Framework), and has been further strengthened and expanded as explained in this paper. The 2009 system maintains the same reporting options as the 2004 system, especially the sector classification and the identification of thematic areas. However it adds reporting features such as partnerships and sovereign/non-sovereign financing, location impact, prioritized thematic contributions, multiple subsectors, and reporting on climate change.<sup>1</sup>

## Key Attributes of the new project classification system

2. **Strategic and results orientation:** The new system is more results-focused and responsive to the new priorities of *Strategy 2020* and the evolving development challenges in Asia and Pacific. *Strategy 2020* requires better indicators for ADB impact contributions to country results, a more harmonized reporting on the development impact of sovereign and non-sovereign financing and on partnerships, a sharpened sector focus, and improved information on ADB contributions to development outcomes. Appendix 1 explains the rationale for the changes in the project classification system and Appendixes 6A and 6B provide the comparison with the 2004 thematic and sector classifications.

3. **Concise and comprehensive information:** All necessary information on the project classification is summarized in a single data entry sheet (Figure 1)<sup>2</sup>, comprising information on:

- (i) partnerships, i.e. the new system quantifies how much the project cooperates with the private sector and other development partners;
- (ii) the project location, i.e. the new system quantifies how much the project contributes to rural, urban, national, and regional (supranational) development;
- (iii) sector contribution, i.e. the new system quantifies how much financial inputs ADB contributes to a sector and possible multiple subsectors and key sector areas;
- (iv) development themes, i.e. the new tracks ADB's contribution to partner country's and ADB's strategic development objectives, as highlighted in LTSF II, thereby indicating the priority development contribution and up to 3 additional secondary development impacts out of a total of 8 themes; and
- (v) the manner of the project's contribution to ADB's overarching goal of poverty reduction (either general or targeted intervention).

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<sup>1</sup> The revised project classification system is guided by a number of key policies both internal and external to ADB. These include - the Poverty Reduction Strategy (PRS, 1999), the Enhanced Poverty Reduction Strategy (EPRS, 2004), and *Strategy 2020* which defines ADB's role in the region and specifies its targeted priority results. The system is also responsive to ADB's international commitments such as the Paris Declaration (which commits signatories like ADB to greater transparency and accountability in the use of development resources), the DAC classification system, and other international requirements on the monitoring of aid allocations (such as the World Trade Organization's). The use of the enhanced project classification system will enable comparisons with partner contributions and will therefore provide a tool for assessing the complementarity of ADB investments and activities to other donor investments.

<sup>2</sup> The template can be downloaded from <http://www.adb.org/poverty/tools.asp> and the ADB Portal.

- (vi) The new system will also track the development of a project's classifications from the programming up to the final approval stage, and it will provide information on the various financial products which comprise the project.

4. **Reflects LTSF II Priorities:** The new system allows for tracking the *Strategy 2020* priorities such as ADB's contribution to environmental sustainability and addressing climate change, regional cooperation and integration, and inclusiveness of growth and social development.<sup>3</sup> Appendix 2 explains reporting on *Strategy 2020* requirements, and Appendix 3 shows the relationship between the new project classification system and LTSF II.

5. **Classifies all ADB interventions at different stages of project development:** As before, all ADB projects (loans, grants, equity and guarantee investments, and TAs, whether public or private sector, and whether with sovereign or non-sovereign guarantee) will be classified at the main stages of project planning through: (a) identification in the Country and Regional Partnership Strategy (CPS/RPS) and the Country and Regional Operational Business Plans (COBP/ROBP);(b) concept clearance; (c) review before approval; and (d) during implementation when there is a major change in scope. The project classification system allows for adjustments during project processing and implementation.

6. **Does not cover staff inputs and other budgetary expenditures:** Although ADB incurs financial expenditures for projects beyond the formally agreed and approved project investment, such expenditures (for processing, implementation, reporting and evaluation) will not be classified under the project classification system.

7. **Scope of Activities Subject to Project Classification:** As in the current system, the project classification will be reflected in all project related documents and at all stages of project development.<sup>4</sup> The following information will be provided:

- (i) Financial modality (with financial contribution) in order to highlight partnerships;
- (ii) A single classification combining all types of financial products that may support a project (investment loans and grants, TAs, equity investments, guarantees, etc.);
- (iii) Sector and subsector/s classifications as well as key activity areas, allowing for quantification of ADB's financial inputs;
- (iv) Location impact, explaining the spatial dimension of outcomes of projects on rural, urban, national and regional development, classified by high, medium or low incidence and then further quantified;
- (v) Thematic classification, including themes and subthemes indicating one impact as primary and up to 3 additional as secondary and ensuring that at least one impact reflects the three priority areas of *Strategy 2020*,<sup>5</sup> and

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<sup>3</sup> *Strategy 2020* emphasizes inclusive growth, environmentally sustainable growth and regional integration as strategic agendas for ADB. It then identifies private sector operations and private sector development, good governance and capacity development, gender equity, knowledge solutions, and partnerships as drivers of change. Core specializations of ADB support are infrastructure development, environment (including climate change and livable cities), regional cooperation and integration (including contributions to trade), financial sector development, and education. The new classification system can monitor ADB's contribution to all these areas. It also facilitates monitoring on other reporting requirements such as on the Paris Agenda and the WTO.

<sup>4</sup> While in the official project documents, the classification will be reflected in a narrative form, in the P3M system, the summary entry sheet with all relevant financial information will be used. Project templates will be changed accordingly and the template for the project classification will be available at the ADB Portal.

- (vi) Targeting classification as General Intervention (GI) or Targeted Intervention (TI) specified further as either addressing geographical dimensions of poverty and inclusive growth (TI-G), promoting the non-income Millennium Development Goals (TI-M), or approaching extreme income poverty at household level (TI-H).

8. **Responsibility:** The primary responsibility for the classification of a project remains with the initiating department. The entry sheet will be completed by the project officer based on the available information at the stage of the project cycle. The Regional and Sustainable Development Department (RSDD) shall remain responsible for ensuring consistency of data quality across departments. Its role as a custodian will be reduced to comments on the project classification only at concept clearance stage for all projects, MRM and SRC stage for sovereign loans and grants, credit committee stage for non-sovereign operations; and TA finalization following fact-finding for TAs. RSDD will also comment on the project classification when there are major changes in scope.<sup>6</sup>

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<sup>5</sup> Under the earlier system, one of the thematic classifications had to reflect one of the three pillars of ADB's Poverty Reduction Strategy (i.e. sustainable economic growth, inclusive social development, governance). The new system follows the same logic and applies it to the three pillars of *Strategy 2020* (i.e. inclusive growth, environmentally sustainable growth, regional cooperation and integration).

<sup>6</sup> While the summary classification will be circulated for interdepartmental comments, the detailed information – required by Figure 1 – will be commented on by RSDD as custodian and help desk for the project classification system. The Poverty Unit in RSDD will address additional queries.

Figure 1: Summary Entry Sheet (Example)

Project Classification Summary (sample input screen)																					
partner country		location of the project					Asia-Pacific region														
project name:							for approval in year:														
<b>Project development stage</b>		<b>TA</b>			<b>Investment</b>			mark, whether the project is identified as													
		PPTA	CDTA	PATA	RDTA	grant others	loan/debt ADF	syndi- cation	equity	guarantee	regional cooperation project (in regional CPS, regional business)		national project (in national CPS / COBP)								
indicative planning (CPS, COBP, regional partnership strategies) stage		file name: (see naming convention)																			
concept clearance MRM draft / Credit Committee Meeting SRC draft approval major change in scope		Project description: __																			
<b>project and product numbers</b>		ADB finance (million USD)		Project Number		Dept.		Mission Leader													
<b>Project Financing Modalities and Partnerships (in million USD)</b>																					
total project costs		0.0																			
Government																					
<b>Partnerships</b>		grants		concessional		commer- cial		sponsors (name and amount, million USD):				<b>Location Marker (% of total project)</b>									
DVA (under ADB administration and/or guarantee arrangement)		0.0										rural		urban	national	regional					
Other partnerships		0.0										high/medium/low impact									
<b>ADB financing modalities</b>		loan		investment grant		equity		guaran- tee		syndi- cation		technical assistance grant		Climate Change: If the project promotes environmental sustainability or disaster risk management, indicate whether and how it addresses climate change							
0.0		ADF		OCR		ADF		other						yes, through							
sovereign financing														adaptation		mitigation		does not address climate change			
non-sovereign financing																					
Note: DVA = cofinancing under administrative or collaborative arrangement with ADB. Guarantees and partner financing administered by ADB (trust funds, project grants, syndications) will be reflected both under ADB as well as DVA cofinancing; however they will be counted only once in the total financing volume, in order to avoid double counting. Partnership amounts are to be confirmed with OCO at the time of concept clearance																					
<b>Thematic marker (contributions of the project to strategic development results)</b>																					
		inclusive growth		environmental sustainability (ENV)		regional cooperation and integration (RCI)		gender equality (GEN)		private sector development (PSD)		governance (GOV)		capacity development (CAD)		<b>targeting (single ticking)</b>					
		economic growth (GRO)	social development (SOC)													general intervention (GI)	targeting inclusiveness of growth and social development (more directly addressing)				
																	addressing geographically disadvantaged (TI-G)	MDG related social and environmental poverty (TI-M)	income poevty (TI-H)		
chose up to 4, at least 1 has to be Strategy 2020 pillars (GRO, SOC, ENV, RCI)																					
indicate one out of 8 priority																					
subthemes (chose from list of selected themes):																					
<b>Sector financing (million USD)</b>		total ADB		ADB		Govern emnt		Private sector		ODA		NGO, foundation		beneficiar ies		sector marker:		<b>Rationale</b>		Rationale for poverty targeting:	
for ADB financing primary sector		0.0		[name; total ADB costs]												location marker:					
primary subsector		0.0		[name; total ADB costs]																	
subsector components (can be from various sectors, depending on project components):		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0					
a		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0					
b		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0					
c		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0					
etc.		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0					
key activity areas (chose any from list of selected subsectors)																				Key result areas of the project:	
																				Key results areas financed by ADB:	

## STAFF INSTRUCTIONS

9. **Classification at project level:** Financing is currently entered in the Project Processing Information System (PPIS) on a product level; hence, for example a project combining TA, loan and private sector investment in the current system should have three entries.<sup>7</sup> The new classification system would institutionalize the actual classification of the 2004 system: projects will be classified only once for all financial products together, the classification would then be attributed proportionally to the various project (financial) products.<sup>8</sup> The different products would be identifiable under one project. The new system will also indicate the responsible project officers and analysts. The new system will particularly help tracking combined sovereign and non-sovereign operations of ADB's private sector and regional departments.<sup>9</sup>

10. **Tracking financing partnerships and sovereign and non-sovereign financing:** The new classification system introduces a financing modality and partnerships table which captures the contribution of sovereign and non-sovereign financing partners. For financing partnerships, only direct value added (DVA) cofinancing will be reported. While guarantees and partner financing administered by ADB (trust funds, project grants, syndications) will be reflected both under ADB as well as DVA cofinancing, they will be counted only once in the total financing volume. The financing modality and partnership table below summarizes all cofinancing and ADB financing at a project level.

**Figure 2: Financing Modality and Partnerships Table<sup>10</sup>**

Project Financing Modalities and Partnerships (in million USD)											
total project costs	0.0										
Government	0.0										
Partnerships	0.0	grants		concessional	commercial	sponsors (and amount, million USD):					
Direct Value Added Co-financing (DVA) under ADB administration and/or guarantee arrangement	0.0										
Other partnerships	0.0										
ADB financing modality	0.0	loan		investment grant	equity	guarantee	syndication	technical assistance grant			
		ADF	OCR	ADF	other	OCR	OCR	OCR	TASF	JSF	other
sovereign financing	0.0										
non-sovereign financing	0.0										

Note: DVA = cofinancing under administrative or collaborative arrangement with ADB. Guarantees and partner financing administered by ADB (trust funds, project grants, syndications) will be reflected both under ADB as well as DVA cofinancing; however they will be counted only once in the total financing volume, in order to avoid double counting. Partnership amounts are to be confirmed with OCO at the time of concept clearance.

11. **Sector and subsector marker:** Each project will be classified by the main sector the project is contributing to, one or more subsectors, and key activity areas in the respective subsectors (Figure 3). The new classification system will waive current restrictions that allow selection of subsectors only for the main sector. Instead, it will allow tracking all major project components separately, in addition to the main sector. It can thus track subsectors belonging to different sector groupings. As a general rule, it will monitor at the sector and subsector levels only ADB's financial contributions. The attribution of subsector financing is related to the cost structure of the project, whereby costs for cross-cutting issues such as capacity building or

<sup>7</sup> De facto, in the 2004 systems most entries are at the project (not product) level.

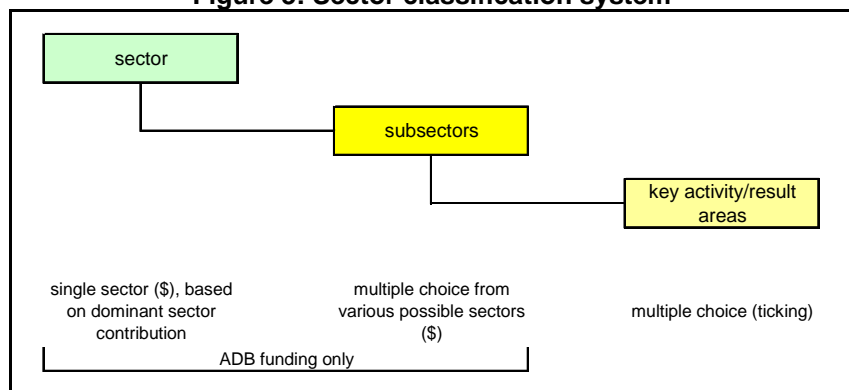
<sup>8</sup> In exceptional cases, different classifications for the various project products can also be applied.

<sup>9</sup> Both public and private sector projects are currently entered in the PPIS but structured differently, as processing and business rules are different.

<sup>10</sup> To keep historical consistency, reporting at the product level will continue in ADB's new project base system called P3M, replacing PPIS in 2009.

contingencies shall be attributed to the respective sub-sectors on a pro-rata basis.<sup>11</sup> In addition, a pop-up menu under the subsectors chosen will provide opportunity to identify key activity areas. To keep historical consistency, the main subsector will also be highlighted so that all financial contributions of ADB can be attributed to this one subsector, as in the 2004 classification system. For overall reporting on allocation of resources to sectors, ADB will use the main sector classifications.<sup>12</sup> Appendix 4 gives the new terminologies for sectors, subsectors and key results areas.

**Figure 3: Sector classification system**



12. **Location marker:** The new classification system will provide information on the spatial dimensions of a project. The contribution to rural, urban, national and regional development outcomes will be estimated on the basis of the entire project (regardless of the share of funding from ADB or other sources), because outcomes are delivered by the project as a whole. The project sponsoring department will first indicate whether a project has high, medium or low impact on the development of a geographical area, and will then quantify this impact contribution in percentage terms by attributing in 5% steps either 5%-20% for projects weighted as having low impact, or 25%-40% for such with medium, and 45%-100% for projects where the impact contribution is high. The location and purpose of the project outputs will be the main criterion (for example the share of physical outputs or beneficiaries), followed by the project budget, but other significant considerations can lead to different weights, based on the project officer's judgment.<sup>13</sup> Projects having regional geographical impact will also indicate "regional cooperation and integration" in the thematic marker. The immediate use of introducing the spatial dimension in project classification is to allow disaggregation of outputs in the ADB Results Framework, but it can also be used for other purposes such as estimating dimensions of ADB's contribution to inclusiveness through rural development and to regional cooperation and integration.

<sup>11</sup> In the context of the new results framework for assessing ADB's development effectiveness, ADB has decided to track also selected outputs in various sectors, such as km of roads or education facilities upgraded and number of people benefiting. It is planned to link such output tracking with the project classification system at the sector level. However this will be a separate reporting exercise.

<sup>12</sup> However, estimates of sector allocation through aggregation of subsectors and working back to sector totals may reveal a more accurate picture which can also be monitored. The new system can report sector allocation in both ways, namely (i) attributing all financing to the main subsector (as in the 2004 system), and (ii) attributing financing to the various subsectors as reflected in the respective project components.

<sup>13</sup> The rationale for classifying projects is based on result chains; no additional analysis is necessary. The rationale for the respective location, thematic and target markers is closely linked to the indicators and performance targets at either impact, outcome or output level of the Design and Monitoring Framework (DMF). In some instances the design summary in the DMF (impact, outcome, outputs) as well as sections in the Report and Recommendations of the President (RRP), i.e. project justification, benefits, economic and poverty impact assessments and respective appendixes provide the rationale for the classification. The guidance note provides further examples and explanations.

13. **Thematic Marker:** The thematic classification of projects introduced in 2004 remains relevant. The new system will broaden the number of themes that can be selected from 3 to 4 most important impact contributions of a project (out of 8 themes). The themes are being chosen based on their importance for the total project impact. At least one of the up to 4 thematic markers must represent one of the strategic agenda of *Strategy 2020* (i.e. either growth or social development comprising the inclusive growth pillar of *Strategy 2020*, or environmental sustainability or regional cooperation and integration). One theme needs to be identified as the primary development goal of the project.<sup>14</sup> In response to emerging new country demands and LTSF II priorities, subthemes have been added (such as disaster risk mitigation, and eco-efficiency) and others have been sharpened.<sup>15</sup> There will not be any restriction on the number of subthemes. As in the past subthemes can only be identified when the respective theme is chosen. Appendix 5 shows the new themes and subthemes. In addition, the new system tracks - under environmental sustainability and under disaster risk mitigation – ADB's specific contribution to address climate change adaptation and mitigation by using a weighted and quantifiable reporting system similar to the location marker.<sup>16</sup>

14. **Targeting poverty reduction, and inclusiveness of growth and social development:** The revised system will continue differentiating between projects that indirectly address poverty reduction (i.e. general interventions, GI) and those that address poverty reduction and inclusive growth more directly, i.e. in a more targeted fashion (targeted interventions, TI). The poverty reduction and social development impact of all ADB loan projects must be summarized in an appendix to the RRP, typically the SPRSS or/and additional information if deemed necessary. The rationale for project classification may then be drawn from this appendix for the targeting, thematic and location classifications. Targeted interventions fall under three groups:<sup>17</sup>

- (i) **Household (TI-H).** The defining characteristic of such projects is their concern for beneficiaries: the proportion of poor among project beneficiaries will be significantly larger than their proportion in the overall population of the country, and in no case less than 20%. The proportion of the poor defined to be benefiting from the project should be made using the national, urban or rural poverty lines as agreed with the DMC.
- (ii) **Geographic (TI-G).** Projects located in geographic areas with a significantly higher poverty incidence than the national average and in line with the geographic emphasis in the national development plan or national poverty reduction strategy or CPS will qualify for this TI classification, irrespective of whether their impact on poverty is direct or indirect. The project must, however, significantly address constraints which are responsible for poverty in the area.

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<sup>14</sup> The concept of weighting thematic contributions with high, medium and low, and further quantifying through percentage – as used by other development banks - was considered, but it was felt that such may not be introduced at this stage.

<sup>15</sup> *Strategy 2020* did not include new thematic areas. Rather, it focuses ADB's operational and knowledge work on three priority development areas (inclusive growth, environmentally sustainable growth, and regional integration), five drivers of change (private sector development and private sector operations, good governance and capacity development, gender equity, knowledge solutions, and partnerships) and five core areas of operations (i.e. infrastructure, financial sector development, environment, regional cooperation and integration, and education). ADB is able to report on these LTSF II priorities by using the new classification system.

<sup>16</sup> Projects contributing to climate change mitigation have project components impacting on the reduction of greenhouse gases, such as renewable energy projects or reforestation. Projects that adapt to climate change have design features to mitigate the impact of climate change, such as realignment of roads or habitat, alternative agricultural practices for dryland areas etc.

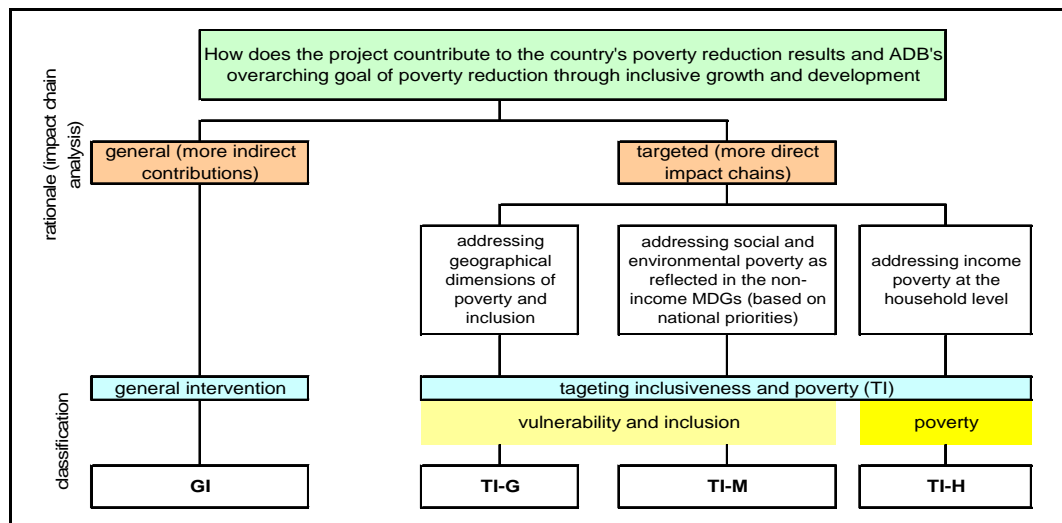
<sup>17</sup> See Poverty Handbook (<http://www.adb.org/Documents/Handbooks/Analysis-Processes/default.asp>) for details on targeting classification.

Mere location of the project in the geographical area is not sufficient for the TI (G) classification

- (iii) **MDG TI (M1-M7)).** Projects with a direct impact on the non-income dimensions of poverty as represented in MDG 1 (hunger target) and MDGs 2 to 7 will qualify under this classification when it is clearly demonstrated that the project is directly contributing to one of the non-income MDG goals and targets. The main intended project results should clearly specify the MDG goal, targets and indicators to be used. The project must address the binding constraints to the relevant MDG. Projects with M1-M7 classification that support MDGs in the short to medium term should include the intended achievements in the outcome level of the project's design and monitoring framework, specifying the MDG to be addressed, targets and indicators.

Figure 4 illustrates the targeting classification and its relation to inclusive growth and development.

**Figure 4: Targeting Classification and Inclusive Growth and Development**



15. **Single data entry sheet will be the sole sources of data entry:** The single data entry sheet (Figure 1) will allow summarizing all necessary information on the project classification. It will be updated at every stage of indicative planning and project development and commented on by the custodian of the system (RSDD).<sup>18</sup> All inputs regarding project classification will be made in this single data entry sheet and then stored in an Operational Data Store (ODS) for final storage in P3M once this is functional.<sup>19</sup> ODS will generate a summary table of project classification information consistent with the 2004 system, and will automatically feed the main

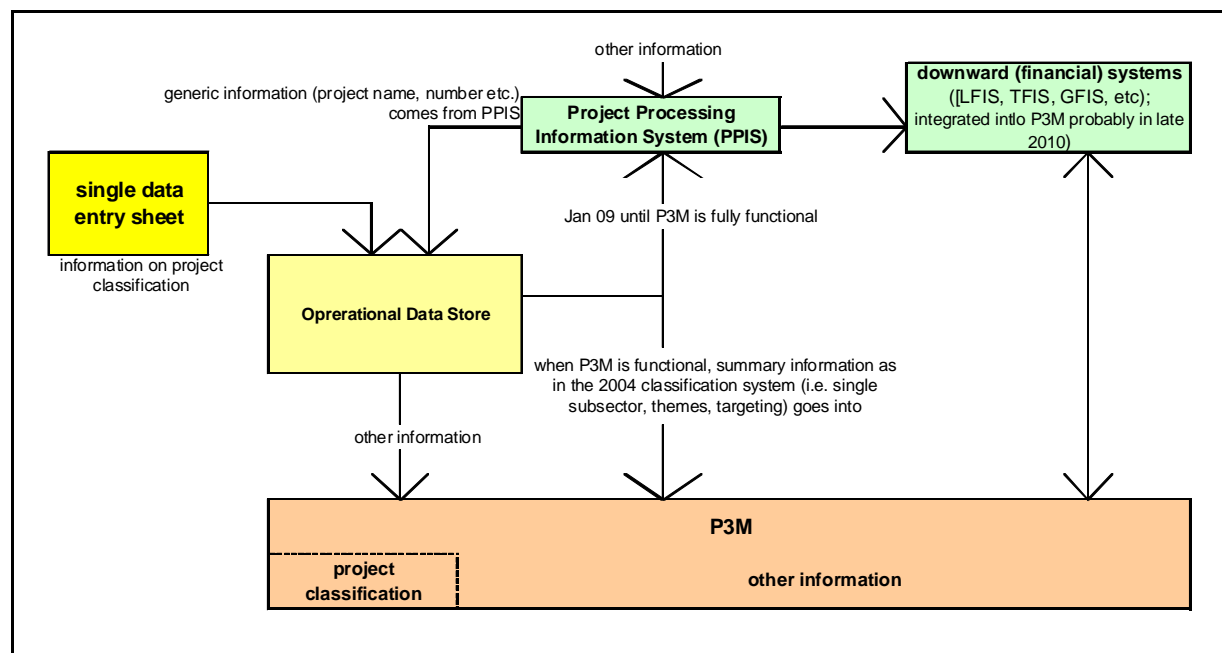
<sup>18</sup> Only the summary information will be shared for interdepartmental comments, while the detailed information will be discussed with the custodian of the classification system for assuring internal consistency across ADB.

<sup>19</sup> Other information, such as the project name, the mission leader, the approval years etc, which are not directly relevant for the project classification, will continue to be entered into the PPIS. The PPIS will also continue to generate the project number. To avoid double entry and possible inconsistencies between single data entry sheet and PPIS, the function for operational departments to enter manually project classification information into PPIS will be blocked.

sector/subsector, theme/subtheme and targeting information to the current PPIS (from January 2009 until P3M becomes fully operational) and then into P3M (from then onwards).<sup>20</sup>

16. **Tracking in PPIS, ODS and P3M:** While a summary of this information will be reflected in the project document, the detailed quantifiable information will be inputted for internal use into ADB's new project management system (P3M). Until P3M is functional the project classification will be maintained in a spreadsheet format as an interface to P3M; this spreadsheet for project classification data entry is available at the ADB Portal.<sup>21</sup> The information in the spreadsheet, along with other information ADB generates, will go into an Operational Data Store (ODS) which is used to perform analysis and prepare reports. Reporting from PPIS and other systems (e.g. LFIS/TAIS/GFIS/PPR/TPR/LTAA) will still be possible, and information on projects approved after 2009 be available based on the 2004 project classification system. To reduce inconsistencies of data entry, the P3M system will automatically generate – for use by project staff - a comparison table for consistency check with the single entry sheet. The automatic downflow of data from the new system into PPIS (based on the 2004 classification system) will allow for tracking ADB's development contributions over the years in a consistent manner, as sector contributions can be monitored back to the late 1960s, and thematic contributions back to 2004. The new geographic and sovereign/non-sovereign markers as well as the partnership markers will be utilized only on new projects approved after 31 December 2008. Similarly, information on sector components will only be used in reports to present data on projects approved from 2009 onwards.

**Figure 5: Targeting Classification and Inclusive Growth and Development**



<sup>20</sup> ADB is currently revamping the PPIS by a new Project Processing and Portfolio Management system (called P3M) as part of ADB's Information System and Technology Solution phase 2 (ISTS II program). The IT implications of the new project classification scheme will provide a basis for the design and development of the new P3M system. All changes proposed are expected to be fully accommodated within the IT system. Final details are now being worked out with OIST and other relevant departments.

<sup>21</sup> To maintain historical consistency, some data of the new system (i.e. the main sector and main subsector, the thematic classification, and the targeting classification) will be automatically inputted from the single data entry sheet into the current PPIS system, until this system is discontinued. Operational departments will not need to manually input project classification data into PPIS, as these are automatically transferred (and updated) from the single data entry sheet.

17. **Historical consistency.** Most of the changes proposed are additions. Main sectors and themes remain much the same and no change is proposed to the targeting classification. At the subsector level, most changes are in the naming, but there are also some minor content changes, for which a reclassification will need to be done. Hence historical consistency can broadly be maintained in line with the 2004 project classification system for the sector and subsector, thematic and targeting classifications. However, the new system of component tracking in the sector classification is a deviation from the current approach of attributing only one sub-sector to one sector and allocating all the ADB financing to this one subsector. As a result, from 2009 onwards new information aggregated at the component level will not be consistent with previous data which attributed the full ADB financing to the main subsector.<sup>22</sup> In order to keep historical consistency, for the sector classification, the possibility of using both approaches will be maintained, i.e. (i) the attribution of the total sector financing to only one main sector and subsector as in the 2004 project classification system, and (ii) the attribution of project financing to various components which may represent different subsectors or even sectors. By preserving the 2004 approach under option (i), historical consistency will broadly be maintained in the sector classification.

18. **Reporting:** ADB generates various reports from the project classification system. In principle, this reporting can be continued and historical consistency can be maintained by using data combined from PPIS and the single data entry sheet linked to ODS (and in the future from single data entry/ODS and P3M). For sector reporting, while the new sector and subsector nomenclature will be used, both the 2004 system (one sector can have only one subsector) as well as the 2009 system (based on component tracking) can be used. For reports with historical comparisons and for procurement related reports sector information will be mainly presented in the logic of the 2004 system. However, the new system allows for a more elaborated reporting on Strategy 2020 and other development priorities. Especially the new component tracking under sectors can be used to show in greater detail ADB's financing priorities. For more future oriented reporting (such as ADB's Work Plan and Budget Framework or for specific information) and to report in more detail against *Strategy 2020* and other new reporting requirements, the logic of the 2009 system (component tracking) can be used.

19. **Schedule of Implementation:** The new project classification will be effective from 1 January 2009 onwards. However, certain adjustments to existing IT systems are required before the new project classification can be implemented. These adjustments will be in place by end February 2009. As it shall capture all projects approved starting in 2009, some project processed in 2008 but to be approved in 2009 and projects or concept papers approved since 1 January 2009 will need to be newly classified by the respective user departments (RSDD will assist in this). The new staff instructions will replace the 2004 Staff Instructions on Project Classification. A guidance note further explaining the new classification system and detailed implementation arrangements, including solutions to IT-related issues has been prepared (<http://www.adb.org/poverty/tools-innovations.asp>) and will be posted on the ADB Portal in February 2009. All information and respective templates on the new project classification will be available at the ADB Portal. RSDD's Poverty Unit will address further queries on using the new system. Further training will be offered and briefing sessions will be conducted in all user departments.

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<sup>22</sup> In selective cases, some minor reclassifications may be necessary. Such adjustments can be implemented by RSDD with the help of project officers.

## Rationale for Change<sup>1</sup>

1. Experience with the 2004 classification system has revealed several shortcomings, reported at various times by staff and in Appendix 4 of the Special Evaluation Study on LTSF I Implementation, prepared by ADB's Operations Evaluation Department in December 2007.<sup>2</sup> The areas of the 2004 system identified for revisions are:

- (i) Consistent underreporting especially of themes. For instance, an analysis of the 2004-2006 thematic classification of projects showed that ADB contributes only 8% of its lending to environmental issues and 3% to regional cooperation. However, this does not accurately reflect ADB's actual portfolio for this period.
- (ii) Inconsistent tracking of ADB's contribution to development themes. It restricts ADB's monitoring of its contributions to thematic priorities to a maximum of 3 themes per project. And it does not facilitate quantification of the extent of financing devoted to specific thematic priorities. As a result some thematic contributions are underreported (such as private sector development, regional cooperation, environmental sustainability and gender) while others may be over-reported (such as economic growth).<sup>3</sup>
- (iii) Non-reflection of new sector priorities such as energy efficiency and integrated urban development. It also does not provide sufficient opportunities to aggregate actual sub-sector outcomes.
- (iv) The 2004 system does not also reflect in detail the multidimensional sector impacts of some projects. For example, more recent urban development projects are a combination of water, sanitation, shelter, transport and capacity building investments. Currently such projects are often classified under the water and sanitation sector or as multisector projects and their contributions to impacts in other sectors are not monitored.
- (v) While the system summarizes ADB's financial contributions to sector and thematic impacts within each project, it does not provide information relating to financial contributions from other partners within the same projects.
- (vi) The system lacks the ability to disaggregate the geographic impacts of a project such as its contributions to urban, rural and regional areas.
- (vii) The system does not allow for reporting on whether a particular ADB loan is sovereign guaranteed or non-sovereign (or a mixture of both).
- (viii) There is scope for simplification, clarification and enhanced user friendliness of the systems that capture information of the 2004 project classification
- (ix) There are inconsistencies between project classification in the approved documents and the data entry in the ADB's electronic data management systems.

2. The new classification system makes the following changes:

- (i) clearly reflect private sector activities and partnerships by adding sovereign and non-sovereign financing markers and indicating partnerships;

<sup>1</sup> Further information on the rationale of the project classification is available through the final report of the working group and the Guidance Note helping staff to implement the new classification system. Both are available at <http://www.adb.org/poverty/tools-innovations.asp>.

<sup>2</sup> See: ADB (Dec 2008). Long-Term Strategic Framework I: Lessons from Implementation (2001-2006). <http://www.oecd.org/dataoecd/59/32/39927257.pdf>

<sup>3</sup> While all other issues are addressed by the new system, weaknesses in the thematic classification are addressed less substantively than in earlier recommendations of the project classification review working group.

- (ii) add a geographical location marker to enable tracking on urban, rural, national and regional basis;
- (iii) rationalization in the sector and subsector classification, adding terminologies to the subsector classification, and clarifying multisector contribution by introducing subsector tracking of ADB financial inputs;
- (iv) revising and adding some sub-themes (e.g. disaster management and prevention, and climate change); and making some adjustments in the prioritization of thematic impact contributions<sup>1</sup>; and
- (v) enhance the consistency and quality of inputs into the IT system and simplify inputting at the operational level by using a single overview data entry sheet.

Comparing ADB's 2004 and 2009 Project Classification Systems		
	2004 system	2009 system
Sector marker	Tracking of the main ADB financed sector only. Identifying only one subsector per sector	Tracking of the main ADB financed sector plus quantifying different project components in subsectors which may belong to other sectors. Adding of new subsectors and further rationalization and simplifications of sectors and subsectors. Introducing of key activity areas.
Thematic marker	Ticking up to 3 (out of 8) thematic areas, at least one theme has to reflect the 3 pillars of ADB's Poverty Reduction Strategy. Only one subtheme specification per thematic area	No change in the thematic areas. Continue with the system of ticking (the proposed system of weighting impact contribution and quantifying them in % in order to attribute it back to ADB financial inputs was not followed). Choosing up to 4 (out of 8) thematic areas. At least one theme has to reflect the 3 pillars (4 thematic areas) of ADB's <i>Strategy 2020</i> . The primary thematic contribution is identified. Multiple sub-theme specifications per thematic area(s). Adding of a few new subthemes and further rationalization and simplifications.
Targeting marker	Distinguishing between general intervention and targeted intervention addressing geographical, environmental and social (MDG related), or income poverty at household level	No system change. Explaining targeting better in the context of inclusive growth.
Location marker	None	New. Tracking weighted and quantifiable outcome contribution to urban, rural, national and regional spatial dimensions.
Partnership marker	None	New. Tracking total project finance and its components. Identifying development partners' (including co-financing), government, and private sector financing. Tracking different financial modalities of ADB inputs.
Tracking various financial products of a project	None	New. Ability to report jointly on sovereign and non-sovereign financing.
Tracking all stages of project development	Was not consistently applied.No information about indicative planning.	Tracking project classification at project planning (CSP/COBP) and project processing (concept clearance, MRM/credit committee, SRC, RRP approval) stages, and when major change in scope occur.
Single entry sheet	Not existent. Complicated multiple data entry through PPIIS, done mostly by project analysts.	Simplification through a single entry sheet of all project classification data, allowing for easy and consistent data entry through the project officer. Interface to P3M, allowing for easier processing of data and more consistent reporting.
Reporting opportunities	Complicated. Inconsistencies observed.	Easier aggregation for different reporting requirements. Possibility to track <i>Strategy 2020</i> priorities and other reporting requirements

<sup>1</sup> In the 2009 system, one primary impact has to be chosen. Furthermore, addressing climate change – under environmental impact - will be further specified as whether the project contributes to climate change mitigation or adaptation.

## Strategy 2020 and other Reporting Requirements

*Strategy 2020* priorities are captured in the new classification system as illustrated in the figure below. In particular:

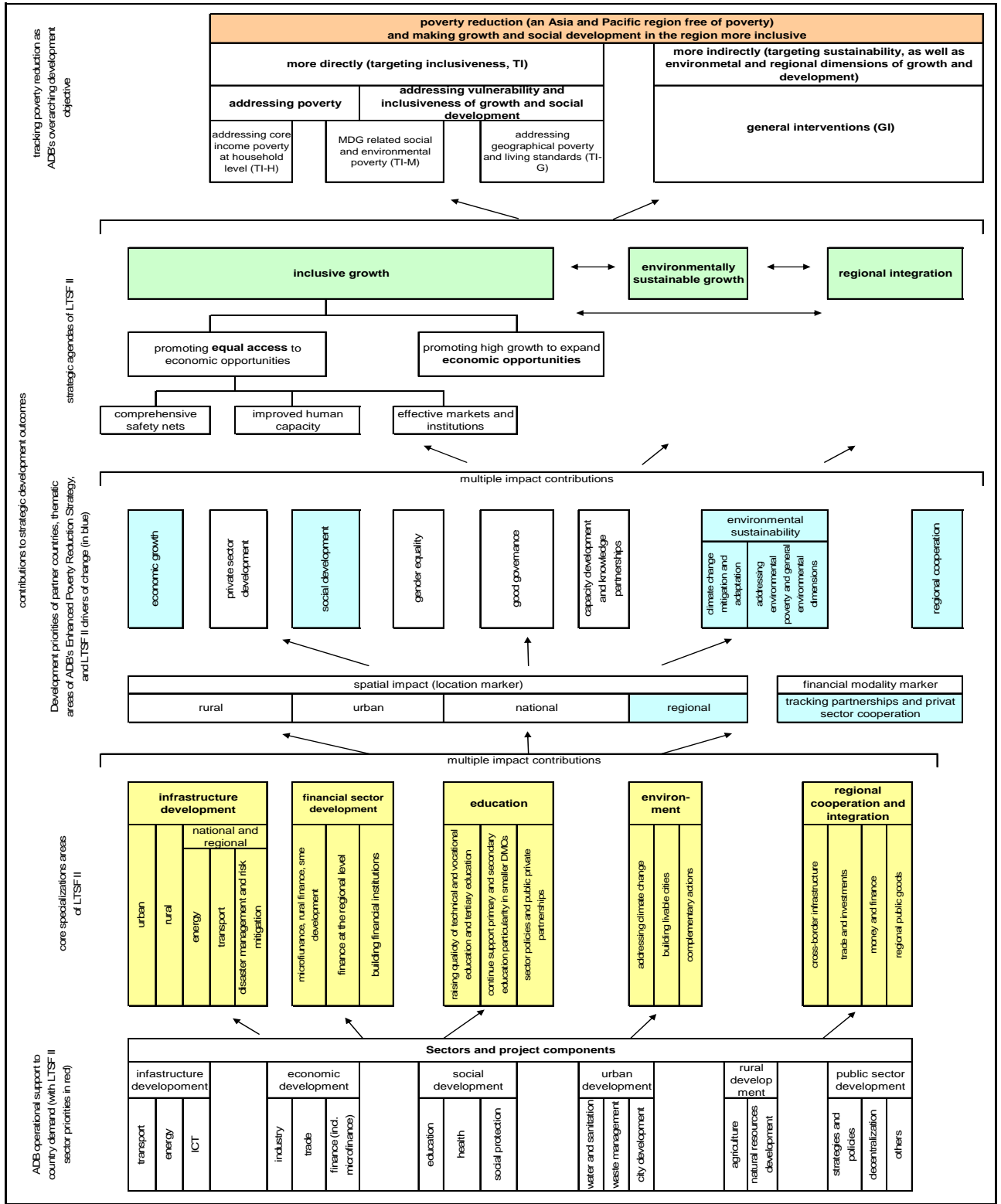
- (i) The sovereign- non sovereign marker helps tracking private sector contributions. Projects supporting public private partnerships can be tracked under the subtheme marker.
- (ii) The location marker will differentiate regional cooperation impacts from local and national development impacts. It will help tracking the location impact of a project by distinguishing between rural, urban and national impact on the one side, and regional impacts on the other.<sup>1</sup>
- (iii) Sub-sector tracking (of project components in different sectors) would improve monitoring and capture ADB's contribution to core sectors.
- (iv) *Strategy 2020* widens the poverty reduction agenda to address vulnerability (\$2 poverty line), equity and the inclusiveness of growth and social development in Asia and Pacific. While the enhanced Poverty Reduction Strategy of 2004 already implies distinguishing between support for poverty reduction and vulnerability the new classification system makes this more explicit, explaining TI-M and TI-G classification under an inclusive growth approach. It also clarifies that interventions to target inclusiveness (TI) go far beyond projects targeting core income poverty at household level. This is fully consistent also with the strategic thrust under *Strategy 2020*.
- (v) Aspects of the Paris Agenda can be tracked under the subthemes of capacity building and governance. Furthermore, ADB's contribution to address climate change impact can be tracked through the subtheme and sector classification. In addition, climate change and disaster management have been incorporated as new subthemes; subsectors have been adjusted to reflect new developments (e.g. energy efficiency). Finally, both the financial modality marker as well as some subthemes under governance and capacity building, track partnership development and contribution to the Paris agenda.<sup>2</sup>

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<sup>1</sup> Contributions to regional integration (geographical areas in which project impact occur) and regional cooperation (as a thematic objective) will however be different.

<sup>2</sup> However, continuing tracking thematic contributions by ticking (instead of introducing a weighted and quantifiable system) does not allow for harmonizing ADB gender, environmental and other reporting with the project classification system. Also, reporting ADB's financial contribution to the WTO agenda and other strategic development goals will be difficult.

## Monitoring Strategy 2020 Priorities and other International Reporting Requirements through the Project Classification System



## New Sector Markers (with Subsectors and Key Activity Areas)

Sector Classification		
sector	subsectors	key activity areas
agriculture and natural resources	agricultural production and markets	farm production enhancement, crop diversification, high-value agricultural production, farming systems development, extension and farm advisory services, post harvest facilities, farmer credit, agricultural research, market infrastructure, crop and non-crop value chain infrastructure and investments, agro-processing, food safety, agrobusiness
	irrigation, drainage, and flood protection water-based natural resource management - land-based natural resource management fishery forestry	surface irrigation, groundwater irrigation, irrigation systems management, rain water harvesting, drainage improvement, land improvement, water user associations, flood protection, river bank protection, flood-risk management water system development and conservations, marine ecosystem and coastal resources, wetland biodiversity
livestock agriculture and rural sector development	livestock	sustainable land management, conservation agriculture, ecosystem management, biodiversity, dryland and pastureland development
	agriculture and rural sector development	marine, coastal, inland, fishery credit, aquaculture afforestation, timber forest, non-timber, processing of forest products, forest management, forestry finance, upland area development and terrestrial ecosystem dairy and milk, animal husbandry, small livestock, animal farming, veterinarian services, livestock credit rural infrastructure (like roads, drinking water, electricity), rural enterprise development, livelihood programs and employment generation, survey and mapping, area development, and community-based rural development, research, cadastral survey and land classification, agricultural sector development and policies,
education	pre-primary and basic education	pre-school and kindergarten, school rehabilitation and building, curriculum development, equipment and education materials, scholarships, teacher training, textbook and school supplies, support to disadvantaged groups, system reforms and policies
	upper secondary education	school rehabilitation and building, curriculum development, equipment and education materials, scholarships, support to disadvantaged groups, teacher training, textbook and education materials, system reforms and policies
	tertiary and higher education	universities, specialized schools and institutions, science development, teacher services and training, scholarships, support to disadvantaged groups, system reforms and policies
	technical education and vocational skills training non-formal education	vocational training, formal skills development, informal skills and technical training, other labor market relevant education, scholarships, support to disadvantaged groups, system reforms and policies adult literacy, livelihood directly related to non-formal education, support to disadvantaged groups, system reforms and policies
	education sector development	<u>sectorwide reforms and policies, integrated education development, education sector finance</u>
energy	conventional energy	oil and gas exploration, oil and gas processing and storage, liquified gas, hydrocarbon, thermal power, combined cycle, diesel power, safeguards and standards
	large hydropower renewable energy	large dams, rehabilitation work, dam safety, rainshed development, adaptation works solar, small hydro (20 MW and below), wind, biomass and biogas, geothermal, biofuels, landfill gas and waste to energy and cogeneration, subsector development and other renewables
	electricity transmission and distribution pipelines energy utility services	electrical power transmission, electrical power distribution, rural electrification, retail competition, distribution loss reduction gas transmission, oil transmission, other liquid fuels, storage liquification and compression of natural gas district heating, piped gas supply, combined heat and power plant, household energy, ESCO development, off-grid electrification
	energy efficiency and conservation	energy efficiency, emission trading and CDM, cleaner production (industry), addressing energy pollution (e.g. oil fields clean up), use of cleaner coal technologies including coal liquid, fuel switching and other clean energies, upgrading power plants, methane from coal mines
	energy sector development	policy and regulation, tariffs and pricing, PPP and privatization, energy trade, sector-wide approaches, unbundling and market promotions
finance	banking systems money and capital markets investment funds housing finance microfinance sme finance and leasing trade finance insurance and contractual savings finance sector development	central banks and payment systems, bank restructuring, commercial banks, rural banks, deposit insurance, credit scoring money markets, debt markets, equity markets, securities, stock exchange infrastructure, clean energy, urban services, social services, sme finance, others mortgage markets and services, real estate finance, housing finance for low-income groups and the poor microfinance institutional development, credit cooperatives and credit unions, non-formal microfinance institutions sme finance, leasing long term (export credits), short-term (letter of intents) pensions, insurance, contractual savings financial sector policies and strategies
	health programs	HIV/AIDS and other communicable diseases, women's health, child health, school health, lifestyle related and non-communicable diseases, environmental health and healthy cities
	health systems	primary health care including village health care and first referral, human resources development, health services management, public-private partnerships and privatization, health regulations and legal issues (including TRIPs), pharmaceutical regulation (incl. drug safety)
	health finance nutrition early childhood development social protection	health sector finance, health insurance micronutrients and food fortification, breastfeeding and complementary feeding, policies and regulations focus on mother and child health, policies and regulations, social insurance (other than pension and health), protection of special groups (including indigenous people), social assistance and welfare, micro- and area based social programs, women and child trafficking, addressing involuntary resettlement, policies and reforms as well as sector-wide programs
	industry and trade	mining, petrochemicals, manufacturing, industrial pollution, development of new technologies and production, sectorwide reforms and policy frameworks direct assistance to smes, cottage household and artisan industry, sme development and policies (sme finance is under finance and housing is under municipal services) internal trade, external trade, tourism, other services sectors, trade policies
water supply and other municipal infrastructure and services	larger industries	drinking water systems, sanitation systems, industrial waste water, waste water management, operations and maintenance, flood protection for urban habitats, tariff policies and sector development
	small-scale industry trade and services industry and trade sector development	garbage collection, waste transportation, waste disposal, informal waste collections in slums, special hazardous waste, subsector development housing construction, low-cost housing, shelter upgrading, community buildings, subsector development municipal safety (firestations etc.), renovation and protection of cultural heritage, others and subsector development urban governance, urban planning, urban environmental policies
public sector management	economic management and management of public affairs public expenditure and fiscal management	policy and strategy formulation, reforms and restructuring, macroeconomic management, statistics, privatization, corporate governance, aid effectiveness and aid coordination public expenditure and fiscal management, revenue mobilization, accounting and auditing, anti-money laundering
	public administration decentralization	civil service reforms and management, regional institutions, civil society participation in national affairs decentralization and devolution, urban planning, NGO participation in decentralized projects, local government reforms (village and district levels)
	law and judiciary	parliamentary system and legislation, judiciary system, legal and judiciary reforms
	air transport water transport rail transport road transport urban transport transport management and policies ICT	airports, air carrier, air navigation and security, air transport policies and reforms ports and terminal facilities, river stations and water way ports, small landings, shipping, waterways, intermodal terminals, maritime and waterway safety, water transport policies and reforms rolling stock (locomotives, waggons, couches etc), manent way infrastructure (track and signaling), railway stations, railway safety, rail transport policies and reforms expressways, national roads, provincial roads, district and rural roads, road transport services, road safety, road maintenance, road transport policies and reforms public transport, traffic management and urban traffic control, non-motorized traffic, parking and terminals, safety, urban transport planning and reforms sector-wide management and reforms, public-private partnerships, environmental concerns in the transports ector, multi-modal transport facilities, telephone and cellphone networks, cable networks, media, postal services, T industry development and entrepreneurship, ICT skills development, ICT for improving efficiency in other sectors (e.g. e-learning, e-finance), policy and institutional reforms
Multi-sector	see subsectors above	see key activity areas above

### New Theme and Subtheme Markers<sup>1</sup>

Themes and Subthemes in the 2009 Classification System			
<b>Economic growth (GRO)</b> promoting macro-economic stability promoting economic efficiency and enabling business environment widening access to markets and economic opportunities knowledge, science, and technological capacities			
<b>Social development (SOD)</b> human development indigenous people other vulnerable groups disaster risk management			
<b>Environmental sustainability (ENV)</b> natural resources conservation urban environmental improvement eco-efficiency global and regional transboundary environmental concerns environmental policy and legislation			
<b>Climate Change:</b> If the project promotes environmental sustainability or disaster risk management, indicate whether and how it addresses climate change			
yes, the project addresses climate change through		no	
mitigation		adaptation	
weight (H,M,L)		<input checked="" type="checkbox"/>	
%		<input type="checkbox"/>	
<b>Regional cooperation and integration (RCI)</b> crossborder infrastructure trade and investments money and finance other regional public goods			
<b>Gender equity (GEN)</b> gender equity in (human) capabilities gender equity in (economic) opportunities gender equity in empowerment and rights			
<b>Private sector development (PSD)</b> policy reforms private sector investment public private partnerships privatization			
<b>Governance (GOV)</b> economic and financial governance public administration (national and decentralized) civil society participation law and judiciary anticorruption			
<b>Capacity development (CAD)</b> institutional development organizational development client relations, network, and partnership development			

<sup>1</sup> Staff guidelines explain the subthemes further.

## Comparing with the 2004 Classification: Themes and Subthemes<sup>1</sup>

<b>Themes and Subthemes in the 2009 Classification System</b>			
<b>Economic growth (GRO)</b> promoting macroeconomic stability promoting economic efficiency and enabling business environment widening access to markets and economic opportunities knowledge, science, and technological capacities			
<b>Social development (SOD)</b> human development indigenous people other vulnerable groups disaster risk management			
<b>Climate Change:</b> If the project promotes environmental sustainability or disaster risk management, indicate whether and how it addresses climate change			
yes, the project addresses climate change through			
mitigation		adaptation	
no		<input checked="" type="checkbox"/>	
weight (H,M,L)		%	
<b>Environmental sustainability (ENV)</b> natural resources conservation urban environmental improvement eco-efficiency global and regional transboundary environmental concerns environmental policy and legislation			
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<b>Capacity development (CAD)</b> institutional development organizational development client relations, network, and partnership development			

<sup>1</sup> The Guiding Notes explain the subthemes further.

## **Comparing with the 2004 Classification: Sectors and Subsectors**

2004 system (single sector and subsector attribution)		2009 system (single sector, multiple subsectors, key activity areas)		
sector	subsectors	sector	subsectors	key activity areas
agriculture and natural resources	agriculture production, agroprocessing, agrobusiness irrigation and drainage environment and biodiversity fishery forestry livestock water resources management agriculture sector development	agriculture and natural resources	agricultural production and markets irrigation, drainage, and flood protection land-based natural resources management fishery forestry livestock water-based natural resources management agriculture and rural sector development	
education	basic education senior secondary general education tertiary education technical education, vocational training, and skills development non-formal education education sector development	education	pre-primary and basic education upper secondary education tertiary and higher education technical education and vocational skills training non-formal education education sector development	
energy	conventional energy generation (other than hydropower) hydropower generation renewable energy generation transmission and distribution  energy sector development	energy	conventional energy large hydropower renewable energy electricity transmission and distribution pipelines energy utility services energy efficiency and conservation energy sector development	
finance	banking systems capital markets and funds  housing finance microfinance  pension, insurance, social security, and contractual savings finance sector development	finance	banking systems money and capital markets investment funds housing finance microfinance finance and leasing to small and medium enterprises trade finance insurance and contractual savings finance sector development	
health, nutrition and social protection	health programs health systems  nutrition early childhood development social protection other social services and social development	health and social protection	health programs health systems health finance nutrition early childhood development social protection	
industry and trade	industry housing construction small- and medium scale industry trade sector development	industry and trade	larger industries  small and medium enterprise development trade and services industry and trade sector development	
water supply, sanitation, and waste management	water supply and sanitation waste management  integrated	water supply and other municipal infrastructure and services	water supply and sanitation waste management slum upgrading and housing other municipal services urban sector development	
law, economic management, and public policy	national government administration  public finance and expenditure management economic management subnational government administration law and judiciary	public sector management	public administration  public expenditure and fiscal management economic and public affairs management decentralization law and judiciary	
transport and communications	civil aviation ports, waterways, and shipping railways roads and highways  multimodal transport and sector development telecommunications and communications	transport and ICT	air transport water transport rail transport road transport urban transport transport management and policies information and communication technologies	
Multisector (2-3 sectors)		Multisector	see subsectors above	

see staff guidelines