

EXPENDITURE ELIGIBILITY IN PROJECT FINANCE

Item and Reference	World Bank Old Policy	World Bank New Policy	ADB Current Policy	Proposed ADB Policy
<p>1. Cost sharing</p> <p><i>Operations Manual (OM) section H3/BP, issued on 23 December 2004</i></p>	<p>World Bank sets cost sharing ceilings for each borrowing country, applied to World Bank's rolling 3-year investment lending program in that country. The ceiling is a function of the country's ability to mobilize domestic and foreign financial resources, and thus is based on its per capita income. For individual projects, World Bank normally expects the borrower to demonstrate commitment to the project by making a 10% minimum contribution to project cost net of taxes and duties (with some exceptions, such as when government finances are seriously strained).</p>	<p>World Bank supports activities for which the borrower has demonstrated ownership and commitment by, among other things, providing funding from its own resources. World Bank judges the adequacy of this funding in the context of the borrower's overall development program and its funding for the sectors on which World Bank assistance would focus in particular, and determines the limit on the proportion of individual project costs that may be financed by the country. The actual proportion to be financed by World Bank in each project, within the limit for the country, may vary depending on project-specific and other considerations. Staff would receive guidance in determining country and project cost sharing arrangements.</p>	<p>The Asian Development Bank (ADB) sets the maximum percentages of project costs that may be financed by cost sharing limits in each of four developing member country (DMC) groups. This policy specifies that DMCs will be expected to bear a reasonable proportion of project financing as a mark of their commitment to and ownership of each project. These ADB financing limits range from 65% for the most developed DMCs up to 80% for the least developed DMC group. Notwithstanding these limits, ADB may finance the total direct and indirect foreign exchange cost of a project, even if the result in ADB financing exceeds the applicable cost sharing limit for that DMC.</p>	<p>ADB will determine specific country ceilings based on the aggregate portfolio of ADB operations projected and agreed with the DMC over the Country Strategy and Program (CSP) period. The context will be the DMC's overall public sector investment program. Commitment to and ownership of this program and the interventions agreed under the ADB portfolio also will be key guiding principles.</p> <p>The country ceiling will be established based on the special macroeconomic assessments, including the country's (i) existing and projected fiscal stance, (ii) fiscal sustainability, (iii) quality of the public sector investment program and its specific financing plan, (iv) quality of the public financial management system, (v) quality of the mechanisms for budgeting and its implementation, (vi) specific tax regime, (vii) general governance considerations in relation to fiscal and other matters, and (viii) the quality and soundness of fiduciary oversight arrangements. The assessments will also cover</p>

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				<p>debt sustainability, the exchange rate regime, the balance of payments and other relevant macroeconomic indicators.</p> <p>The proportion to be financed by ADB in the case of each project under the portfolio will vary depending on project-specific, sector, and client considerations—following the concept of sound banking principles.</p> <p>Staff instructions will provide guidance on working with the new policy framework.</p>
<p>2. Local cost financing</p> <p>OM section H3/BP, issued on 23 December 2004</p>	<p>World Bank’s Articles of Agreement provide that World Bank normally lends only for foreign exchange costs. The Articles allow financing of local costs in the following exceptional circumstances: (i) when the project gives rise indirectly to an increased need for foreign exchange, and (ii) when the borrower cannot raise the local currency required for the purposes of the loan on reasonable terms. The executive directors specifically considered the limits set out by the Article provisions in 1949, 1964, and 1968, and interpreted them broadly, to permit local cost financing when the financing of foreign costs alone would not permit World Bank to assist in the financing of priority projects. Operational Procedure</p>	<p>World Bank may finance local expenditures when it is satisfied that (i) financing requirements for the development program of the country would exceed the public sector’s own resources (e.g., from tax and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable World Bank to assist in the financing of such projects.</p>	<p>Within each DMC’s cost sharing limit, ADB may finance local costs above the direct and indirect foreign exchange costs of projects. Such local cost financing is based on two main conditions: (i) the amount is considered reasonable, and (ii) not financing such costs would unduly strain the DMC’s balance of payments.</p>	<p>Project investment plans will not distinguish between currency denominations of project components. Project financing plans will be structured around the concept of sound banking principles, and will thus take into account the cost recovery profile of each transaction and its sustainability capabilities. Financing plans will distinguish between the finance provided by ADB, the government, and others. The financing plan also will distinguish between finance to be provided in foreign and local currencies.</p>

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	(OP) 6.30 lists some other specific cases for local cost financing.			
<p>3. Taxes and duties</p> <p>OM section H3/BP, issued on 23 December 2004</p> <p>OM section J6/OP issued on 29 October 2003</p>	<p>General Conditions Applicable to Loan and Guarantee Agreements (section 5.08) provide that World Bank does not finance customs duties or taxes imposed by the borrower (the only exception is taxes associated with consultants' fees and project implementation unit (PIU) staff salaries financed by trust funds for which the funding agencies have agreed to finance taxes).</p>	<p>World Bank may finance the reasonable costs of taxes and duties associated with project expenditures.</p> <p>Staff would receive guidance on determining reasonable costs of taxes and duties.</p>	<p>Indirect taxes (including import duties, value-added taxes, and sales taxes) levied on specific goods, works, and services are ineligible for ADB financing.</p> <p>Where indirect taxes are not specifically shown, such as import duties relative to indirect foreign costs, ADB estimates such taxes (for example, 20% of such costs) before determining the level of expenditure eligible for ADB financing.</p> <p>Under international competitive bidding procedures, ADB may finance the full ex works price of a contract if the winning firm offers domestic goods, including taxes and duties. OM section H3/BP, issued on 29 October 2003.</p>	<p>ADB may finance the reasonable cost of taxes and duties associated with project expenditures. Transparency, competitive neutrality, and sustainability arrangements will be taken into account.</p> <p>Staff instructions will provide guidance on the definition of the term "reasonable" cost of taxes and duties, and the assessments required.</p>

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4. Recurrent costs	<p>Recurrent costs are eligible for financing if (i) the country has a serious shortage of budget resources that makes it unlikely to be able to finance recurrent expenditures for the project; and (ii) a specific recurrent expenditure is crucial to the success the project, and World Bank financing is desirable to ensure timely availability of funds. Recurrent costs are normally financed on a declining basis, and World Bank financing should not exceed 25% in the final year.</p>	<p>World Bank may finance recurrent expenditures. In determining whether and to what extent to finance recurrent expenditures, World Bank will consider the impact on fiscal and debt sustainability (including the country's commitment and ability to provide continued financing for recurrent expenditures after World Bank financing is completed) at the appropriate levels, including that of the project entity or entities.</p> <p>Staff would receive guidance on how to take into account the impact on fiscal and debt sustainability at the appropriate levels.</p>	<p>Eligible for financing within the cost sharing limitations (item 1 above) and, where applicable, the local currency financing limitations (item 2 above).</p>	<p>No policy change required, although current restrictive practices will be reexamined in the context of individual projects. Fiscal and debt sustainability assessments will be carried out in the context of the more recurrent expenditure-driven projects. ADB financing of recurrent expenditures is limited to funding requirements during the project implementation period.</p> <p>Another cap (and exit strategy) on the financing of recurrent expenditures arises out of the concept of sound banking principles. ADB and others can only finance what a particular project can absorb. The Credit Risk Management Unit will screen and evaluate the financial structure of public and private sector projects.</p>
5. Land OM section H3/BP, issued on 23 December 2004	<p>OP 12.00 states that the cost of land is not eligible for World Bank financing. OP 4.12 states that World Bank does not disburse against the cost of land (including compensation for land acquisition)</p>	<p>Remove from OP 12.00 and OP 4.12 the policy prohibitions on financing land and cash compensation under resettlement plans.</p> <p>Staff would receive guidance on determining whether and to what extent World Bank may finance land. Management is reviewing the desirability of expanding the scope beyond the current pilot scheme in light of operational needs and</p>	<p>Costs of land acquisition and payments of rights-of-way are not eligible for ADB financing.</p>	<p>ADB will finance land acquisition and payments for rights-of-way. A cautious approach will be pursued in financing land acquisition. Staff will be issued instructions on the type of assessments needed upfront.</p>

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		experience gained. Management intends to pursue a cautious approach to financing land, and to continue to have all proposals to finance land reviewed by World Bankwide Land Committee.		
<p>6. Local transportation and insurance</p> <p>OM section J6/BP, issued on 29 October 2003.</p> <p>OM section H3/BP, issued on 23 December 2004</p>	Local transportation and insurance costs are not eligible for World Bank financing (except as part of foreign shipments), unless the project legal documents provide for the financing of local costs. These costs, however, may be financed when a supplier includes them in its bid for goods or works.	Clarify that financing local transportation and insurance costs is not intended to be restricted, and that such costs are eligible for World Bank financing.	<p>As foreign costs, insurance and freight (CIF) are eligible expenditures (provided that the goods are produced in and supplied from a member country) since such insurance and freight services are treated as ancillary or an insignificant part of the contract for the supply of goods. However, where goods are shipped free on board and ADB is asked to finance insurance and freight arranged by the purchaser under a separate contract, ADB also must be satisfied that those services are supplied from member countries.</p> <p>Local transportation is eligible subject to the limitations on local currency financing (item 2 above)</p> <p>Insurance is ineligible if it is paid in local currency or is self-insurance, unless provided for in the Loan Agreement.</p>	Insurance will be eligible for ADB financing. Local transportation is already eligible for financing. Only bona fide values will be accepted.
7. Late payment penalties	Late payment penalties imposed by suppliers (unless incurred in connection with a disputed payment that has been arbitrated) are not eligible for World Bank financing.	<p>Remove the prohibition on financing late payment penalties imposed by suppliers.</p> <p>Staff would receive guidance on circumstances in which these</p>	Under ADB practice, late payments are not eligible for ADB financing.	Prohibition on ADB financing of late penalties imposed by suppliers where they form part of the project costs will be removed. Only bona fide cases will be permissible.

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		costs could be financed.		Staff will assess in detail the background and rationale for the inclusion of the item.
8. Severance pay	World Bank may finance severance pay in public enterprise reform operations that are expected to result in an increase in productivity after restructuring, with the assessment of impact on productivity set out in the project documentation. The Operational Memorandum provides guidance on carrying out economic analysis and assessing social impact, as well as on addressing risks specific to financing severance payments, such as adverse selection, overpayment, and moral hazard.	Severance pay would remain eligible for World Bank financing. The contents of the Operational Memorandum would be reissued as guidance to staff to assist in determining whether, to what extent, and how, to finance severance pay.	Severance payments are eligible for ADB financing subject to local currency financing (item 2 above).	No change in ADB policy required. Severance payments are eligible under the existing policy framework.
9. Food	Food for human consumption is not eligible for World Bank financing, except under some circumstances set out in the Operational Memorandum. Bank financing is provided on a declining basis.	The contents of the Operational Memorandum would be reissued as guidance to staff to assist in determining whether, to what extent, and how, to finance food expenditures. The requirement for declining disbursements would be removed in the context of agreed cost sharing arrangements at the country level.	Under current ADB practice, food for human consumption is not eligible for financing.	Food will be eligible for ADB financing.
10. Interest during construction (IDC) OM section H3/BP, issued on 23 December 2004	World Bank does not finance IDC on or in connection with International Development Association credits or any loan made by another lender. World Bank may finance IDC from the proceeds of an International Bank for Reconstruction and Development loan if the beneficiary is a financially autonomous entity whose cash flow requires such	Remove the policy restriction on financing IDC. Staff would receive guidance on determining whether and to what extent World Bank may finance these costs.	Interest and financial charges other than those on ADB loans are not eligible for ADB financing.	Policy restriction on IDC will be removed. Market rates will be followed. Only bona fide values will be considered.

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	financing.			
11. Bank charges OM section H3/BP, issued on 23 December 2004	Operating charges on special accounts are eligible for World Bank financing only if they are provided in the definition of incremental operating costs in the project legal agreements.	Clarify that financing of charges associated with bank accounts maintained in connection with the project are not intended to be restricted, and such charges are eligible for World Bank financing.	Bank charges other than those on ADB loans are ineligible for ADB financing.	Policy restriction on financing bank charges will be removed. Only bona fide cases will be considered.
12. Retroactive financing OM section H4/BP, issued on 29 October 2003	In exceptional circumstances, to facilitate the prompt execution of World Bank-financed operations, World Bank allows retroactive financing of payments that do not exceed 10% of the loan amount for investment loans (20% for adjustment loans), and made after project identification begins and within 12 months (4 months before the expected date of loan signing).	Amend policy to allow World Bank to finance payments made before the date of the Loan Agreement, which do not exceed 20% of the loan amount, when such payments were (i) incurred in connection with activities included in the project description and associated with items procured in accordance with applicable World Bank procurement procedures, and (ii) made not more than 12 months before the expected date of signing of the Loan Agreement. In extraordinary circumstances, such as in response to emergency conditions, exceptions to these limits may be approved by management. Proposals for retroactive financing, including any exceptions to normal limits for such financing, would be spelled out in the project appraisal document.	Retroactive financing refers to ADB financing of project expenditures incurred and paid for by the borrower before the date the related Loan Agreement becomes effective. Retroactive financing is not permitted unless specifically agreed upon by ADB and the borrower, and the procurement is undertaken in accordance with ADB procurement guidelines. Retroactive financing must be handled restrictively and applied under special circumstances. Within this context, retroactive financing for a project or sector loan is normally for 12 months of eligibility and for up to 10% of the loan amount (exceptionally up to 18 months and 15% of the loan amount). For program loans, or special or emergency assistance, the period of eligibility is normally for 6 months and up to 20% of the loan amount (exceptionally up to 9 months and 30% of the loan amount).	ADB will be allowed to finance payments made before the date of the Loan Agreement, provided these do not exceed 20% of the loan amount, when such payments were (i) incurred in connection with activities included in the project description, and (ii) associated with items procured in accordance with applicable ADB procurement procedures 12 months before the expected date of signing of the Loan Agreement. Some expenditures required under ADB-funded projects are made earlier than 12 months before loans are signed. In view of this, and to ensure an earlier and more active involvement by governments in project preparation, the 12-month period should be considered on a case-by-case basis, provided it can be demonstrated that the expenditures are bona fide, were incurred for proper

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				reasons in a transparent manner over a reasonable period of time. The RRP will provide a full account and justification for deviations from the 12-month period.
13. Secondhand goods	Procurement of secondhand goods is eligible for World Bank financing only under the following circumstances: (i) a surplus (in suitable quantity and quality) of the type of goods required is available from enough sources to ensure competitive bidding, and (ii) the procurement of new goods would result in excessive costs due to lack of economies of scale.	The contents of the current Operational Policy would be reissued as guidance to staff to assist in determining whether to finance secondhand goods.	ADB policy on the financing of secondhand goods is unclear.	Financing of secondhand goods will be permissible. Arrangements for this financing will be set out in the OM and in staff instructions. Valuations will be verified by independent experts.
14. Leased assets	World Bank does not have a policy statement on financing leased assets.	Since leasing is a common way to finance the acquisition of capital assets, it is proposed to clarify that these costs are eligible for World Bank financing. Staff would receive guidance.	ADB does not have a specific policy on financing leased assets.	Leased assets will be eligible for ADB finance. Staff instructions will specify the type of assessments needed in respect of this item.
15. Resettlement assistance (including cash compensation) OM section F2/BP, issued on 29 October 2003	World Bank does not disburse against cash compensation and other resettlement assistance paid in cash.	Remove the prohibition on financing cash compensation and other resettlement assistance paid in cash.	Relocation and rehabilitation may be eligible for ADB loan financing, if requested, to ensure timely availability of the required resources and to ensure compliance with involuntary resettlement procedures during implementation.	No ADB policy change required. Cash compensation and other resettlement assistance paid in cash will qualify for ADB financing.
16. Imprest and special accounts	Special accounts are normally maintained in a fully convertible and stable currency. World Bank may	In countries with freely convertible currencies, special accounts may be held in the currency of the	ADB practice is to require the currency of the imprest account to be indicated in the	DMCs with freely convertible currencies will be allowed to open imprest accounts in

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Loan Disbursement Handbook, January 2001, section 10.0, Imprest Fund Procedures	agree to a local currency special account when the country's currency is stable and fully convertible or when (i) the country's currency (even if not freely convertible) is stable, (ii) the expenditures to be financed are primarily in local currency and measures satisfactory to World Bank have been taken for meeting foreign currency expenditures, and (iii) the government has stated its intention to amend financial regulations or obtain waivers that would permit future establishment of convertible accounts for World Bank-financed special accounts.	borrower or any freely convertible currency.	ADB Loan Agreement. To maintain the value of that account against depreciation, the imprest account is to be maintained in a convertible and stable currency.	their own currency or any freely convertible currency.

Note: For further explanations of the changes in World Bank policies, see World Bank. 2004. *Eligibility of Expenditures in World Bank Lending: A New Policy Framework*. Washington, DC. 26 March 2004.

INNOVATION AND EFFICIENCY INITIATIVE - OVERVIEW

1. The Innovation and Efficiency Initiative (IEI) mandate aims to make and keep the Asian Development Bank (ADB) more client and results-oriented, efficient, and effective. Coordinated from the Regional and Sustainable Development Department (RSDD), IEI is a bank-wide initiative. It is also an integral part of the Reform Agenda. RSDD will monitor and report the progress of IEI implementation, and suggest improvements if any, based on the results framework shown below.

2. A strategy working group (SWG) was formed to work on IEI. The group has identified and evaluated a list of priority issues related to operational bottlenecks. These relate to the various stages of ADB's operational cycle, including (i) the development of the business pipeline or the country strategy and program (CSP), (ii) processing and internal approval systems for investment and other operations, and (iii) implementation and disbursement arrangements. Based on the identified issues, IEI focuses on developing change proposals in the following priority areas:
 - (i) **Country strategy.** Ways to improve strategic clarity and results-orientation, quality at entry and thereafter the development of a sound business pipeline covering investment and other forms of assistance (financial and nonfinancial);
 - (ii) **Business processes.** Approaches, procedures, and practices related to the development of the pipeline, and the efficient conversion of this into investment and noninvestment operations thereafter (i.e., processing, approvals and implementation);
 - (iii) **Procurement.** Approaches, practices, and policies covering consultancy services and the procurement of goods and works, and harmonization with other development partners;
 - (iv) **Cost-sharing and expenditure eligibility.** Proposals to improve the cost sharing system and the widening of expenditure eligibility criteria. The rationale is client responsiveness and harmonization with other development partners;
 - (v) **Safeguards.** A separate process calling for proposals to improve quality and efficiency during processing and implementation;
 - (vi) **Financial instruments and modalities.** Development of new instruments and modalities on a pilot basis, accompanied by an independent credit risk management function and improved procedures and practices.

3. In coordination with IEI, the Treasury Department has developed a proposal to enhance introduce local currency lending to private and public sector clients.

4. To address each of these priority areas, SWG set up subteams comprising staff from key departments across ADB, including operational and support departments. SWG has worked on the basis of a "bottom up" approach, undertaking consultations with team leaders, team members, directors, Management and the Board.

5. A significant part of the work has been anchored on projects, and some procedural changes have already been reflected in a number of operations submitted to the Board in 2004. However, most of these changes fall in the area of procurement, rather than in the area of financial instruments and modalities. The approach taken thus far has allowed SWG members to engage directly with operational and support teams, but more importantly, it has facilitated direct contact with clients while the work was being done. Client feedback was further reinforced during 2004 and 2005 through the Middle Income and Ordinary Capital Resources Country Partnership Framework consultations. DMCs and shareholders in general suggest that ADB needs to be more flexible in terms of its systems and procedures, much faster in relation to processing, pay greater attention to implementation, expand and innovate its financial instrument and modalities range, raise the level of cofinancing, align its business cycle to that of DMCs, simplify documentation, cut nonfinancial costs, be much more selective in terms of sector coverage, provide critical mass, and deliver money with ideas.

6. The IEI proposals are categorized into those that fall under the jurisdiction of Management and those that require formal Board approval. Management-related proposals involve primarily changes to business processes, as well as to resource reallocation, incentives and accountability. A number of the proposals reflect the views of the Independent Panel commissioned to look at the results of the 2002 reorganization of ADB. Board-related proposals involve changes to existing operational policies and procedures. Both sets of proposals are complementary and intertwined.

IEI Results Framework

Design Summary	Indicators/(Targets)	Monitoring Mechanism/(Data Source)	Key Assumptions
Impact (by 2015)			
<ul style="list-style-type: none"> Demonstrable improvements in the development impact of ADB operations in reducing poverty in DMCs (<i>see Reform Agenda results framework</i>) 	<ul style="list-style-type: none"> CSP post-evaluation ratings (fully satisfactory rating for all CSPs evaluated by 2012) Improving client and partner satisfaction levels on impact of ADB operations 	<ul style="list-style-type: none"> Annual PRS progress report by RSDD (post-evaluation reports on CSPs or CAPEs by OED) Annual PRS progress report by RSDD (client and partnership surveys every 3 years by SPD) 	<ul style="list-style-type: none"> Global and regional economic and political stability Continued commitment and support of the development community and DMCs to poverty reduction DMC capacity to plan and implement poverty reduction strategy strengthened Political and social stability within DMCs Continued shareholders support

Design Summary	Indicators/(Targets)	Monitoring Mechanism/(Data Source)	Key Assumptions
Outcomes (by end 2007)			
<ul style="list-style-type: none"> Enhanced organizational effectiveness of ADB (see Reform Agenda results framework). More specifically, ADB as a more efficient, responsive, and larger catalyst for finance and knowledge to meet DMCs' poverty reduction needs 	<ul style="list-style-type: none"> Quality-at-entry of CSPs and projects (baseline established in 2006, and continuous improvements in the following years) Net transfer of resources Commercial cofinancing under complementary financing and guarantee operations (with increase recorded in 2006–2007 over the 2005 level) 	<ul style="list-style-type: none"> Retrospective reviews of CSPs and projects Financial statements OCO database 	<ul style="list-style-type: none"> Clear and focused medium-term strategy (2006–2010) of ADB in place All the other initiatives (outputs), including the HR strategy, under the Reform Agenda fully implemented ADB Management recognize staff promoting IEI implementation ADB culture aligned to support the reform initiatives Adequate staff resources and skills available to support IEI implementation
Outputs (2006–2007)			
1. CSP design process reflect sharper results orientation and strategic clarity	<ul style="list-style-type: none"> CSPs developed based on problem analysis and accompanied with clear and focused sector roadmaps and country results framework (All CSPs beginning preparation in 2006) 	<ul style="list-style-type: none"> IEI monitoring report (assessment of CSPs by RSDD/SPD) 	<ul style="list-style-type: none"> Management approves recommendations in 2005 Necessary organizational changes (including skills and staff incentives) effectively managed
2. ADB's business processes and practice improved to enhance accountability for quality and efficiency across operations	<ul style="list-style-type: none"> Improved concept paper review and clearance system in place by 1Q 2006 Months taken from project concept clearance to effectivity reduced to 18 months by 2007 (baseline: 32 months in 2004) 	<ul style="list-style-type: none"> IEI monitoring report (RSDD) (COSO) 	<ul style="list-style-type: none"> Management approves recommendations in 2005 Necessary organizational changes effectively managed
3. ADB's policies processes and practices on procurement (consultancy, goods and works) streamlined and harmonized with those of DMCs' and other development partners	<ul style="list-style-type: none"> Non-policy related procurement and consulting services practices and procedures approved by end 2004. New guidelines applied to all new projects by mid-2006 Environmentally-responsive procurement guide and e-bidding guide introduced by end 2005 Contract signed and FIDIC terms and conditions introduced for all standard bidding documents by end 2005 Harmonized standard bidding document introduced for small works contract and design, supply and install contract by end 2005 	<ul style="list-style-type: none"> IEI monitoring report (COSO) 	<ul style="list-style-type: none"> Board approves the R-paper on new policy and guidelines for procurement and consulting by end 2005 Necessary organizational changes effectively managed

Design Summary	Indicators/(Targets)	Monitoring Mechanism/(Data Source)	Key Assumptions
4. ADB's safeguards policy implementation processes during project processing and implementation updated to improve effectiveness and relevance to clients	<ul style="list-style-type: none"> • Safeguards policy review launched by 2Q 2005 • W-paper submitted by 1Q 2006 • R-paper and revised OM submitted by end 2006 • No of staff trained 	<ul style="list-style-type: none"> • IEI monitoring report (RSDD) 	<ul style="list-style-type: none"> • Constructive feedback from governments, civil society, and other development partners. • Board approves the R-paper in 2006 • Necessary organizational changes effectively managed
5. ADB's cost sharing and local cost financing parameters, and expenditure eligibility updated, made more flexible, and aligned with those of DMCs and other development partners	<ul style="list-style-type: none"> • Number of country teams briefed (all teams by 1Q 2006) • New country-wide cost-sharing ceilings for all DMCs by 2007 • Number of approved investment projects with new expenditure items • Improving quality of fiduciary oversight in ADB projects 	<ul style="list-style-type: none"> • IEI monitoring report (RSDD) • (RSDD/SPD) • (RSDD) • Financial management retrospective review (RSDD) 	<ul style="list-style-type: none"> • Board approves the R-paper by 3Q 2005 • Necessary organizational changes effectively managed
6. ADB's financial instruments and modalities expanded and upgraded to enhance flexibility and responsiveness, and successfully implemented	<ul style="list-style-type: none"> • Pilot-testing of new financing instruments and modalities launched by 3Q 2005 • No. of staff briefed and trained • Assessment of pilot-tests based on specific criteria^a • Review of ADB's credit enhancement policies (including guarantee products) submitted to the Board. OM updated and staff instructions issues in 2006 • Recommendations to mainstream new instruments/modalities approved by 2008 	<ul style="list-style-type: none"> • IEI monitoring report (RSDD) • (BPMSD) • (RSDD) • (OCO) • (RSDD) 	<ul style="list-style-type: none"> • Board approves the recommendation paper by 3Q 2005 • Necessary organizational changes (culture, processes, structure, staff skills, budget, etc.) effectively managed

CAPE = country assistance program evaluation; CFS = complementary financing scheme; CSP = country strategy and program; DMC = developing member country; FIDIC = International Federation of Consulting Engineers; HR = human resource; PRS = poverty reduction strategy; TA = technical assistance.

^a For the criteria, see Appendix 10 of the R-paper on pilot financing instruments and modalities.