

ASIAN DEVELOPMENT BANK

**A REVIEW OF THE IMPLEMENTATION  
OF THE NEW BUSINESS PROCESSES**

**May 2004**

## ABBREVIATIONS

ADB	– Asian Development Bank
ADF	– Asian Development Fund
ADTA	– advisory technical assistance
CG	– coordination group
CPCM	– country program confirmation mission
CPM	– country programming mission
CSP	– country strategy and program
CSPU	– country strategy and program update
CT	– country team
DFR	– draft final report
DMC	– developing member country
GDP	– gross domestic product
KPS	– knowledge product and service
MRM	– management review meeting
NBP	– new business processes
PBA	– performance-based allocation
PPN	– project preparatory note
PPTA	– project preparatory technical assistance
PSOD	– Private Sector Operations Department
PT	– project team
RETA	– regional technical assistance
RRP	– report and recommendation to the President
SRC	– staff review committee
TA	– technical assistance
WG	– working group

## CONTENTS

	Page
I. PURPOSE OF THE NBP REVIEW	1
II. METHODOLOGY	1
III. ISSUES AND RECOMMENDATIONS	2
A. Country Strategy and Program/Country Strategy and Program updates	2
B. Public sector loan projects (including PPTA)	3
C. Knowledge products and services	5
D. Private sector operations	5
IV. BROAD ISSUES	6
V. RECOMMENDED FOLLOW-UP ACTIONS	6

## I. PURPOSE OF THE NBP REVIEW

1. The Asian Development Bank (ADB) introduced a comprehensive set of new business processes (NBP) concurrent with the reorganization that became effective on 1 January 2002. Expected benefits from the NBP included (i) efficiency improvements, (ii) greater client responsiveness, (iii) improved quality of products, and (iv) strengthened role of ADB in knowledge development and regional cooperation.

2. The NBP Report<sup>1</sup> stated that a review would be undertaken after 1 year. To permit completion of a full operational cycle, it was decided to undertake the review of NBP implementation after 18 months. On 15 July 2003, the Coordination Group<sup>2</sup> (CG) on Reorganization and New Business Processes received the approval of the President to initiate the review.

3. The objective of the review was to identify areas for enhancement and reinforcement of NBP to carry out their effective implementation. The review was not intended to assess to what extent the expected benefits from introducing the NBP were being achieved.

## II. METHODOLOGY

4. A Working Group<sup>3</sup> (WG) comprising senior operational staff was formed to examine and report on the implementation of the NBP, with focus on issues related to the Country Strategy and Program (CSP) and CSP update (CSPU), loan and knowledge product and service (KPS) processing.

5. The WG's approach was designed to identify and address the major issues affecting NBP implementation, based on staff experience. As such, the WG stressed the use of the following consultative approaches in undertaking the review:

- (i) consultations within individual departments, including the establishment of focus groups, to consolidate and prioritize identified issues;
- (ii) meetings with selected staff to validate prioritization;
- (iii) surveys of country team (CT) leaders to gauge feedback from recent CSP preparation; and
- (iv) review of documentation and briefing reports on other activities related to NBP.

---

<sup>1</sup> ADB. 2001. *Business Processes for the Reorganized ADB*. Manila (18 December, Doc. IN296-01).

<sup>2</sup> The Coordination Group appointed by the President on 21 February 2002 comprises directors general, all regional departments; Budget, Personnel and Management Systems Department; Operations Evaluation Department; Private Sector Operations Department; Regional and Sustainable Development Department; Strategy and Policy Department; and principal director, Central Operations Services Office.

<sup>3</sup> Yang Dan, Central Operations Services Office; Adiwarman Idris, Private Sector Operations Department; Andrea Iffland, Pacific Department; Shireen Lateef, Regional and Sustainable Development Department; Jong Hwa Lee, Mekong Department; Richard Marshall, Central Operations Services Office; Tetsuro Miyazato, Southeast Asia Department; Natin Patel, South Asia Department; Akmal Siddiq, Mekong Department; Matthew Westfall, then Southeast Asia Department; Robert Wihtol, East and Central Asia Department; Yuen Loh Yee, Regional and Sustainable Development Department; Victor Lee You, Office of the General Counsel.

6. In light of the issues raised, the WG broke up into four subgroups to examine in more detail (i) CSP and CSPU preparation, (ii) loan processing, (iii) processing of technical assistance (TA), and (iv) the broader operational environment of NBP including the functioning of teams and committees.

7. The WG's findings were subsequently reported to the CG and received the latter's endorsement. This report reflects the findings and recommendations as endorsed by the CG.

### III. ISSUES AND RECOMMENDATIONS

#### A. Country Strategy and Program and Country Strategy and Program Updates

8. The review concentrated on rationalizing road maps, use and quality of concept papers and timing of performance-based allocations (PBA) for Asian Development Fund (ADF) countries.

9. **Road Maps.** The NBP emphasize the centrality of the CSP in ADB operations. The CSP ensures improved country focus and country sense of ownership based on the development priorities and strategies of a developing member country (DMC). It concentrates on thematic areas and sectors in a country that are within ADB's strategic focus, adopting the sector approach to programming. Thus, sector road maps are important inputs into the CSP and CSPU process. However, the WG's survey of operational divisions and CT leaders shows that road maps have proven to be time and resource intensive to produce, particularly in countries where ADB has only limited activities in a sector. For sectors with very limited past or anticipated ADB activities in a country, road maps are difficult to prepare and often perceived of limited use. NBP surveys also noted that sector directors give varying priority to road maps, depending among other things on staff workload. There was general agreement that preparing road maps was feasible and useful only for major operational sectors in a country.

10. **Concept Papers for Lending and KPS.** The NBP require detailed concept papers to be prepared for the rolling 3-year program. Concept papers currently necessitate entries on components and outputs, results and deliverables as well as the goal and purpose of the proposed intervention. However, it was found that providing all such information was often not feasible in advance of the project preparatory note (PPN) or project preparatory TA (PPTA) or loan fact-finding or other missions. As such, concept papers are tentative at best beyond the following year and therefore have limited value as a planning tool. In addition, attaching concept papers with CSP and CSPU documentation is cumbersome and not user-friendly.

11. Also, a wide variation was revealed in the quality of concept papers, and it became apparent that linkages between the concept paper and the PPTA stage of loan processing needed reinforcing. In current practice, concept papers are treated differently depending on whether or not they are attached to CSP and CSPU. Those that are not attached require separate circulation and review; those that are attached do not. Given that the focus of the review and comments on CSP are mostly on the country strategy, there is a need to ensure that attached concept papers receive an adequate level of scrutiny.

12. **Timing of PBA for ADF Countries.** The review highlighted problems arising from actual lending resource allocations becoming available only after country programming missions (CPMs) are fielded. Although planning directions provide indicative amounts prior to the CPM,

such amounts have been revised downward as a result of the outcome of the PBA exercise<sup>4</sup> and subject to actual resource availability. This leads to renegotiation of agreed-upon lending and TA programs with governments, which can disrupt a government's own expenditure planning. CSPs and CSPUs have to be completed and approved prior to the beginning of a financial year. PBAs, however, are not agreed upon until March. If CSP or CSPU assumptions prove incorrect, changes in a projected program have to be communicated to the DMC that has based its own budget planning on the CSP or CSPU. Such changes can have significant impacts on fiscal management of DMCs with significant ADB programs in relation to their own gross domestic product (GDP).

13. Given the issues raised, the following recommendations are proposed for enhancing CSP and CSPU development in the NBP:

- (i) **Rationalize procedures for sector roadmaps.** Sector road maps should be required in CSPs only for key sectors of ADB operations identified in the CSP, and should be prepared or updated only for CSPs (not CSPUs).
- (ii) **Revise concept paper formats and presentation.** CSPs should include as appendixes full project concept papers only for the first year of the CSP. Correspondingly, annual CSPUs would be required to include as appendixes project concept papers for the following year. Alternatively, an abbreviated format for concept papers beyond the first year of the CSP could be considered.
- (iii) **Quality of Concept Papers.** Regional departments should increase focus on the quality of concept papers. When concept papers are included in annual CSPUs only for the following year, this will likely result in a higher level of internal review to improve quality.
- (iv) **Reexamine PBA and country program confirmation mission (CPCM) sequencing.** Indicative country resource allocations should be made available to the CT before fielding the CPM. The feasibility of providing confirmed PBA before the CPCM should be further explored.

## B. Public Sector Loan Projects (Including PPTA)

14. **Document Circulation Reduced.** NBP require interdepartmental circulation of the draft TA paper, TA consultants' draft final report (DFR), management review meeting (MRM) draft RRP, and staff review committee (SRC) draft RRP. One measure in NBP to achieve efficiency improvements was to limit the circulation of loan and TA documents. This was not effectively happening; consequently, the expected efficiency improvements in this area were not being achieved. The NBP survey pointed out that, at various stages of processing, project team leaders continued to get a large number of comments of varying relevance and quality, all of which needed to be considered and included in a matrix of comments/responses. The process was time-consuming and inefficient.

15. It was noted that review of DFRs by committees is not functioning as envisaged by NBP. In most cases, there is simply not enough time for a committee to convene and consider DFR

---

<sup>4</sup> This is also being addressed under PBA review.

prior to the tripartite meeting. Current resources and the large number of tasks assigned to committees have produced a situation in which very few DFRs are reviewed.

16. **Scope and Consistency of Comments in Interdepartmental Review.** Processing staff are concerned that some departments do not confine their comments to their area of responsibility. There are also occasions when a department submits differing or inconsistent comments at different stages of processing, thus causing additional work for the project team. In many cases, the large number of comments of varying relevance and quality significantly increased the workload of the project team (PT) without correspondingly contributing to improved project quality. Requiring departments to focus their comments will increase efficiency without any negative impact on project quality.

17. **Linkage Between PPTA Completion and Loan Fact-Finding.** Merging PPTA completion and loan fact-finding is central to NBP and was intended to allow for close collaboration between the PT and the consultants before the end of the PPTA to improve the quality of the project proposal, and to generate greater government sense of ownership. The two activities were merged on the assumption that (i) PPTA reports will be of high quality and PTs can immediately follow with loan fact-finding, and (ii) sufficient time and resources are allocated to supervising and monitoring PPTA implementation. In a substantial number of cases, these assumptions proved incorrect, which sometimes created risks of compromised project quality and produced additional work.

18. The present requirements of NBP were generally satisfactory for the situation where staff and PPTA consultants had prepared a satisfactory product, the product had the support of the proposed executing agency and ownership by the DMC, and few issues had to be resolved at the tripartite review meeting. On the other hand, when the consultants provided a less than satisfactory report or there was incomplete support from the executing agency, NBP were considered deficient, particularly given the resource constraints of either keeping the consultants in the field or getting them to return to the field. Where there are difficulties with a DFR, it is important for a PT to have sufficient flexibility, time, and resources to resolve the problems with the consultants and/or DMC. However, TA resources have become increasingly scarce, and departmental budgets have insufficient flexibility to provide for intensive supervision of PPTA, or supplementary staff consultant resources when these are required.

19. Summary recommendations for streamlining public sector loan processing, including the PPTA, are given below.

- (i) **Interdepartmental circulation for review.** Streamline interdepartmental review and commenting. Interdepartmental circulation of consultants' DFRs should no longer be mandatory, and only the draft RRP should be circulated for interdepartmental review. To enhance the focus and relevance of comments provided, consider circulating documents to the departments concerned only.
- (ii) **Scope and consistency of comments.** Remind departments that their comments generally should not go beyond their area of responsibility, and that reviewers should not raise new issues unless they relate to aspects that have subsequently been introduced into the project design.
- (iii) **PPTA monitoring and completion and loan fact-finding.** Carefully review the process of PPTA monitoring, midterm review, report finalization, and loan fact-finding to ensure that they are taking place as envisaged in NBP. The issue of

resource constraints for TA monitoring and review and for quickly undertaking remedial actions at PPTA completion/loan fact-finding needs to be addressed.

### C. Knowledge Products and Services<sup>5</sup>

20. **Optional SRC for KPS.** In many instances, SRC meetings for stand-alone advisory TAs (ADTAs) and regional TAs (RETAs) are waived. Waiving them can be justified only if they get sufficient scrutiny during an interdepartmental review process, and no issues remain. Data for 2001 and 2002 indicate that the frequency of SRCs being waived has increased since the introduction of NBP. In 2001, SRCs were waived for 65% of TAs; in 2002 this figure went up to 82%.

21. An increasing number of TAs and grants through bilateral funds entail procedures that are varied and time-consuming to meet the requirements of the funding agency's approval process as distinct from the requirements of NBP. The processing of such TAs and grants significantly increases the workload of responsible staff and the transaction costs for ADB. No systematic data is available about the increased inputs required for processing such TAs and grants; however, the number that ADB processes has increased very significantly. The varying procedural requirements have disproportionately increased staff workload. This increase correspondingly reduces staff time available for other work. Considerable efficiencies can be achieved by standardizing procedures to the extent possible.

22. Summary recommendations for addressing these issues are given below.

- (i) **Waive SRCs for KPS only when rigorous scrutiny is ensured.** SRC meetings should ensure that all aspects of ADTAs and RETAs are reviewed rigorously. SRC meetings for those TAs should only be waived with the consent of all reviewing departments.
- (ii) **Review procedures for processing bilaterally funded interventions.** The resource requirements and transaction costs for processing bilaterally funded interventions (which are currently outside the NBP) according to differing sets of procedures should be reviewed. Recommendations for streamlining and harmonizing processing procedures to bring them more closely in line with the NBP should be discussed with the funding agencies.

### D. Private Sector Operations

23. Current NBP for investments do not address some specific needs of private sector operations. While investment processing procedures of the Private Sector Operations Department (PSOD) are largely based on those of the public sector, there are some important differences. To address credit risk, to better support the various facets of the due diligence process, and to be more responsive to the tight timetable of private sector clients, instructions need to be modified and streamlined.<sup>6</sup>

<sup>5</sup> Referred to in the NBP report initially as nonlending products and services.

<sup>6</sup> Starting May 2003, the PSOD is using a *Private Sector Policies and Procedures Manual*. Its refinement and subsequent convergence into private sector staff instructions are under consideration.

24. It is recommended that specific staff instructions for private sector operations be developed. PSOD should have a specific set of instructions, which will be incorporated into NBP. These instructions are keyed to the particular requirements of private sector operations in terms of both control over credit quality and responsiveness to clients.

#### IV. BROAD ISSUES

25. **Team Effectiveness.** There is mixed experience in the functioning of CTs and PTs. The expectation of how a CT is to operate is often unclear, and practical interpretations in different departments and countries vary considerably. Given the lack of a clear benchmark, it was difficult to assess the functioning of the CTs. A wide range of issues was noted, including staff time and incentive constraints, and other commitments of CT and PT members.

26. **Effectiveness of Functioning of Committees.** Issues related to introducing the committee structure have still to be resolved. The WG was not asked specifically to review the effectiveness of the committee system, but it did note some issues. A fundamental problem encountered has been the limited availability of committee members, both sector and thematic, to carry out the review function assigned to committees in the NBP. Many sector and thematic committee members have no time to carry out committee review functions due to other work assignments and priorities.

27. Other broad issues requiring further careful assessment include quality assurance and promoting quality, knowledge management and KPS, and crosscutting specialists. All these broad NBP-related issues were subject to initial analysis conducted by coordinating departments under CG auspices and some other activities. It is expected that the feedback generated by these activities<sup>7</sup> will be provided as additional information for an independent assessment that will examine the effectiveness of ADB reorganization.

#### V. RECOMMENDED FOLLOW-UP ACTIONS

28. The general consensus is that some procedures and steps still need to be further streamlined and simplified to increase efficiency and save project-processing time without compromising quality.

29. The NBP was expected to improve efficiency by reducing some excessive requirements and redundant steps in project and TA processing as well as by delegating authority. However, new requirements such as safeguard policies, community participation, and gender and governance aspects are increasingly affecting processing time. Although it was initially assumed that the total effect of introducing NBP would be resource neutral, the availability of adequate resources needs to be assessed.

30. Certain activities have already been initiated. In particular, actions to implement the recommendations of this NBP review are being currently undertaken. They constitute the first steps in the process of further NBP improvement.

---

<sup>7</sup> Other principal activities related to NBP involve issues on (i) improving the effectiveness of project performance management in ADB and its DMCs, (ii) reviewing the implementation of the reorganization and related follow-up actions under CG auspices, (iii) developing the knowledge management framework, and (iv) enhancing team effectiveness.

31. It is clear, however, that better ways and bolder process changes at the project, sector, and country levels need to be explored to further streamline procedures, increase efficiency, and improve the quality of products. The processes should be revised to make them more simple and rational without sacrificing quality. Further analysis of NBP issues within the framework of such activities like a review of lending modalities is required.