

Draft, October 2007

MONITORING RESULT CONTRIBUTIONS: Summary of Proposed Enhancements for the Classification of ADB Projects

1. **Background:** A staff panel on reviewing the project classification started its work on 13 February 07.¹ The Panel held 10 meetings on workplan, sector classification and private sector coverage, geographical location, thematic classification, multidimensional impact contribution, consistency with ADB's medium term strategic framework, and IT system implications, prioritization. It also discussed its recommendations with the thematic and sector Communities of Practices (CoPs), the Evaluation Department (OED), the Result Based Management Unit and the Strategy Department, as well as many staff. Furthermore, it pilot test the enhanced system with volunteering project officers. The report also considers the discussion on the LTSF II. The final report of the staff panel is scheduled for early 2007, depending further discussions on ADB's Long Terms Strategic Framework (LTSF II). Necessary IT changes and easy reference guidance can be prepared within 2-3 months, and the enhanced system is scheduled to be effective from March/April 2008 onwards

2. **Result summary:** The working group proposed the following enhancements to the classification system:

- (1) adding a geographical location marker,
- (2) revising and adding some subthemes (e.g. disaster management and prevention), broadening thematic contribution and introducing a outcome based selection method (in % of total ex-ante impact contribution),
- (3) minor changes (rationalization) in subsector classification, and; adding terminologies to the subsector classification;
- (4) clarifying multisector classification and component tracking of ADB financial inputs
- (5) adding a marker system for sovereign and non-sovereign financing to better reflect private sector activities and future PPP opportunities; and
- (6) enhancing consistency and quality of inputs into the IT system by using an overview table.

The proposed additions and changes on project classification would have some implications mainly on the upstream IT systems. Such changes would be doable and feasible and can be implemented by January 2008. First reporting will be in mid 2008. The rationale for and further information on the suggested adjustments are given below:

3. **Weaknesses in the current system:** The current classification system has various weaknesses, such as (a) underreporting of cross-cutting themes (e.g. environment)², (b) inconsistencies with the MTS II priority sectors (e.g. private sector activities) and non0-coverage of new strategic priorities (e.g. energy efficiency), (c) weak coverage of (multidimensional) results and problems with aggregating impact contributions, (d) missing geographical location, (e) underreporting of some sectors missing information on cross-sectoral interventions, and (f) scope for simplification and enhance the user friendliness.

4. **Better explaining poverty impact contribution and targeting:** No changes will be done on the poverty (targeting) classification. However the staff instruction shall explain better ADB's direct or indirect contribution to poverty reduction (see Appendix 1, Figure 1).

¹ For questions, please call Armin Bauer (RSDD) at Tel: 632-5550.

² An analysis of the 2004-2006 thematic classification showed for example that ADB contributes only with 8% to environmental and 3% to regional cooperation, 2 of the 8 strategic development goals of ADB. This does however, reflects ADB's actual portfolio incorrectly.

5. **Reflecting better private sector activities:** The working group suggests that private sector activities should be better captured by revising some sector classification and by introducing a separate marker system for sovereign and non-sovereign funding. Figure 2 in Appendix 1 provides an example of the suggested location marker. However, OIST advised that even minor changes in the PPIS system for the private sector would be very complicated; it therefore suggested not to include a table on sovereign and non-sovereign funding at this stage and rather address this with the general revamp of the IT system (ISTS II) between 2007 and 2009.
6. **Adding geographic classification:** The working group suggested adding a table on the geographical location of a project. The information would reflect ADB's contribution to regional, national, urban and rural development outcomes (or proxy). Figure 3 in Appendix 1 provides an example of the suggested location marker.
7. **Simplifying result-oriented sector classification:** The working group suggested some simplifications in the subsector classification. While sectors should be better aligned with MTS-II priorities, the working group suggests not making major changes in the current classification system and only reflecting new business opportunities. Multisector would remain as a sector and better rationalized with the objective to focus the classification on single sector outcomes rather than multisector input components. Figure 4 shows the advantage of a result oriented reporting on sector classification and figure 5 shows how multi-sectors would be handled. Appendix 2 provides an overview of the proposed changes in the sector and subsector classification against the current system.
8. **Specifying sector contribution through terminologies:** In order to better track actual work in operations and help staff in applying better the classification, the working group proposed introducing terminologies for subsector classification. The terminology marker will be supported by a pop-up menu in the PPIS system (Appendix 1, Figure 6). Various terminology ticking within the marked subsector is possible.
9. **Component tracking of ADB inputs:** Particularly in the context of decentralization and Multi-finance Facilities (MFF), projects are increasingly designed to have components in various sectors. In addition, cross-cutting sector interventions are increasingly mainstreamed under various sectors (e.g. HIV/AIDS in transport, or e-learning under education). Under the current system sectors like health or ICT are disappearing, although ADB is financing activities therein. The enhanced system will provide for tracking ADB financed investments in such project components without challenging the sector focus. To this end, a project will first be allocated (with 100% of ADB investments) in one sector, typically at concept clearance and PPTA phase. At RRP stage, when detailed information on the project components are available, the project will also be classified based on ADB's financial inputs to the various sector components. This will allow ADB to aggregate at the institutional level its investments under a more balanced sector view.
10. **Specifying sector contribution through terminologies:** In order to better track actual work in operations and help staff in applying better the classification, the working group proposed introducing terminologies for subsector classification. The terminology marker will be supported by a pop-up menu in the PPIS system (Appendix 1, Figure 6). Various terminology ticking within the marked subsector is possible.
11. **Rationalizing thematic contributions.** The working group suggests broadening the reflection of ADB's contribution to its 8 strategic development themes by allowing a classification based on multiple outcome (or proxy) contribution. The current system (ticking up to 3 themes or pillars) would be replaced by a percentage system in which all development impacts can be captured based on the 3 pillars and 5 themes of ADB's poverty reduction strategy. As the percentage contribution will have to be explained in broad terms and because quantifying outcome contribution requires rigorous rationalization, such system will result in a focus on main development contributions. This was also confirmed by the operational members of the working group and is also good international practice. The proposed thematic classification is based on the approach of the current system, however, makes

it more consistent and result oriented, and will be easy to implement for the user (operational department). Other donors have successfully introduced a similar system of outcome based aid (see para 13; in addition bilateral donors under the DAC, World Bank). The working group also proposed some additions such as related to disaster prevention. Figure 7 in Appendix 1 provides the conceptual background for the enhanced thematic classification with project examples. Appendix 3 gives an overview of the proposed changes in the theme and subtheme - classification against the current system.

12. **Improving consistency in data entry:** The working group proposed introducing a simple data entry sheet for project officers (classifying the projects based on result contributions). This would help reducing inconsistencies between information on project classification (scattered in the RRP) and actual data entry (into the PPIS database). It would also strengthen the ownership of project officers in providing a correct project classification. Such summary entry was designed already in the 2004 classification review but never implemented. Appendix 4 comprises such project classification summary.

13. **IT implications:** The Panel discussed ICT implications which can be limited to the upstream project processing system (i.e. PPIS) and the management information system (Figure 8). The total resource requirements are 26 person-weeks of local consultancy (Figure 9). It was found that the changes – as they are limited and focused - are technically feasible and doable within the current system. This was confirmed with ADB's Office of Information and Systems Technology (OIST), the Central Operations Service Office (COSO), the Office of Administrative Systems (OAS) and the ADB's Budget Division. The priority is to make the proposed changes in the context of the current development of a new project management system (P3M) to be effective by September 2008. Between April and October 2008 the new project classification would be monitored through an EXCEL table and then automatically uploaded in the new P3M system in September.

14. **Historical consistency:** The Panel agreed that any change needs to be reflected in ADB's historical data base, in order to allow for consistency in the reporting system. The suggested additions and changes would basically not imply major historical regrouping. The geographical location marker would be introduced from 2008 onwards. Some minor reclassifications (until 2004) are necessary for the thematic classification. These would have to be done by RSDD (not COSO) and would require 2-3 months of local staff consultancy work.

15. **Development effectiveness - looking beyond ADB:** Other multinational and bilateral development banks and donors also monitor their contribution to strategic development outcomes. Some (e.g. KfW, AfD, IFC, DEG) have even introduced development effectiveness rating systems which is used for external reporting and internal strategic quality management. While there is a clear link to project classification, the working group suggests this being followed up in the context of broader ADB discussions on development effectiveness. Comments from development partners such as World Bank, IADB, OECD-DAC and selective donors on the enhanced classification system will also contribute to a better harmonized result reporting system.

Appendixes:

- 1 Rationale for additions and changes
 - Figure 1: Rationale for poverty targeting
 - Figure 2: Sovereign and non-sovereign financing
 - Figure 3: Geographical location
 - Figure 4: Result orientation versus input reporting (example)
 - Figure 5: Terminologies for subsector classification
 - Figure 6: Thematic classification system (5 project examples)
 - Figure 7: Implications for IT systems
- 2 New sector classification
- 3 New thematic classification
- 4 Project classification summary

Classification Enhancement

Figure 1: Rationale for Poverty Targeting

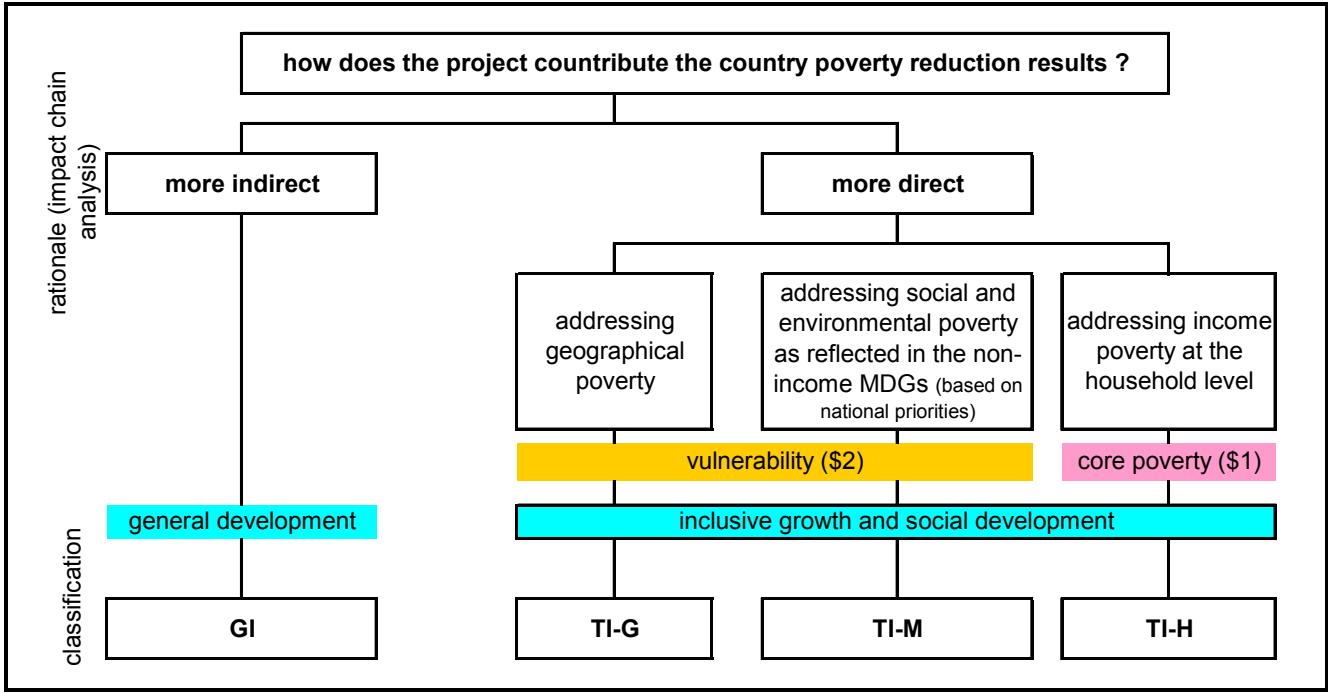


Figure 2: Sovereign and non-sovereign financing

Project Financing							
in million USD	total	sovereign			non-sovereign		
		loan	TA	grant	equity	debt	guarantee
total project costs		no need for further specification					
Government							
others							
ADB							
project sponsor in ADB (please mark with amount from ADB)		regional department			PSOD		

Figure 3: Geographical location

Project	main components	ADF finance (million USD)	geographical location of expected relevant project benefit (in percent)			
			regional	national	rural	urban
PRC expressway	part of national expressway system, no local road components	300		100%		
CAM - Tonle Sap	rural water management, national policies	50		5%	95%	
IND - secondary town development	water and sanitation and other municipal services	150				100%
INO education program	national textbooks and teacher training, rural schools, urban school transport and some school building in slums, scholarships	150		30%	50%	20%
TAJ-AFG transmission and distribution project	regional transmission (\$100 mio), urban distribution (\$20 mio), regional transmission (\$30 mio)	150	60%	30%		10%

Note: The % contribution to project outcomes in geographical locations need to be substantiated through informed result chain argumentation. No detailed statistical analysis is needed. The figures show expected contribution based on project design, not actual contribution of ADB finance only. For broader reporting purposes the expected outcome contribution will be multiplied by ADB financial input.

Figure 4: Result orientation versus input reporting (example)

	input approach	outcome approach
project	a transport project with compionnets for HIV/AIDs mitigation, housing and resettlement, buying of buses for bus transport services	
sector	multisector project	single sector project (transport)
financing:	\$80 million for transport, 3 million for health (HIV/AIDs component), 15 million for industry (bus component), 5 million for housing (due tio resettlement issues)	100% (103 million) ADB's contribution to transport sector in the partner country
sector classification	multisector	transport
sub-sector input in PPIS	transport (\$80 million), health (\$3 million), industry and housing (\$20 million)	roads (\$103 million)
voting	priority 2 (less preferred)	preferred option

Figure 5: Thematic classification (project examples)

contribution to strategic development outcomes of the partner country	project 1: AFG-TAJ energy	project 2 PRC urban environmental improvenemt	project 3 ICT modernization in pension reform	project 4 institutional capacity building for ASEAN	project 5 Southeast Asia infrastructure fund	contribution in \$/\$ of total ADB portfolio	
ADB financing (million USD):	sovereign	sovereign	TA	TA	non-sovereign	100%	600.8
	150.0	200.0	100.0	0.8	150.0		
pro-poor sustainable economic growth	50%	30%			50%	35%	210.0
inclusive social development	20%	40%	60%			28%	170.0
good governance						0%	0.0
environmental sustainability		30%				10%	60.0
gender equality			10%			2%	10.0
private sector development			20%		40%	13%	80.0
regional cooperation	30%			20%	10%	10%	60.2
capacity development			10%	80%		2%	10.6

Figure 6: Principles for multisector classification

sector	subsector	terminologie
Multisector	identify share of sectors in USD, based on % sector outcome (or proxy) contribution	tick respective marker from subsector

Figure 7: Specifying sector contributions through terminologies

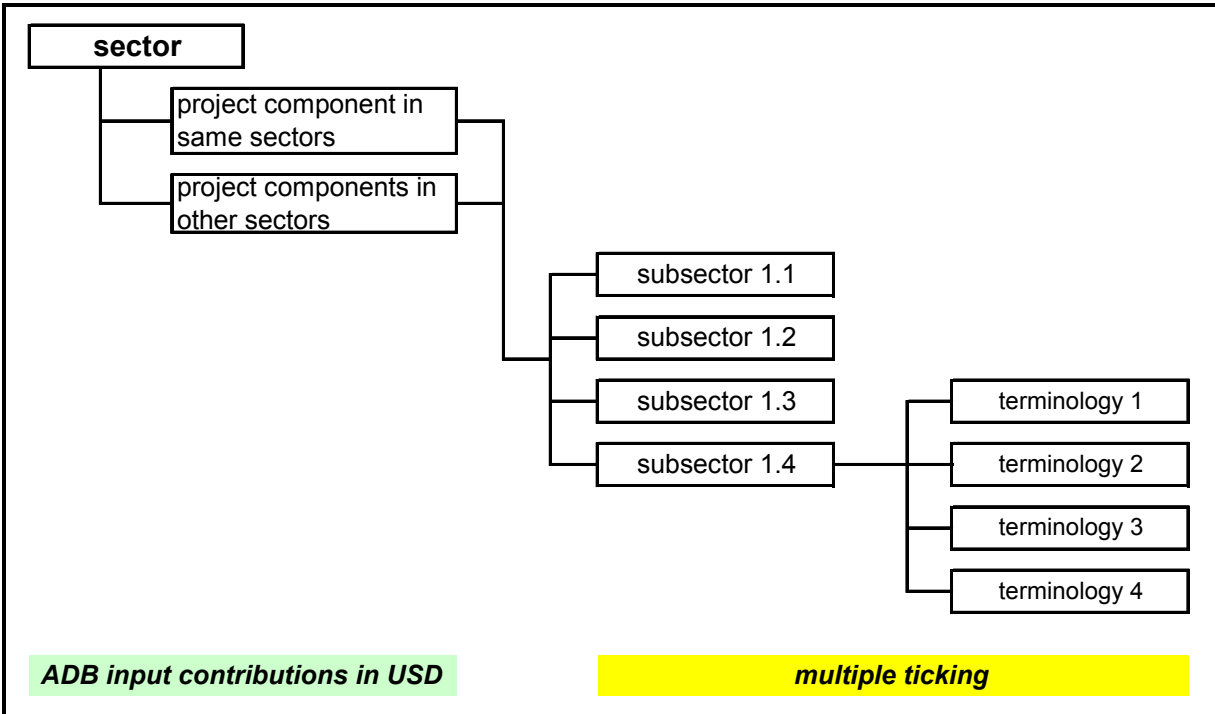


Figure 8: Implications for IT systems

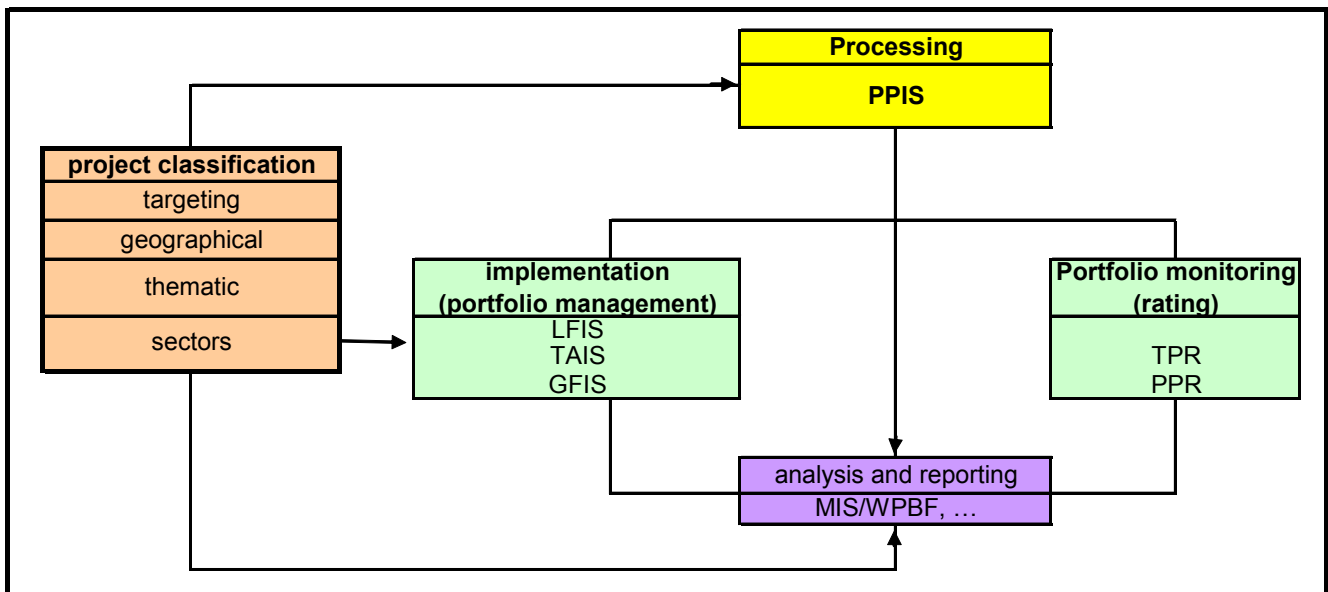


Figure 9: Resource Requirements for Making the System Changes

System change - work requirements						
in person-weeks	PPIS		downward systems		MIS/WPBF	total
	entry	reports	PID	TAIS/GFIS/LFIS		
geographical location (incl. 4 reports)	3.3	2.0	1.0	0.0	0.5	6.8
themes and subthemes	6.3	2.0	2.0	0.0	2.5	12.8
sector changes	0.2	0.0	0.0	0.2	0.2	0.6
terminology	2.0	2.0	1.0	0.0	0.8	5.8
private sector			wiuld require major changes			0.0
total	11.8	6.0	4.0	0.2	4.0	26.0

Note: We assume that the PPIS would generate 4 reports per addition (e.g. location-sector + location-themes + location-subsector + location-subthemes)

Proposed Enhanced Sector Classification

<i>subsectors</i>	<i>terminologies</i>
agricultural production and diversification	agricultural production and diversification irrigation natural resources management fishery forestry livestock sector support and development (incl. livelihood programs)
education	pre-primary and basic upper secondary tertiary labor market relevant education non-formal education sector development
energy	conventional energy large hydropower renewable energy electricity transmission and distribution pipelines energy utility services energy efficiency and conservation sector development
finance	banking systems money and capital markets investment funds housing finance microfinance SME finance and leasing trade finance insurance and contractual savings sector development
health and social protection	health programs health systems health finance nutrition early childhood development social protection
industry and trade	larger industries small-scale industry trade and services sector development
municipal infrastructure and services	water supply and sanitation waste management slum upgrading and housing other municipal services sector development
public sector	management of public affairs public expenditure and fiscal management public administration law and judiciary
transport	air transport water transport rail transport road transport urban transport transport management and policies ICT
Multi-sector	see sectors above

Proposed Enhanced Thematic Classification

Themes and subthemes in the 2008 classification system
<p>sustainable and inclusive economic growth</p> <ul style="list-style-type: none"> promoting macro-economic stability promoting economic efficiency and enabling markets widening access to economic growth (former fostering physical infrastructure development) knowledge, science, and technological capacities
<p>Inclusive social development</p> <ul style="list-style-type: none"> human development indigenous people other vulnerable groups disaster prevention and rehabilitation
<p>Governance</p> <ul style="list-style-type: none"> public financial and economic governance public administration civil society participation anticorruption
<p>Environmental sustainability</p> <ul style="list-style-type: none"> natural resources conservation urban environmental improvement cleaner production and control of industrial pollution eco-efficiency global and regional transboundary environmental concerns environmental policy and legislation
<p>gender and development</p> <ul style="list-style-type: none"> gender equity in (human) capabilities gender equity in (economic) opportunities gender equity in empowerment and rights
<p>private sector development</p> <ul style="list-style-type: none"> policy reforms private sector investment public private partnerships privatization
<p>regional cooperation</p> <ul style="list-style-type: none"> crossborder infrastructure trade and investments money and finance regional public goods
<p>capacity development and knowledge management</p> <ul style="list-style-type: none"> institutional development organizational development client relations, network, and partnership development

Summary classification sheet