

**ASIAN DEVELOPMENT BANK**

**UPDATING SECTOR AND THEME CLASSIFICATION  
AT THE  
ASIAN DEVELOPMENT BANK**

**June 2004**

## ABBREVIATIONS

ADB	–	Asian Development Bank
CSP	–	Country strategy and program
CSPU	–	Country strategy and program update
HIV/AIDS	–	human immunodeficiency virus/acquired immunodeficiency syndrome
LTSF	–	long-term strategic framework
MDG	–	millennium development goal
NRM	–	Natural Resources Management
PRS	–	poverty reduction strategy
RRP	–	report and recommendation of the President
RSDD	–	Regional and Sustainable Development Department
SME	–	small and medium-sized enterprise
SOE	–	state-owned enterprise
TA	–	technical assistance

## I. INTRODUCTION

1. The Asian Development Bank (ADB) has updated the sector and thematic classification of operational projects (supported by loans, equity, guarantees, and grants). Effective 1 July 2004, Board and other official documents will reflect the updated sector and thematic classification. This paper briefly describes the updated sector and thematic classification.

## II. REASONS FOR UPDATING

2. ADB remains committed to maximizing its development effectiveness in achieving poverty reduction and attaining the millennium development goals (MDGs) in the Asia and Pacific region. ADB needs to closely monitor its operational alignment and effectiveness in delivering those institutional commitments by systematically and accurately coding and tracking its operational activities. Sector and thematic classification is an important tool for tracking (i) allocation of operational resources, and (ii) intended purposes and impacts of the operations.

3. However, ADB's sector and thematic lists were outdated and did not permit accurate capturing of the recent operational trends. The sector list was first introduced in 1984. Over the past two decades, the development contexts in the region and the corresponding coverage of ADB operations have evolved considerably (paras. 10 and 11). The thematic list was introduced in 1992 when ADB first adopted the "strategic development objectives." While the thematic list was slightly modified as ADB updated its strategic directions, it was not fully aligned with the most recent strategic priorities as pronounced in the poverty reduction strategy (PRS) and the long-term strategic framework (LTSF) adopted in 1999 and 2000, respectively.

## III. PROCESS AND GUIDING PRINCIPLES ADOPTED FOR UPDATING

4. An interdepartmental working group,<sup>1</sup> appointed by department heads (September 2002), conducted the updating exercise. This arrangement was chosen to ensure that the updating exercise consider and address multidimensional perspectives: operational, administrative, information system, and management requirements. The working group generated options, coordinated the intra- and interdepartmental review of emerging options, and fed back these departmental inputs to the updating process; the members also regularly consulted with the sector and thematic committees. The exercise also involved consultations with the World Bank and the Inter-American Development Bank (October 2002) to achieve consistency and comparability of the thematic and sector information at ADB with the terms and definitions used in the wider international community.

5. The updating exercise was guided by a set of principles identified through the internal consultation process: (i) the updated sector/thematic classification system must be simple and easy to apply; (ii) implementation must have minimum human and budgetary resource implications; and (iii) the classification data will be entered into and processed by the status quo information technology system; but when ADB adopts a new information management system, the data will be transferred to it.

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<sup>1</sup> The interdepartmental working group comprised A. Konishi (director, SEGF), R. Wihtol (director, ECSS), M. G. Quibria (advisor, OED), S. Lateef (principal gender specialist, RSDD), R. Marshall (principal portfolio management specialist, COSO), E. Van de Walle (principal economist, PARD), F. Harrigan (principal economist, MKRD), K. Muktan (principal IT specialist, OIST), E. Zhukov (senior programs officer/economist, SARD), U. Zimmermann (investment officer, PSOD), and R. De Leon (senior portfolio management officer, COSO). The working group was coordinated by the secretariat comprising I. Matsumoto (principal planning and policy specialist, SPD), M. Kubota (planning and policy specialist), and C. Bayuaa-Hernandez (strategy and policy officer, SPD).

6. The first set of the updated list, definitions, and implementation arrangements were submitted to the Management in December 2002, and were endorsed for pilot testing. During March–November 2003, operational and knowledge departments applied, on a pilot basis, the updated sector and theme classification to the projects listed in the 2004–2006 operational program. During pilot testing, the working group regularly consolidated and examined lessons and recommendations, and applied those in refining the sector/theme lists, definitions, and implementation arrangements, in close consultation with the relevant departments, and sector and thematic committees. The final proposal was submitted to the Management (December 2003) and was endorsed for full application starting in 2004.

7. During January–April 2004, the working group (i) distributed to the staff a package of an explanatory note, updated sector/theme lists, and their definitions; and (ii) conducted a series of orientation sessions for operational, knowledge, and administrative departments, and resident missions.

#### IV. UPDATED SECTOR AND THEME CLASSIFICATION

##### A. Definition of Sectors and Themes

8. The updating exercise first focused on establishing clear definitions of the terms “sectors” and “themes.” These definitions (Table 1) are broadly consistent with definitions used by the United Nations system and the World Bank. They guided the updating exercise at ADB and will allow precise comparison of ADB’s resource allocation patterns with those of other international organizations.

**Table 1: Definition of Sectors and Themes**

<b>Sectors are</b>	<b>Themes are</b>
<ul style="list-style-type: none"> <li>• groupings of economic activities based on the types of goods or services produced;</li> <li>• used to indicate which part of the economic scene is supported by (receives inputs from) an Asian Development Bank (ADB) activity;</li> <li>• based on an internationally applied list and definition of economic sectors to permit comparability with other international organizations (e.g., the World Bank, the United Nations system).</li> </ul>	<ul style="list-style-type: none"> <li>• based on the pillars and priorities as indicated in the poverty reduction strategy and the long-term strategic framework;</li> <li>• used to indicate goals and objectives of an ADB-supported activity.</li> </ul>
<b>Sectors are NOT</b>	<b>Themes are NOT</b>
<ul style="list-style-type: none"> <li>• methods of delivering ADB support (e.g., policy-based loans, emergency loans);</li> <li>• a reflection of administrative structures of any government or ADB;</li> <li>• measures of outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>• methods/instruments of delivery or ways of doing business;</li> <li>• reflections of administrative structures of government or ADB;</li> <li>• measures of inputs.</li> </ul>

##### B. Updated Sector Classification

9. Sector classification primarily tracks the trends in allocations of ADB’s operational resources to economic sectors. This information permits ADB to report on “from which entry points” ADB is supporting poverty reduction and MDGs.

10. **Limitations of the Old Sector Classification.** The old sector lists had a major limitation in capturing ADB's operations in areas critical for poverty reduction and MDG attainment: (i) education, health, nutrition, and social protection; water supply, sanitation, and waste management (they were all categorized under a single sector titled "social infrastructure"); (ii) trade (small and medium-scale enterprises, export/import); and (iii) law, public sector management, and finance (categorized under "other sectors"). The old sector classification system also did not identify the exact sector coverage of projects classified under the "multi-sector" category.

11. **Key Elements of Updated Sector Classification.** The updated sector classification abolished the former "social infrastructure" category, and introduced three new categories: (a) education; (b) health, nutrition, and social protection; and (c) water supply, sanitation, and waste management. ADB support to these sectors go beyond infrastructure and cover service quality, capacity and institution building. Also added was a new category "law, economic management and public policy," to accurately capture operations in these areas, which are also important entry points of operations addressing governance. The updated classification provides more detailed subsectors for each sector to track what types of support are covered under each sector. The multisector category is retained, but each multisector project is required to indicate (i) up to three predominant sectors that receive ADB support, and (ii) the approximate amount of resources allocated to each sector. The updated sector list abolished the category "other" from the sector list.

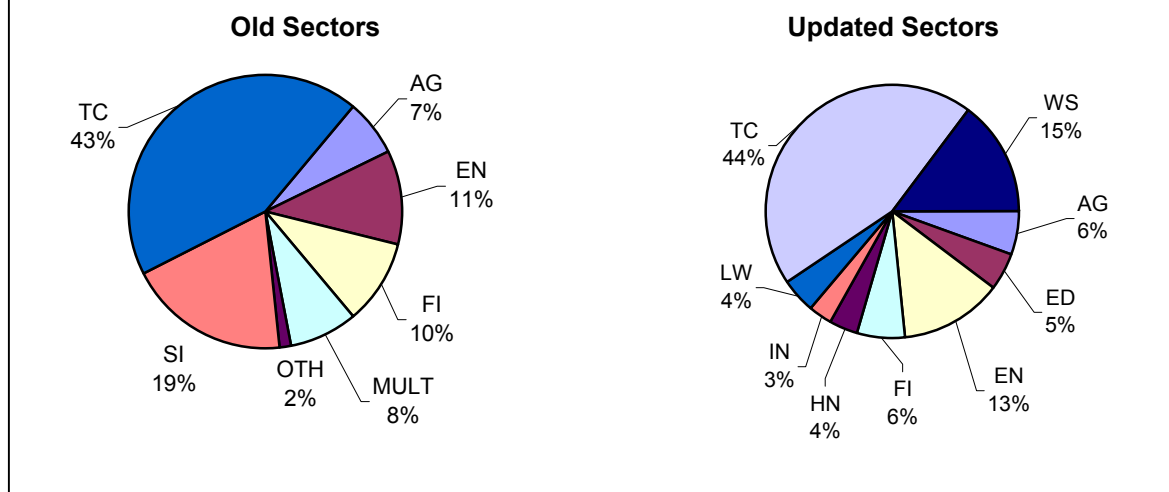
12. **Sector Assignment.** Sector assignment is mutually exclusive, i.e., one project registers one predominant sector, and one predominant subsector. One dollar of project cost is counted only once against a specific sector. Projects supporting more than one sector are registered as multisector projects, with corresponding assignment of up to three sectors or subsectors and estimation of project resources allocated to each of the three sectors.

13. Table 2 compares the old and updated sector lists, and Figure 1 is a graphic presentation of 2003 ADB operations using old and updated sector classification. Appendix 1 gives sector and subsector lists.

**Table 2: Comparison of Old and Updated Sector Lists**

Old Sector List	Updated Sector List
<ul style="list-style-type: none"> <li>• Agriculture and Natural Resources</li> <li>• Energy</li> <li>• Finance</li> <li>• Industry</li> <li>• Transport and Communication</li> <li>• Social Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Agriculture and Natural Resources</li> <li>• Energy</li> <li>• Finance</li> <li>• Industry and Trade</li> <li>• Transport and Communication</li> <li>• Education</li> <li>• Health, Nutrition, and Social Protection</li> <li>• Water Supply, Sanitation, and Waste Management</li> <li>• Law, Economic Management, and Public Policy</li> <li>• Multisector (with clear identification of the actual sector covered based on the new list)</li> </ul>
<ul style="list-style-type: none"> <li>• Others</li> <li>• Multisector</li> </ul>	

**Figure 1: 2003 ADB Lending Operations by Old and Updated Sector Classification**



AG = agriculture and natural resources; ED = education; EN= energy; FI = finance; HN = health, nutrition, and social protection; IN = industry and trade; LW = law and public sector management; MULT=multisector; OTH = others; SI = social infrastructure; TC = transportation and communication; WS = water supply, sanitation, and waste management.  
Source: Project Processing Information System.

### C. Updated Theme Classification

14. Thematic classification tracks how each project and ADB operations collectively support the strategic goals of ADB.

15. **Limitations of the Old Themes.** The old theme list had nine items, drawn from the previous strategic development objectives of ADB. There was duplicate tracking of poverty reduction using both poverty classification and theme classification. “Multitheme” and “other” categories did not provide accurate thematic distribution of operations.

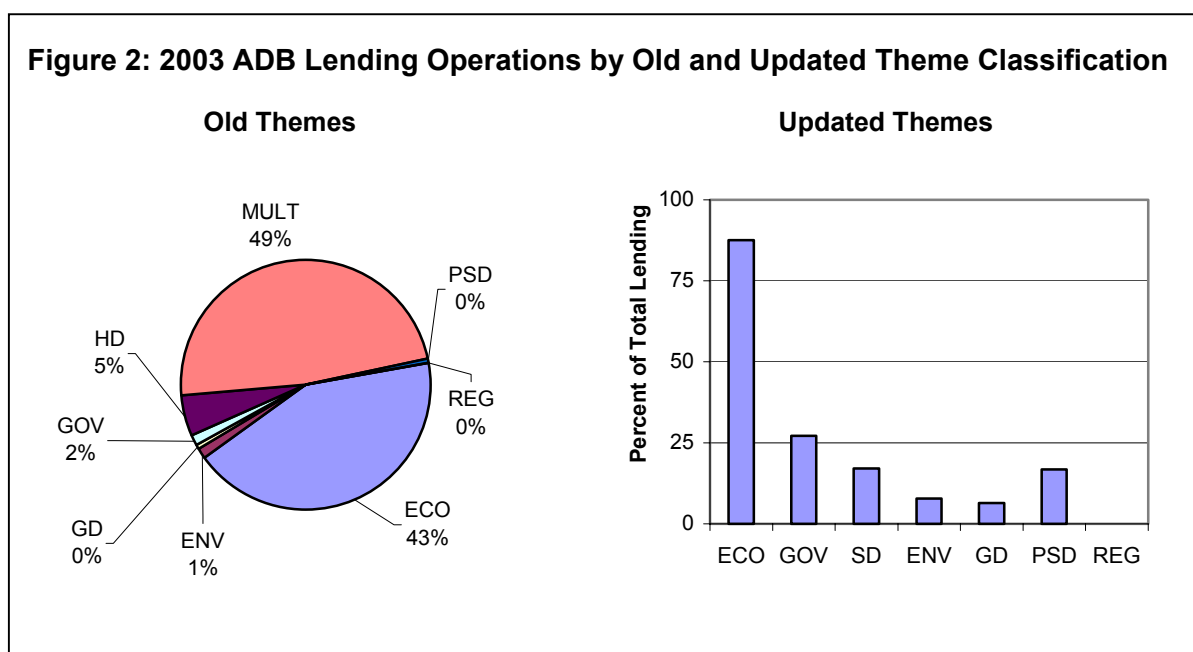
16. **Key Elements of Updated Theme Classification.** The theme list was streamlined and fully aligned with (i) three PRS pillars, and (ii) crosscutting priorities of the LTSF. “Poverty reduction” was removed from the theme classification, as this is being captured separately through the poverty classification system. “Multitheme” and “other” categories were also removed.

17. **Theme Assignment.** Theme assignment is not mutually exclusive, i.e., one project can be assigned to up to three themes and subthemes (three subthemes can be chosen from one, two, or three themes). Theme assignment does not require a breakdown of resources attributed to each theme and does not involve hierarchy of themes (such as primary or secondary themes). Theme assignment is on the project logical framework (the purpose section) that should clearly explain which specific pillars and/or crosscutting priorities of the PRS and the LTSF are being addressed by the project.

18. Table 3 compares the old and updated theme lists, and Figure 2 is a visual comparison of the thematic classification of the 2003 lending operations using the old and updated theme lists. Each of the updated themes has more detailed subthemes. Appendix 2 gives the updated list of themes and subthemes.

**Table 3: Comparison of Old and Updated Theme Lists**

Old Theme List	Updated Theme List
<ul style="list-style-type: none"> <li>• Poverty Reduction</li> <li>• Economic Growth</li> <li>• Human Development</li> <li>• Gender and Development</li> <li>• Environmental Protection</li> <li>• Good Governance</li> <li>• Regional Cooperation</li> <li>• Private Sector Development</li> <li>• Multitheme</li> <li>• Others</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable Economic Growth</li> <li>• Inclusive Social Development</li> <li>• Gender and Development</li> <li>• Environmental Sustainability</li> <li>• Governance</li> <li>• Regional Cooperation</li> <li>• Private Sector Development</li> </ul>

**Figure 2: 2003 ADB Lending Operations by Old and Updated Theme Classification**

ECO = economic growth, ENV = environment, GD = gender and development, GOV= governance, HD = human development, MULT = multitheme, PSD = private sector development, REG = regional cooperation, SD = inclusive social development  
Source: Project Processing Information System.

## V. IMPLEMENTATION ARRANGEMENTS

### A. Scope of Activities Subject to Sector and Thematic Classification

19. All operational activities—projects for both public and private sectors—supported by ADB will be required to indicate the theme and sector classification. “Operational activities” cover policy-based programs financed by loans, investment projects financed by loan resources or grants (including pilot testing of innovations), equity and guarantee operations, technical assistance activities (loan or grant financed) as well as economic, sector, thematic work financed by ADB TA funds or trust fund grants. Sector and thematic classification will be indicated in (i) project concept papers appended to the country strategy and programs (CSP) and their updates (CSPU); (ii) report and recommendation of the President (RRP) on proposals for loans, equity, and guarantee operations; and (iii) TA papers.

## **B. Timing of Application and Mechanisms to Ensure Accuracy and Consistency**

20. Sector and thematic classification will be assigned to each project as soon as the project is identified. The project team leader classifies pipeline projects, and records it in the project concept paper. Classification can be changed during project design and processing. The internal quality assurance mechanism (i.e. intra and inter-departmental reviews) reviews the accuracy and consistency of the classification (para. 21). Upon project approval, ADB locks the sector and thematic classification for the project. The theme and sector assignment for the project remains constant until project completion, unless the project undergoes a formal change of project objectives or scope or both.

21. The department head of the unit responsible for designing and implementing a particular project is accountable for ensuring the accuracy of the theme and sector assignment for that project. The Poverty Reduction and Social Development Division in the Regional and Sustainable Development Department (RSDD) is responsible for ensuring consistency of the theme and sector assignment across regional and knowledge departments.

## **C. Entry and Management of Classification Information**

22. The sector and theme classification for each pipeline project is registered in the Project Processing and Information System (PPIS), an internal system that tracks information on the pipeline projects. Upon project approval, classification information in the PPIS is transferred to the systems covering ongoing projects, such as the Loan Finance and Information System (LFIS), Technical Assistance Information System (TAIS), Project Performance Management System (PPMS), and Technical Assistance Performance Management System (TPR). This mechanism permits ADB to use the information for monitoring, analyzing, and reporting not only on resource allocation, but also on outputs, outcomes, and impacts yielded by the operations supported by ADB.

## **D. Historical Reclassification of the Sector Assignment**

23. ADB is currently reclassifying sector assignments of the past projects dating back to its inception. This is to permit accurate and consistent reporting on the historical, current, and future sectoral distribution of ADB operations. This work will be completed within 2004. Historical reclassification will not cover thematic classification as themes are specific to the strategic objectives of ADB at a given period.

## **E. Custodian of Sector and Thematic Classification**

24. The updating exercise was coordinated by the Strategy and Policy Department. As of 1 May 2004, RSDD has custodianship of the updated sector and thematic classification. RSDD will coordinate future refinements and updating of the sector and thematic classification, including periodic updating of the definitions.

## **VI. NEXT STEPS**

25. The updated sector and theme classification will be reflected in Board as well as other official documents for circulation after 1 July 2004. The following board documents for circulation during the second semester of 2004 will reflect updated sector and theme information: (i) CSPs and CSPUs 2005–2008; (ii) RRP on proposed loan, equity and guarantee; (iii) TA papers; (iv) work program and budget framework: 2005–2007; and (v) 2005 budget document.

## LIST OF SECTORS AND SUBSECTORS (2004 ADB project classification system)

Sector assignment is mutually exclusive. One project registers one predominant sector, and one predominant subsector. Projects supporting more than one sector are registered as multisector projects, with corresponding assignment of up to three sectors or subsectors and estimation of project resources allocated to each of the three sectors.

Sector	Subsectors
Agriculture and Natural Resources	<ul style="list-style-type: none"> <li>• Agriculture production, agroprocessing and agribusiness</li> <li>• Environment and biodiversity</li> <li>• Fishery</li> <li>• Forest</li> <li>• Irrigation and Drainage</li> <li>• Livestock</li> <li>• Water resource management</li> <li>• Agriculture sector development</li> </ul>
Education	<ul style="list-style-type: none"> <li>• Basic education</li> <li>• Nonformal education</li> <li>• Senior secondary general education</li> <li>• Tertiary education</li> <li>• Technical education, vocational training, and skills development</li> <li>• Education sector development</li> </ul>
Energy	<ul style="list-style-type: none"> <li>• Conventional energy generation (other than hydropower)</li> <li>• Hydropower generation</li> <li>• Renewable energy generation</li> <li>• Transmission and distribution</li> <li>• Energy sector development</li> </ul>
Finance	<ul style="list-style-type: none"> <li>• Banking systems</li> <li>• Capital markets and funds</li> <li>• Housing finance</li> <li>• Microfinance</li> <li>• Pensions, insurance, social security, and contractual savings</li> <li>• Finance sector development</li> <li>• Early childhood development</li> <li>• Health programs</li> </ul>
Health, Nutrition, and Social Protection	<ul style="list-style-type: none"> <li>• Early childhood development</li> <li>• Health systems</li> <li>• Nutrition</li> <li>• Social protection</li> <li>• Other social services and social development</li> </ul>
Industry and Trade	<ul style="list-style-type: none"> <li>• Housing construction</li> <li>• Industry</li> <li>• Small and medium -scale enterprises</li> <li>• Trade</li> </ul>
Law, Economic Management and Public Policy	<ul style="list-style-type: none"> <li>• National government administration</li> <li>• Economic management</li> <li>• Law and judiciary</li> <li>• Public finance and expenditure management</li> <li>• Subnational government administration</li> </ul>
Transport and Communications	<ul style="list-style-type: none"> <li>• Civil aviation</li> <li>• Ports, waterways, and shipping</li> <li>• Railways</li> <li>• Roads and highways</li> <li>• Multimodal transport and sector development</li> <li>• Telecommunications and communications</li> </ul>
Water Supply, Sanitation, and Waste Management	<ul style="list-style-type: none"> <li>• Water supply and sanitation</li> <li>• Waste management</li> <li>• Integrated</li> </ul>
Multisector	

## LIST OF THEMES AND SUBTHEMES (2004 ADB project classification system)

Theme assignment is not mutually exclusive. A project can be assigned to up to three themes and corresponding subthemes.

Theme	Subthemes
Sustainable Economic Growth	<ul style="list-style-type: none"><li>• Promoting macroeconomic stability</li><li>• Promoting economic efficiency and enabling markets</li><li>• Fostering physical infrastructure development</li><li>• Developing urban areas</li><li>• Developing rural areas</li><li>• Addressing information and communication technology issues</li></ul>
Governance	<ul style="list-style-type: none"><li>• Financial and economic governance</li><li>• Public governance</li><li>• Civil society participation</li><li>• Anticorruption</li></ul>
Inclusive Social Development	<ul style="list-style-type: none"><li>• Human development</li><li>• Indigenous peoples</li><li>• Other vulnerable groups</li><li>• Involuntary Resettlement</li></ul>
Environmental Sustainability	<ul style="list-style-type: none"><li>• Natural resources conservation</li><li>• Urban environmental improvement</li><li>• Cleaner production, control of industrial pollution</li><li>• Global and regional transboundary environmental concerns and issues</li><li>• Environmental policy and legislation</li></ul>
Gender and Development	<ul style="list-style-type: none"><li>• Gender equity in capabilities</li><li>• Gender equity in opportunities</li><li>• Gender equity in empowerment and rights</li><li>• Regional gender equity initiatives</li></ul>
Private Sector Development	<ul style="list-style-type: none"><li>• Policy/institutional/legal/regulatory reforms</li><li>• Private sector investment</li><li>• Public-private partnerships</li><li>• Privatization</li></ul>
Regional Cooperation <sup>1</sup>	<ul style="list-style-type: none"><li>• Cross border infrastructure</li><li>• Trade and investments</li><li>• Money and finance</li><li>• Regional public goods</li></ul>
Capacity Development	<ul style="list-style-type: none"><li>• Institutional development</li><li>• Organizational development</li><li>• Client relations, network, and partnership development</li></ul>

<sup>1</sup> The subthemes for regional cooperation have been added in July 2006 after the approval of ADB's Regional Cooperation Strategy.