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The image is a composite of two circular photographs. The top-left circle shows a woman in a blue patterned sari holding a baby in a yellow shirt and pink hat. The bottom-right circle shows a group of men in suits sitting around a conference table in a meeting room. The text is overlaid on the top-right and center of the image.

INSTITUTIONAL MATTERS

In 2001, the Asian Development Bank (ADB) undertook a comprehensive review of its organizational structure and operational business processes as part of its response to the challenges of reducing poverty in the Asia and Pacific region. In 2002, ADB implemented the recommendations of that review, reorganizing itself with the aim of supporting the development agenda of its developing member countries (DMCs) more effectively than ever.

Reorganization

The major objectives of the reorganization include balanced country and sector considerations, improved quality and expertise, enhanced safeguard compliance, clearer accountability, and greater emphasis on regional cooperation and knowledge management (*see the Knowledge and Support Activities chapter*).

New organizational structure

At the heart of the new organizational structure are five regional departments aimed at formulating and implementing more country-focused programs and enhancing subregional cooperation. These are the East and Central Asia Department, Mekong Department, Pacific Department, South Asia Department, and Southeast Asia Department (*see the Country Reports chapter*). The reorganization aims to help ADB respond more quickly and effectively to the needs of DMCs, because a single department is responsible for making decisions for operations. Staff members can acquire better understanding and knowledge of a particular country because they work on fewer countries. The reorganization is expected to result in better delivery of services to DMCs.

Another new department—the Regional and Sustainable Development Department—was established as a center for technical excellence, quality and compliance, and information exchange. Other departments' responsibilities were realigned and clarified.

Along with the new organizational structure, ADB introduced new operational business processes for its key operations—programming; economic, thematic, and sector work; and project processing and implementation (*see Appendix 7A–7B and http://www.adb.org/Documents/Others/Reorganization_2002*).

New business processes

The new business processes are designed to implement the Long-Term Strategic Framework (LTSF) 2001–2015—which sets ADB's mission, development objectives, and corporate agenda; the Medium-Term Strategy 2001–2005; and the reorganization. As envisioned in the LTSF, the new business processes emphasize the centrality of the country strategy and program (CSP) in ADB operations and enhance the focus on strategic subregional cooperation objectives. Stakeholder participation has been expanded by building this into key stages of the programming and operational cycles.

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to clients; and to delegate more authority. Accountability for the delivery of products and services has been more clearly established. Operational vice-presidents supervise and oversee the work of the regional departments. The director general of each regional department is accountable for the effective and timely delivery of quality loan and nonlending products and services. The new business processes emphasize the importance of teamwork. Each regional department has a regional management team. Each country has a country team, headed by senior staff at ADB headquarters or in the respective resident missions. The country team includes staff from within the regional department, and from other ADB departments as needed. Project teams are established for all loan projects.

Under the new business processes, better identification and conceptualization of projects at the initial stage of the project cycle are emphasized to ensure quality at entry. More inputs during the early stages of the processing cycle allow staff to assess the direction and scope of the proposed project in greater depth, identify areas of analysis, and prepare a detailed implementation plan for project processing. Provisions for compliance with safeguard policies have been strengthened with the appointment of a Chief Compliance Officer (*see Safeguard Policy Compliance on page 43*).

In addition, there is greater delegation of administrative and project administration matters. ADB's revised project administration instructions, launched on 1 January 2002, aim to improve project readiness and simplify major delegation and procedures in project administration. Efforts have been made to simplify key documents to avoid repetition, ensure clearer presentation, and enable the reader to focus on the key aspects of the product.

The new business processes also aim to enhance quality, operational relevance, and development effectiveness of knowledge products and services; and disseminate results more widely. A Knowledge Management Committee, chaired by the President, oversees the ADB-wide knowledge products and services process. Thematic and sectoral committees and networks—

established for every major sector and thematic area—share and exchange knowledge, experiences, and good practices in addressing thematic and sector issues. The

committees also disseminate information internally and externally and provide professional peer support.

For more on the thematic and sector committees, see the Operational Priorities and Performance and Knowledge and Support Activities chapters.

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Implementation and review

To coordinate implementation of the new organizational structure and business processes, ADB President Tadao Chino approved in February 2002 the establishment of a coordination group comprising nine department heads. The group met regularly in 2002.

Overall, the major structural changes were accomplished according to the plan and schedule; however, as with any structural change of this scale, there was a period of adjustment. For some staff members, this transition period was more challenging because they were adapting to new roles as members of country teams, project teams, or thematic/sector committees.

The reorganization design included provisions for an internal staff progress review in 2003, which will assess the progress made on achieving the key objectives of the reorganization, and identify issues that emerged during implementation. An independent assessment of the effectiveness of the organizational changes in meeting the objective of better serving the DMCs will be conducted 2 years after the reorganization.

Changes in accounting

Major changes in loan accounting and servicing requirements were needed when the new London interbank offered rate (LIBOR)-based loan (LBL) product was introduced on 1 July 2001. A project office was set up in the Controller's Department in early 2002 to oversee the procurement, development, and implementation of the new system, referred to as the Comprehensive Loan Administration and Servicing System (CLASS). During the year, interim solutions for processing LBLs were implemented, including enhancing the existing loan accounting system and developing spreadsheet models. Bidders' technical and financial proposals were evaluated. The CLASS will cover all required features of the LBL, including interest rate conversions, currency conversions, interest rate caps and collars, and rebates and surcharges. It will also cover other ADB loan and guarantee products, as well as equity investments.

Human resource management, training, and development

Human resource programs and activities in 2002 focused on attracting, retaining, and motivating staff members in support of ADB's poverty reduction agenda.

Skills in regional cooperation, social protection, performance-based allocation, and the LIBOR-based lending modality were targeted. Recruitment processes were improved by including telephone interviews and assessing candidates' motivation level through questionnaires prior to their interviews in Manila. The questionnaires assist user departments in their interviews of candidates.

Also in 2002, the review of the Gender Action Program—a program that was begun in 1998 to address

PARTNERSHIP TRAINING

ADB staff members had many opportunities in 2002 to upgrade their skills. In the area of external relations, training workshops on working with nongovernment organizations (NGOs) helped staff members in the Mekong and South Asia resident missions and those at headquarters improve their capacity to tap the strengths of NGOs in development work. The workshops, organized through ADB's NGO Center, will impact on the quality and delivery of ADB projects.

gender disparity (*see <http://www.adb.org/gender/>*)—was completed. The representation of women professional staff continued to rise in 2002 in absolute and percentage terms, and the number of women in levels 5 and 6 increased, but the number of senior women professional staff remains low. A second Gender Action Program was considered by Management for implementation in 2003. This program is expected to focus on strategies to increase the number of senior women professional staff, and the number of women in the operational areas, as well as improve their overall representation.

Other activities centered on enhancing the Human Resource Management Information System under the Integrated Financial Management and Human Resource Management Information System (INTEGRA) project (*see the Operational Priorities and Performance chapter*), which was implemented in June 2002. Employee assistance programs—such as spouse liaison assistance, legal assistance, and external counseling—continued to be available to staff. Programs that recognize service and exemplary performance were reviewed.

The 2002 training and development activities in headquarters and the external offices focused on building staff members' technical skills in the sector and thematic areas; and on familiarizing staff members with the new business processes. A management reorganization retreat for senior staff members, a country team leaders' program, and department planning retreats were held to support the reorganization. The team approach and related topics on negotiation, mediation, and facilitation were introduced in seminars and workshops, particularly in the mission leadership programs.

Training also provided staff members with the information and communication technology (ICT) skills needed to manage the INTEGRA. ADB continued to send staff members to external learning events to improve technical skills and to benefit from leadership and management seminars¹ not available in-house. Several staff members, who attended the in-house Ateneo²-ADB Masters in Business Administration program, graduated in 2002.

¹ Fourteen senior staff members (Directors and above) attended the Columbia Program in Tokyo and New York.

² Ateneo de Manila University Graduate School of Business is one of the top schools in Manila offering a Masters in Business Administration program.

ADB continued to provide government officials, staff from other international organizations, graduate students, and academes with the opportunity to learn more about ADB through the Orientation Program for DMC Officials; and the secondment, internship, and fellowship programs.

At the end of 2002, ADB had 2,220 staff members coming from 49 of its 61 members. The total comprised 794 professional staff members³ and 1,426 support staff members,⁴ of which 321 staff members⁵ or about 14.5% are located in the external offices. During the year, there were 93 appointments and 62 departures of professional staff members, while 93 support staff members joined ADB and 67 left. The number of women professional staff members increased from 198 or 26.1% of total professional staff members at the end of 2001, to 217 or 27.3% at the end of 2002.

Compensation

Consistent with ADB's market-driven compensation system, a 3.3% increase in the professional staff salary structure was approved in 2002 (effective 1 January 2003). For local staff at headquarters, the salary survey for 2002 resulted in a 9.6% increase effective 1 January 2002. Annual salary increases for local staff in the external offices were likewise implemented.

Administrative services

To further focus on client and service orientation, the Office of Administrative Services (OAS) initiated a series of outreach activities in 2002, including seminars and workshops on administrative services, an OAS newsletter, and a revamped OAS web site.

ADB undertook a comprehensive review of its safety and security policies and procedures, including physical security and safety, technical security, access control, staff awareness program, emergency management system, and liaison with other security-related organizations.

A comprehensive program for restoring facilities in the 10-year-old headquarters building was initiated.

The fixed assets, inventory, and procurement modules of INTEGRA became functional in June 2002. The fixed assets module provides up-to-date accounting and location information on fixed assets located at headquarters. When fully implemented, the procurement module is expected to improve the turnaround time for procurement processing, ensure information accuracy, and facilitate ADB payments. The module will also help improve procurement management.

Internal administrative budget

Actual internal administrative expenses (IAEs) for 2002 amounted to \$234.3 million, a savings of \$5.7 million

against the original budget of \$240.0 million (see *Appendix 10*). The savings came mainly from incurring lower-than-expected expenses related to the 35th Annual Meeting, depreciation of the Philippine currency, and not using the 1% general contingency. Under the budget category of operational expenses, additional resources were required during the midyear review due to activities not planned when the 2002 budget was formulated, particularly ADB operations in Afghanistan. As a result of reprioritizing the work program and effective budget monitoring, actual use of the operational expenses budget was kept within the initial allocation.

The IAE budget for 2003 amounts to \$258.7 million, including a general contingency of 1% (*summarized in Appendix 10*). The budget growth is 7.9% over the 2002 revised estimate, largely due to an increased contribution to the staff retirement plan and growing depreciation charges. Excluding these two items, the budget growth would have been 5.2%, lower than in the past 2 years.

Budgetary resources in 2003 will fund the following major initiatives: promote demand-driven expansion of ordinary capital resources lending and private sector operations; continue support and expansion of the resident/regional missions and representative offices; improve product quality through safeguards and compliance; and promote regional and subregional cooperation.

In addition to the IAEs, the 2003 budget also includes an annual capital budget of \$4.3 million, mainly to fund regular capital expenditures for headquarters facilities and ICT equipment and to meet requirements of the external offices.

Audit and anticorruption

The Office of the General Auditor (OGA) conducts periodic, independent, and objective appraisals of ADB activities to ensure adequate and effective internal controls and to improve economy and efficiency in the use of resources in carrying out ADB's mission. OGA is also the focal point in ADB's drive against corruption, addressing alleged incidents of corruption or fraud in its projects or by its staff. OGA reports directly to the President. The Audit Committee of the Board of Directors reviews OGA's activities.

OGA completed 27 internal audits in 2002 that led to recommendations to ensure that appropriate procedures are implemented in facilitating portfolio, country, and project risks management in private sector operations, and providing timely information; recording accurately and completely ADB's assets to ensure adequate insurance coverage and maintenance of control over the assets; and enhancing monitoring of investment of ADB's staff retirement fund. Other recommendations were aimed at liquidating promptly advances to suppliers and all accrued and deferred charges relating to procurement of materials for the maintenance of building and office facilities; and identifying and providing training to meet the needs of individuals, departments, sectors, and the organization, and determining the results of such training on staff.

³ Includes Management—i.e., the President and Vice-Presidents—and Directors' Advisors, and staff on secondment, on special leave without pay, and on loan to the ADB Institute.

⁴ Includes staff on special leave without pay.

⁵ Includes 64 professional staff and 257 support staff.

Harmonizing Financial Management and Financial Analysis Guidelines

As part of the multilateral development banks' overall harmonization process, the Office of the General Auditor provided comments on, and inputs to, World Bank papers relating to financial management, and agreed to participate in a pilot project in Viet Nam to be undertaken with the Japan Bank for International Cooperation and the World Bank.

OGA actively participated in the data conversion and user acceptance testing of the INTEGRA project; monitoring the implementation process, including the user acceptance testing of the Treasury Risk Management System, which is anticipated to be activated in 2003; fallback tests for the Society for Worldwide Interbank Financial Telecommunications (SWIFT) and mainframe facilities; and various administrative procurements, providing comments and observations to ensure compliance with procurement guidelines.

OGA provided integrated assistance to ADB's external auditors in their audit of ADB's annual financial statements and their review of interim financial statements for ADB's bond offerings.

ADB's Anticorruption Unit is the contact point for reporting allegations of fraud and corruption in ADB-financed projects or among its staff members. The

Anticorruption Unit in 2002 opened 81 cases to review allegations of fraud and corruption—a total of 272 cases since ADB adopted the Anticorruption Policy in 1998. In 2002, ADB reprimanded 4 firms and 1 individual, and declared 11 firms and 7 individuals ineligible to participate in any ADB-financed activities. A cumulative total of 28 firms and 40 individuals were declared ineligible by the end of 2002.

In 2002, the Anticorruption Unit increased awareness of the Anticorruption Policy and the Anticorruption Unit through presentations, workshops, and publications. OGA jointly investigated allegations with the World Bank, and cooperated with several multilateral development banks (MDBs) and the United Nations in connection with investigations and the harmonization of investigation procedures. See <http://www.adb.org/anticorruption> for information on ADB's anticorruption efforts, including how to report fraud and corruption; ADB's procedures for dealing with allegations; and ADB's sanction and appeal processes.

OGA played an active role in upgrading the audit capability of supreme audit institutions (SAIs) in DMCs. In 2002, OGA was involved in training programs for the Asian Organization of Supreme Audit Institutions, the South Pacific Association of Supreme Audit Institutions, and government auditors in three Central Asian countries. OGA also continued to exchange information regarding anticorruption issues, capacity building, and auditing with SAIs and other MDBs through meetings, international conferences, and the annual meeting of the heads of audit of MDBs.