

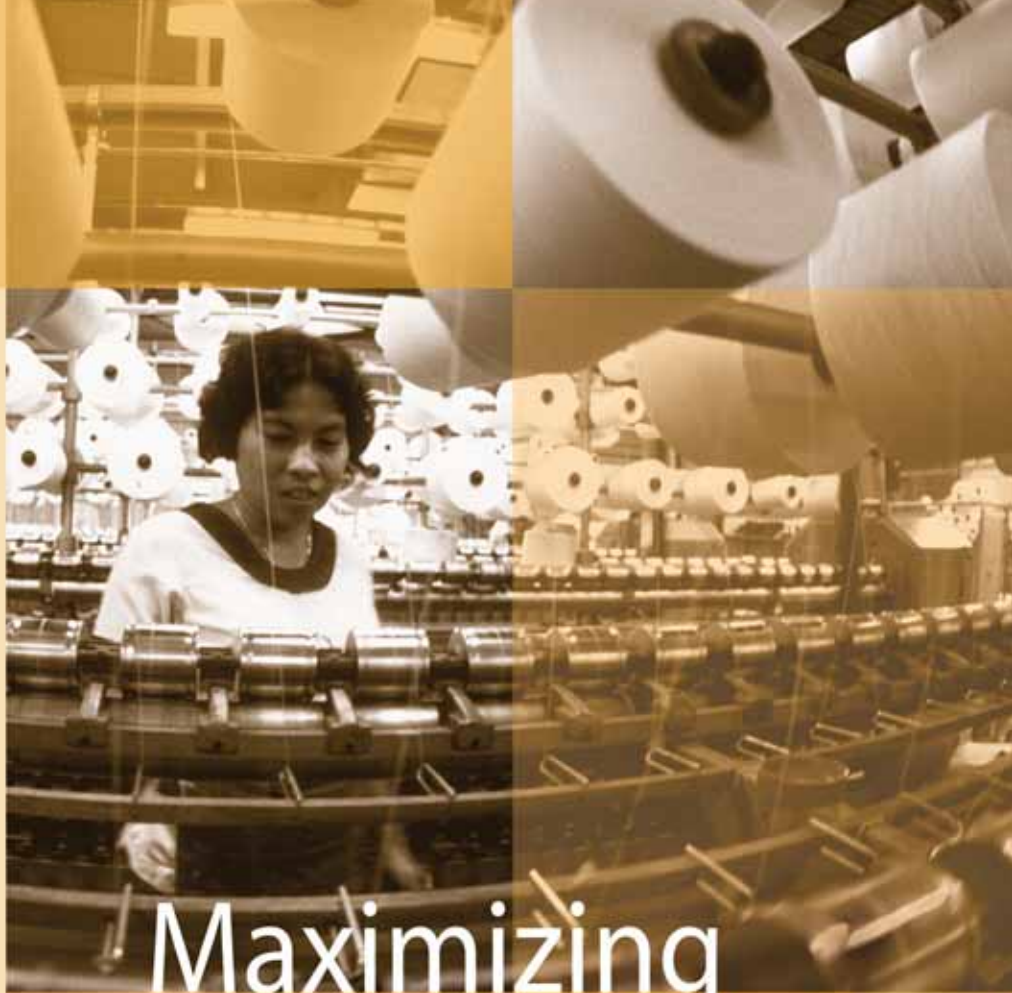
A DB took several steps toward greater organizational effectiveness in 2003. A Board and Management retreat on the topic led ADB closer to adopting a results-based management system that will allow it to better gauge its development effectiveness.

There was a clearer focus on objectives and monitoring and on moving toward the targets of the Millennium Development Goals.

Further delegation of responsibilities to resident missions under the Resident Mission Policy and the reorganization and changes in business processes improved ADB's country focus and led to clearer lines of accountability. Progress was made on integrating performance considerations in operations and in updating country strategies and programs, including a stronger emphasis on benchmarking, measuring, monitoring, and reporting.

A new Vice-President was appointed to oversee knowledge management and sustainable development, bringing the total to four. In addition, a new position was created for a Managing Director General to coordinate the work of senior management. At the staff level, there was increased emphasis on merit, results, and productivity. Work began on a new human resource strategy to reflect these changes.

ADB also continued its partnerships for development by coordinating priorities with other multilateral development banks (MDBs) and by working more closely with civil society. The High-Level Forum on Harmonization held in Rome in 2003 set out principles to harmonize procedures and processes in environmental impact assessments, safeguards, procurement, financial and portfolio management, and public expenditure reviews. Finally, key milestones for enhancing organizational and business processes were identified: complete the independent



Maximizing Institutional Effectiveness

PART 1

assessment of the reorganization; finalize the agenda for organizational improvement and stability; and continue to refine, consolidate, and stabilize the processes throughout ADB.

Streamlining Organizational and Business Processes

Within the context of the first Medium-Term Strategy 2001–2005 of the Long-Term Strategic Framework 2001–2015, ADB implemented major structural and systemic changes aimed at maximizing its effectiveness as a development partner. ADB's inherent advantage—that it is physically close to its developing member countries (DMCs)—has been enhanced through an expanded regional and resident mission network and the country-focused structure of the organization. New business processes support this structure with greater emphasis on delegating responsibilities and on strengthening team-based approaches. To maximize effectiveness, ADB aims to ensure that (i) programs and projects are of high quality from their inception, (ii) people and the environment are safe from adverse impacts of proposed operations, (iii) standards for portfolio performance are high, and (iv) results and impacts are objectively measured and lessons learned are properly gauged and fed back into the development process.

Quality assurance mechanisms must meet the highest standards. ADB continued to streamline quality review to enhance the value added by sector and thematic committee contributions to important crosscutting areas such as gender, governance, and social development. These efforts aim to improve the quality of analytical and diagnostic work, policy dialogue, and project

and program design. In addition, ADB continued to emphasize and to improve economic analysis in policy formulation and in program and project design.

All programs and projects complied with the institution's rigorous environmental and social safeguards. Legal services reinforced the quality of ADB operations by focusing on due diligence, structuring, documentation, and negotiation of ADB's public and private sector lending, guarantee, and equity operations. Policy compliance requirements were scrutinized during project preparation and administration and were reflected in the transaction documents.

While DMCs are primarily responsible for implementing interventions, ADB was actively engaged as a supportive partner. During implementation, monitoring compliance with safeguards continued particularly at critical junctures. Portfolio management was increasingly shared between headquarters and the regional offices and resident missions, allowing for intensified in-country cooperation with stakeholders and improved monitoring of operations, both key elements for successful implementation.

ADB enhanced its monitoring systems to track and analyze the performance of individual loan and grant-financed projects, increasing emphasis on monitoring and measuring results and impacts. The project performance reporting system for loan-financed projects was expanded to (i) cover records of major issues, problems, actions taken, design changes, and ratings; and (ii) extend DMC access to the information in the project performance report. A technical assistance performance reporting system was pilot tested in 2003 and will be operational in early 2004.

A review in the first half of 2003 of ADB's 2002 reorganization concluded that disruption to ADB's operations and deliverables was minimal and that DMCs benefited

from the single operational focal point provided by the integration of programs and projects at the department level. The review noted that while ADB's capacity to deliver its strategic agenda had improved, this could be strengthened further. It also noted that changed management initiatives may not have been as effective as expected and that institutional work arrangements and environment and incentive structures need to be resolved.

The review identified several areas that required attention—the span of control of directors in some of the larger sector divisions, the distribution of assignments among sector divisions and regional departments, and quality assurance mechanisms in the Regional and Sustainable Development Department. The issue of control in large sector divisions in the South Asia and the East and Central Asia departments was resolved. Some regional departments and the Regional and Sustainable Development Department addressed the necessary distribution and balance of work through a change in mix of skills and redeployment, and options to enhance quality assurance mechanisms were considered. An independent assessment of the effectiveness of the reorganization will be undertaken in 2004.

Mobilizing Human Resources and Budget

Human resource programs and activities continued to focus on attracting, retaining, and motivating highly qualified staff. In addition to offering competitive salaries on appointment, ADB formalized the outsourcing of background checks for senior and other sensitive positions. Vacancies were posted on web sites targeting international development specialists specifically those with skills in social protection, social development, private sector

development, derivatives, transport, renewable energy, and project/operations administration.

Based on the interventions identified by a study of human resource challenges,¹ ADB completed its self-review and identified 10 priorities (*see box*). Of these, the Gender Action Program II, staff participation in selection and promotion panels (6-month trial basis), and the revision of the Staff Service and Exemplary Performance Recognition Program were approved and implemented. A review of the current performance management system was conducted. Behavioral, cultural, and structural changes in managing and conducting the present system were recommended to senior management and to ADB's Staff Council and were the basis for workshops with staff.

Training and development activities focused on providing opportunities for staff to align their skills with the desired mix under the new organizational structure and business processes. Alternative delivery methods were used to expand audience numbers and access to training programs by a wider range of staff especially in the resident missions. An operations

tool kit was launched, providing a one-stop source on policies, strategies, procedures, and business processes.

ADB continued to subsidize postgraduate studies, membership in professional associations, and the ADB-Ateneo² Masters in Business Administration Program and also provided capacity-building initiatives such as the Orientation Program for Developing Member Country Officials, the Secondment Program, and the Internship Program.

At the end of the year, ADB had a staff of 2,311 representing 51 of its 63 members. The total comprised 836 professional staff,³ 356 national officers, and 1,119 administrative staff,⁴ of which 362⁵ or about 15.7% were located in the field offices. There were 89 appointments and 47⁶ departures of professional staff members, while 110 national officers and administrative staff joined ADB and 59⁷ left. The number of women professional staff increased from 217 (27.3% of the total professional staff) at the end of 2002, to 241 (28.8%) at the end of 2003.

ADB provided regular services to staff members to ensure optimum staff welfare, fundamental to developing, updating, and retaining

the core competencies that are needed to deliver ADB's increasingly complex work program.

An ADB-wide survey to ascertain and better gauge staff perception of the overall working environment, as well as a review of professional staff job offer rejections⁸ was completed. The survey noted that staff morale was an issue that ADB needed to address. Work on a human resource strategy was begun.

Security was a primary consideration as was the health of staff. ADB provided regular advisories on severe acute respiratory syndrome, took appropriate measures for staff members' health, and maintained close coordination with medical representatives from the World Health Organization and various embassies in Manila.

Consistent with ADB's market-driven compensation system, a 4.2% weighted average increase in professional staff salaries was approved in 2003 (effective 1 January 2004). For local staff at headquarters, the salary survey for 2003 resulted in a 10.1% weighted average salary increase effective 1 January 2003. An overall weighted average salary increase of 9.3% for local staff in 19 field offices was also implemented.

The existing compensation and benefits package for professional staff in the field offices was monitored and revised as necessary. The mandatory and optional life and disability insurance plans were rebid and renewed.

Significantly, ADB was the first MDB to get ISO 14001 and OHSAS 18001 certification.⁹

Internal Administrative Budget

Actual internal administrative expenses for 2003 amounted to \$252.6 million, a utilization rate of 98% for a savings of \$6.1 million against the original budget of \$258.7 million. The budget for 2004 amounts to \$279.5 million, including a general contingency of

Human Resource Management Priority Interventions

- Establish a competency system to support personnel decisions including selection, performance management, and career development.
- Implement a job rotation system for national officers and administrative staff to enrich their work experiences.
- Enhance the performance management system to ensure adequate feedback and to make meaningful distinctions among individual staff performances.
- Implement the Gender Action Program as part of ADB's diversity framework.
- Implement leadership development and talent management programs to strengthen capabilities of senior staff.
- Revise the staff recognition program to promote meritocracy and to reward performance.
- Implement a one-Bank policy for resident/regional missions and representative offices to ensure consistent application of human resource management.
- Establish accountability and transparency in the recruitment and selection system.
- Initiate a balanced work-life program for an improved work environment.
- Review personnel guidelines to improve clarity and ease of access by staff.

1% (summarized in Appendix 8). The increase over the 2003 revised estimate is 8.3%, largely due to further increases in ADB's contribution to the Staff Retirement Plan, implementation of the accountability mechanism and anti-money laundering policies, the cost of new resident missions, increased depreciation charges, and security-related costs. The overall price increase is estimated at 5.1%, while the net volume increase is about 3.2%.

Priorities to be funded by the 2004 budget include implementing new Board-approved policies and mandates, expanded work programs and portfolios of regional departments, increased activity in private sector operations, compliance-related legal services, the managing-for-results initiative, and an action plan for the knowledge management framework.

In addition to internal administrative expenses, the 2004 budget also includes an annual capital budget of \$4.85 million covering, among others, security-related capital expenditures at the resident missions and technology-related infrastructure/systems consolidation and updates.

Assuring Development Impact

ADB has made significant progress in integrating performance considerations into its operations. Improved use of project evaluation results and project performance management systems is helping to create better designed and better targeted interventions.

Reorganization of OED

The Operations Evaluation Department (OED) assesses projects, policies, and procedures to account for the use of resources, to provide lessons for future operations, and to sustain activities already completed.

Evaluation criteria are relevance, efficacy, efficiency, sustainability, and impact. Evidence presented in 2003 showed that since 1989 the success rate of individual operations and of most sectors and countries has been increasing (see the *Annual Review of Evaluation Activities in 2002* at http://www.adb.org/Documents/PERS/RPE_OTH_2003_12.pdf). During 2003, OED completed 38 reports including 22 project and program performance audits, 6 technical assistance reports, 2 country assistance program evaluations, 6 special and impact evaluations, and 2 annual reports.

In December 2003, the Board approved a set of recommendations to further enhance the independence and effectiveness of OED. The following changes that came into effect on 1 January 2004 brought OED to a comparable position with evaluation units in other multilateral development finance institutions.

(i) OED will report directly to the Board through the Development Effectiveness Committee (Committee).

(ii) The Director General of OED (Director) will be appointed by the Board upon the joint recommendation via the Committee of the Board and the President.

(iii) OED will have fuller autonomy in selecting its staff; the final selection of OED personnel will be made by the Director in consultation with the Budget, Personnel and Management Systems Department in accordance with ADB human resource policies and procedures.

(iv) The annual work program of OED prepared in consultation with the Committee and the President will be approved by the Board.

(v) Within the overall ADB-wide budgetary framework, the Director in consultation with the Committee and the Budget, Personnel and Management Systems Department will prepare an annual budget proposal for OED which will be presented by the President for consideration and approval of the Board in a separate resource envelope.

(vi) Completed evaluation reports will be circulated by the Director simultaneously to Management and to the Board for their response. Disclosure of reports, which will be authorized by the Director, may include as attachments Management's response, OED's comments on it, and a summary of discussions by the Committee.

Corresponding changes in practices relating to work program and budget and to circulation and disclosure of reports will be instituted during 2004 based on continued engagement with operations and other departments. OED's role will be guided by the principles of usefulness and timeliness and of disengagement. The first principle requires OED to use lessons identified in evaluations in reviewing the design of future projects and to provide timely and useful inputs to current operations. The second principle requires that OED maintain an arm's-length relationship from day-to-day operational decisions. OED will continue to have unfettered access to all relevant ADB records and information.

The results of evaluations undertaken in 2003 and in recent years, with summaries by sector and country, and all evaluation reports can be viewed at <http://www.adb.org/Evaluation>.

Project and Program Performance Audit Reports

Most public sector projects and programs evaluated in 2003 were completed in 1999. Of the 22, 16 were rated successful or higher. None was rated unsuccessful. Seventeen confirmed the ratings given in completion reports, and five were reclassified. The economic infrastructure sectors continued to record the highest success rates. Five (62%) of eight programs were successful compared with an average of 30% over the last 5 years.

Twenty-four technical assistance projects for capacity building and advisory studies attached to these projects/programs were also evaluated. Of the 21 that were rated, 11 were successful or better, 8 were partly successful, and 2 were unsuccessful.

Five programs involved financial sector reform. Three were successful, including in particular a strong commitment by the Government of Viet Nam to sustain positive impacts of financial sector reform. The Agriculture Sector Program in Cambodia, the first for the country, removed some key constraints including the passage of a land law. The Public Sector Reform Program in the Federated States of Micronesia was successful and helped restore fiscal balance to the country.

Of the 14 projects evaluated, 2 (14%) were rated highly successful, 9 (64%) successful, and 3 (22%) partly successful. The highly successful Dalian Water Supply Project in the People's Republic of China (PRC) confirmed that commitment at the local government level is an essential factor for success.

Special and Impact Evaluation Studies

A special study was undertaken on financial cost recovery in the power sector in 14 DMCs during the 1990s. ADB's contribution was assessed in part through the record of compliance with financial covenants by 42 power utilities that received 69 loans totaling \$9.2 billion during 1990–2001.

The principle of financial cost recovery in the power sector is that revenues from electricity sales should fully recover operational expenses and depreciation and should generate a reasonable return on the capital invested. The three key criteria for evaluating cost recovery were (i) cost minimization, (ii) tariff setting, and (iii) revenue collection efficiency. Performance in three countries was satisfactory; in five countries was unsatisfactory; and in six countries was tolerable. The review of compliance with covenants showed an overall average compliance rate of 61%. ADB is (i) moving away from further lending to utilities that are in chronic default of covenants; (ii) assisting DMCs to create new

institutions with a more business-like approach to utility management; and (iii) shifting away from project lending to utilities to program lending to governments for improving the sector policy environment.

Many countries are moving in the direction of sector reforms involving independent regulatory bodies, unbundling the sector by function, and establishing a competitive wholesale market for electricity. ADB should assist integrated utilities to unbundle their utility tariffs and to organize their business units by function. Commercialization should ensure that unbundled tariffs are at full cost-recovery levels.

Two studies in particular yielded valuable lessons for future ADB assistance in the power sector. Assistance to Bangladesh over the last 30 years comprised 16 public sector loans and 1 private sector investment for a total of \$1.1 billion as well as 19 technical assistance grants totaling \$8.8 million. Lessons learned include the need to (i) minimize extensive delays in implementation; (ii) improve local capacities in project preparation, implementation, and operation and selection of appropriate technology; (iii) improve ownership of technical assistance; (iv) improve financial management capacities; and

Project Performance Management in ADB and in Projects in DMCs

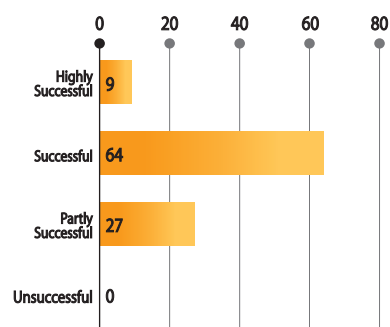
The purpose of the study was to identify what if any changes should be made in the short to medium term to enhance the efficiency, quality, and use of ADB's project performance management system. The system comprises five elements: (i) the framework, which specifies performance targets and indicators; (ii) the performance report; (iii) the completion report; (iv) audit reports; and (v) executing agency monitoring and evaluation.

The study concluded that ADB had made substantial progress in developing and adopting specific processes for project performance management; however, several challenges were identified,

particularly on the specification and measurement of the achievement of development objectives. The quality of project frameworks, the basis for the whole system, was identified as a key area for improvement. The quality of monitoring data in the project performance report also needed significant improvement. Standardization of terminology, updating of guidelines, mandatory preparation of a preliminary project framework early on, and strengthening of borrower monitoring and evaluation were proposed. The Working Group on Project Performance Management was recalled and a detailed action plan was devised.

Project and Program Performance Ratings,^a 2003

(percent)



^a Performance audit ratings based on five evaluation criteria: relevance, efficacy, efficiency, sustainability, and institutional/other development impacts.

(v) avoid use of project phasing to finance a change such as improving financial systems. At the strategic level, a key lesson was that ADB's approach to sector reform, which is based on piloting change and learning by doing, facilitated change where it took place through the success of individual projects and newly created entities.

A study of the impact of power assistance in Indonesia since 1980 provided further guidance for future operations. The conclusion was that conventional lending operations had significant, positive impacts on the development of power systems and on socioeconomic and institutional development but that sector reform assistance had not been as successful.

Evaluations in the water and forestry sectors proved equally valuable for guiding future operations. A special evaluation analyzed participatory processes in six projects in three DMCs. The conclusion was that participatory approaches had added value to natural resource management project design, implementation, and operation and if applied effectively could increase ownership and sustainability. Environmental outcomes were almost universally positive. Comanagement was optimal for forests to ensure benefits to local communities. Participation offered major benefits in rural income and poverty reduction through improved resource planning and management and through promoting interaction of the poor with the community, enhancing their sense of worth and self-esteem.

ADB provided \$73 million of assistance in loans and grants to build capacity in several water utilities in Pacific DMCs. The projects provided valuable lessons.

(i) Setting up boards of directors with the right composition was a good first step but needed to be complemented with training.

(ii) Introducing performance-based principles did not ensure that the data were actually used in

decision making and that actions were taken when performance fell short of targets.

(iii) Efforts to change operational procedures were effective only if the utility, its management, and its staff took full ownership of necessary changes.

(iv) All stakeholders had to support plans to incorporate to build politically acceptable solutions, to increase transparency, and to ensure sustained implementation of institutional changes.

In general the conclusion was that ADB's capacity-building approach needed to change. Systematic institutional diagnostics should be undertaken jointly before a decision is made on the areas and direction of change. A medium-term strategy for capacity building should be developed, providing a framework for continuous assistance with interim milestones. Terms of reference of consultants need to be changed to give greater emphasis to capacity-building roles.

Country Assistance Program Evaluations

Papua New Guinea

The evaluation focused on three central issues: reforming the machinery of government, managing the dual economy, and delivering public services. Projects, the main assistance tool, were generally successful in producing outputs but did not generate significant or sustained impacts. Sector performance did not improve and contributions to promoting economic growth, particularly in rural areas, were overshadowed by declining international commodity prices, the Asian financial crisis, economic downturns, deteriorating law and order, and periodic droughts. Improvements to service delivery were lacking largely due to weaknesses in resource transfers and the absence of qualified staff. Projects tended to work in isolation rather than form an integrated

country program with a clear strategic development goal.

There is a need to focus on a development agenda that creates jobs and addresses law and order, on managing debt and changing public resource management to avoid perpetual financial crises, and on building capacity in public administration.

Cambodia

ADB resumed operations in Cambodia in 1992 and has played a leading role in its recent development. Assistance was guided by three country strategy documents that emphasized poverty reduction; however, Cambodia remains poor with only limited economic opportunities in tourism and garment exports.

The strategies were generally responsive to the needs of the country but could have placed greater emphasis on improved governance and on more diverse private sector development. The program has adapted over time to incorporate operations with a greater impact on the poor.

Portfolio performance was good (above the ADB average) though overall there were some weaknesses. The substantial resources contributed for capacity building were focused on training specific individuals rather than on the effective functioning of institutions as a whole. Coordination of external assistance proved difficult in light of the complex government structure and inadequate harmonization of programs across agencies.

Implications for the future are (i) ways need to be found to induce investment and to generate financial resources for the Government; (ii) some reduction in sector coverage would be beneficial with continued focus on governance issues; (iii) coordination of Government and external resources needs to be improved; and (iv) a broader approach to capacity building that will reduce dependence on external assistance should be adopted.

Technical Assistance Performance Audit Reports

In the 6 audit reports, 30 technical assistance activities were evaluated: 2 were rated highly successful, 17 successful, 7 partly successful, and 1 unsuccessful. Three were ongoing and therefore not rated.

Environmental Issues in the PRC

Seven technical assistance projects, both completed and ongoing, addressed needs in all key areas of environmental management and capacity building at the central, provincial, and municipal levels. Technical assistance to establish the Center for the Transfer of Environmentally Sound Technology, to improve environmental management in Shaanxi Province, to formulate provincial legislation on environmental protection and natural resources conservation, and to provide leadership training on urban environmental management in key cities achieved their objectives.

The evaluation identified some important lessons for each stage of a technical assistance cycle. Their essence is how best to meet the needs of the Government rather than perceived needs or the needs of ADB. Several projects were more supply driven than client oriented. One technical assistance project was rated highly successful, two successful, and one partly successful.

Pension Reform

Five technical assistance projects totaling \$4.4 million were approved between November 1997 and December 1999 to promote pension reform in Bangladesh, India, Indonesia, Thailand, and Uzbekistan. Two—those in Bangladesh and Thailand—were attached to capital market development programs. A common feature was that pension reform was seen primarily through development of domestic capital markets rather than as a means of providing income for the vulnerable.

The assumption that pension reform will promote long-term domestic capital formation sufficient for good social policies, particularly for the most vulnerable groups, should be revisited. The skills and knowledge of pension staff and coordination between finance and human development staff during pension reform should be improved. Distribution issues, particularly those involving women and disadvantaged groups, must be explicitly addressed in the design of any future pension reform.

Development Planning and Statistics in Cambodia

Technical assistance started in 1992 with the approval of a large grant to strengthen capacity in macroeconomic management. From 1992 to 1997, three other projects focusing on development planning and national statistics totaling \$6.8 million were approved. The capacity built up in national statistics was impressive; from virtually zero, the National Institute of Statistics is now producing a large amount of widely used data and has sufficient staff to continue to do so. In development planning, the outcomes were somewhat less convincing owing mainly to the changed institutional role of the ministry concerned.

The main lessons learned included the following: (i) it may be appropriate to have smaller projects with fewer components; (ii) in transition economies where local capacity is limited, it may be useful to separate funds to substitute local capacity with external capacity from those for training to produce local capacity; (iii) if a ministry undergoes major organizational change, it may be useful to support a thorough institutional assessment to review the need for ongoing or new support.

Funding salaries and operational expenses through technical assistance should be replaced by regular financial support to priority mission groups. Institutional

assessment of the ministry should be conducted and its role expanded through village, commune, district, and provincial databases. The public investment program should become an integral part of macrobudget planning rather than a means of mobilizing aid. Three projects were assessed successful and one partly successful.

Gender and Development in Cambodia

Three projects provided assistance over 8 years. Two emphasized data collection and policy formulation while the third was for project preparation and also provided assistance for capacity building and promoting women's employment. The main lessons learned were (i) without mainstreaming, gender issues integral to poverty reduction will continue to be marginalized; (ii) revising technical assistance design could be successful if there were early identification of key constraints, early objective analysis of achievable goals, and efficient, participatory management; and (iii) achieving objectives must be sensitive to the political and institutional environment if failure is to be averted.

The ministry should be reorganized to reinforce consideration of gender concerns. The policy on women should be reviewed, updated, and published, and there should be greater focus on gender training and mainstreaming. All technical assistance projects achieved planned output in terms of reports and had considerable success in achieving gender outcomes. One project was partly successful because it failed to take account of the capacity of the executing agency, and two were successful.

Institutional Strengthening and Policy Support to the Power Sector in Bhutan

The three projects had two design weaknesses: the time given for consulting input was inadequate and sequencing of activities was not

taken into account. Lessons from the evaluation included (i) before developing complex new accounting software, the Government should agree to replace the existing system; (ii) more attention needs to be paid to domestic characteristics and conditions when technical assistance is formulated; and (iii) the time allowed for counterpart feedback must be adequate.

The Government and ADB should agree to an acceptable level of increase in domestic prices for electricity, and indicators other than the standard financial covenants should be developed to gauge the effectiveness of sector reforms. One project was rated successful and two partly successful.

Water Supply and Sanitation

Eight projects for improvements in water supply and sanitation included three advisory technical assistance projects in the Lao People's Democratic Republic (Lao PDR) and five in Viet Nam. Lessons learned included the following: (i) effects could be cumulative and positive in institutions that receive continued advice over time even if individual projects were unsuccessful; (ii) health and hygiene programs associated with water supply and sanitation are more effective when implemented by an experienced professional organization; (iii) where an advisory technical assistance project has several interrelated components, consultants' inputs should be organized so that outputs can be properly coordinated; and (iv) coordination and timing between associated projects and advisory technical assistance is important. One project was assessed highly successful, six successful, and one partly successful.

Annual Report on Loan and Technical Assistance

The report assesses performance in the previous year. In 2002, the public sector portfolio improved markedly over 2001. The proportion

of projects at risk of performing below expectations dropped from 26% in 2001 to 16% in 2002. Success in moving projects out of the "at risk" group is measured by a proactivity index; this improved from 39% in 2000, to 59% in 2001 and 67% in 2002. Though overall performance improved, problems were identified such as the time taken for loans to become effective, the high proportion of loans requiring extensions, and the proportion of loan cancellations in some DMCs. The proportion of technical assistance and project completion reports actually carried out remained disappointing. The performance of the private sector portfolio was little changed in 2002. Delegating project administration to resident missions and doing so earlier in implementation will improve performance.

Strengthening Accountability

In 2003, ADB continued to review the new business processes as a way of improving accountability and internal governance. Reviews of the 1994 Policy on Confidentiality and Disclosure of Information and the 1994 Information Policy and Strategy were also begun. In May, ADB appointed a senior-level steering committee to oversee the reviews. The committee set up a working group to study ADB's experience with the policies; to examine international trends in transparency and communications; to analyze the practices of comparable institutions; and to confer with the Board of Directors, Management, and staff.

In mid-August, ADB actively solicited public comment on the policies and asked for suggestions on how to improve them. About 70 individuals and organizations in more than 20 countries contributed feedback which was posted on ADB's web site (<http://www.adb.org>)

to encourage informed public debate. The working group then began formulating an entirely new, unified Public Communications Policy that emphasizes proactive sharing of operational information, seeking feedback, and demonstrating results. All departments and offices were involved in the process to ensure that the new policy would take into account business processes and the project cycle, would protect confidential information and the deliberative process, would broaden public understanding of ADB's role, and would support effective consultation, promote public participation, and ultimately contribute to poverty reduction.

As 2003 drew to a close, ADB continued work on the Policy with the aim of circulating a public draft and holding face-to-face consultations with stakeholders in 12 countries.

At the project level, ADB approved a new accountability mechanism and appointed a Special Project Facilitator to address concerns of persons affected by ADB projects. The new mechanism consists of two complementary functions, a consultation phase and a compliance review phase. The Facilitator will be responsible for the consultation phase. The accountability mechanism will replace the inspection function approved in December 1995 (*see page 3 and http://www.adb.org/Documents/Policies/ADB_Accountability_Mechanism/*).

Audit and Anticorruption

The Office of the Auditor General (OAG) 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. OAG is also the focal point in the drive against corruption, addressing alleged incidents of corruption or fraud in ADB projects or by its staff. OAG reports directly to the President. The Audit Committee of the Board

of Directors reviews OAG's activities.

OAG completed 28 audits in 2003 that resulted in, among others, the following recommendations:

- (i) enhance the monitoring of compliance with loan covenants;
- (ii) establish criteria and methodology for prioritizing and allocating funds for interregional technical assistance projects;
- (iii) strengthen internal controls in financial, administrative, and operational areas at the resident missions;
- (iv) strengthen internal controls relating to treasury services by monitoring applicable diversification limits for corporate investments, executing proper deal tickets for interest rate and currency swaps, monitoring counterpart risk exposure for foreign exchange transactions, and maintaining segregation of duties in all treasury functions; and
- (v) enhance the process of monitoring the performance of maintenance contractors and ensure the accuracy of their invoices.

Information technology audits recommended (i) improving response time to ensure prompt action in case of critical system events and (ii) taking appropriate virus control measures. Recommendations also included enhancing procedures to monitor the use of software and to ensure compliance with licensing agreements. OAG also participated in local and offshore fallback tests of the mainframe computer to ensure continuity of operations in case of a disaster and in monitoring the implementation of the Treasury Risk Management System, including reviewing the results of user acceptance tests.

The audit of six consultants' contracts by OAG resulted in the recovery of overpayments and in the sanction of one consulting firm. OAG initiated the analysis of new legislation and guidelines related to auditing and oversight to consider best practices to strengthen internal procedures.

OAG also participated in the review of several audit firms in Viet Nam along with the World Bank and the Japan Bank for International Cooperation, which resulted in shortlisting firms considered acceptable to audit externally funded projects. OAG also maintained close liaison with its counterparts working in various MDBs and United Nations agencies. OAG 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 projects or among its staff members. In 2003, the Unit opened 88 investigations for a total of 360 investigations since ADB adopted the Anticorruption Policy in 1998. ADB reprimanded 2 firms and 1 individual and declared 21 firms and 10 individuals ineligible to participate in ADB-financed activities. A cumulative total of 49 firms and 50 individuals had been declared ineligible by the end of 2003. With 8 firms and 11 individuals having regained eligibility, 41 firms and 39 individuals remained ineligible at the end of the year.

In 2003, the Anticorruption Unit performed procurement-related audit of a road development project in South Asia. It assessed the control risks of the executing agency and its compliance with ADB's procurement guidelines, its opportunities for operational improvements, and other concerns that required further investigation under ADB's Anticorruption Policy. The Unit increased awareness of the Policy and of itself through presentations, workshops, and publications. (See <http://www.adb.org/anticorruption> for information on ADB's anticorruption efforts, including how to report fraud and corruption, procedures for dealing with allegations, and the sanction and appeal processes.)

OAG further contributed to upgrading the audit capability of supreme audit institutions in DMCs. In 2003, OAG was involved in training programs for the Asian Organization of Supreme Audit Institutions and the South Pacific Association of Supreme Audit Institutions. OAG also continued to exchange information on anticorruption issues, capacity building, and auditing with supreme audit institutions and MDBs through meetings, awareness seminars, international conferences, and meetings of the heads of audit of MDBs.

Managing Knowledge

The capacity to acquire, share, and apply knowledge is crucial for institutional effectiveness, and for allowing clients to benefit more readily from the experience of others. To this end, ADB began work on the Knowledge Management Framework in 2003 and appointed a Vice-President for Knowledge Management and Sustainable Development.

ADB's sector and thematic committees are potential conduits for knowledge sharing. The committees and networks are expected to discuss emerging issues in the region; to recommend regional technical assistance; to disseminate information on publications, conferences, and training opportunities; to suggest prominent individuals within and outside the region for informal seminars; to provide professional peer support to ADB staff; and to facilitate partnerships with relevant in-country and regional networks, resource organizations, and key development stakeholders. Observations on their effectiveness were mixed. Their mandates, resources, and incentives were addressed in 2003 and in the review of new business processes to make them more functional in 2004.

ADB continued to support information and communication technology (ICT) by participating in the United Nations World Summit on the Information Society (WSIS). President Chino delivered the keynote address at the Asia-Pacific Regional WSIS where the Tokyo Declaration was prepared for submission at the WSIS in Geneva, Switzerland, in December 2003. In response to the WSIS Declaration of Principles and Plan of Action, ADB is reviewing its ICT policies.

Asian Development Bank Institute

Considerable effort was made in 2003 to respond positively to requests for assistance and cooperation. The relevance of new activities for stakeholders helped set ADB Institute (ADBI) priorities. To

improve focus and impact, work was integrated into the four strategic themes chosen for the coming 3-year rolling workplan i.e. poverty reduction, regional cooperation, private sector development, and governance. Considerable emphasis was given to strengthening ICT links in line with the Knowledge Management Committee and to align ADBI's work with ADB's overall priorities.

Steps were taken to extend activities to a wider cross section of countries. New activities included the following: the preparation and publication of a country economic report on Afghanistan (launched at the Bonn Donors' Meeting); the "Making Markets Work for the Poor" project in Cambodia and the Lao PDR in collaboration with the Department for International Development, United Kingdom; a

large-scale research project on poverty including studies and participants from PRC, India, Indonesia, Philippines, and Thailand; and various research projects that comprised regional teams.

Capacity building and training were expanded. Learning activities were supported in Kazakhstan and Uzbekistan and more are being developed for the five ADB regions: East and Central Asia, Mekong, the Pacific, South Asia, and Southeast Asia. ADBI is also developing new activities using ICT to provide services across the entire Asia and Pacific region. Two new products were successfully launched in 2003: a daily electronic news and analysis service (e-newsline, latest edition at <http://www.adbi.org/e-newsline/index.html>) and a CD-ROM review program accessible on ADBI's web site. In addition, work has started on a redesign of the web site to be launched in mid-2004.

In addition to its own projects, ADBI supports visiting researchers (principally from the region) whose work is generally on one of the four themes. This new program commenced in the fourth quarter of 2003. Five visiting researchers are expected in 2003–2004.

ADBI is also the implementing agency for the ADB and Inter-American Development Bank agreement on the Latin America/Caribbean and Asia/Pacific Economics and Business Association. As part of this work, in 2003 ADBI organized and hosted conferences on comparative development in Asia and Latin America and supported networking for researchers.

Fostering Partnerships

The diversity and scale of the development potential and challenges in the region require collaboration among all stakeholders committed to reducing poverty.

Information and Communication Technology

Satellite links across Asia and the Pacific continued to support ADB's Resident Mission Policy. With the newly commissioned links in the Afghanistan and Tajikistan resident missions, ADB staff can plan project and program activities via videoconferencing with 14 remote sites. Sector and thematic committees and extended networks shared and categorized relevant information with the use of knowledge management

systems, and technical assistance management was improved with the use of standard performance reports generated by a new system. A new information technology governance system was institutionalized and, under the guidance of the Information Technology Committee, automation requirements were prioritized, and the ADB Information System and Technology Strategy was completed and approved by Management.

Publications

Disseminating information and sharing knowledge are two of the most effective tools ADB has for sustaining development. ADB publications inform, instruct, and inspire both members and partners in the pursuit of the Millennium Development Goals and of ADB's vision of a region free from poverty. The *Asian Development Outlook*, *Basic Statistics*, and *Key Indicators* are

annual publications. In 2003, an additional 69 books, policies, research papers, and multimedia products were published on economic growth, the environment, and human development. Fifteen newsletters are also circulated regularly. A complete list of publications is on the *Annual Report 2003* CD-ROM (see also <http://www.adb.org/Publications>).

ADB's partners include national and local governments, civil society, nongovernment organizations (NGOs), and bilateral and multilateral development agencies.

To enhance partnerships, ADB focused on (i) harmonizing policies and procedures to minimize transaction costs, (ii) strategic coordination to better align country strategies and programs with the development planning cycles of individual DMCs and with those of other key development partners, (iii) working with NGOs and civil society, and (iv) enhancing communications and outreach to attain a higher public profile for and understanding of ADB. This includes a combined review of the Information Policy and Strategy of ADB and the Policy on Confidentiality and Disclosure of Information. Representative offices and regional and resident missions play a growing role in this regard. The network will be augmented by the Pacific coordination and implementation office in Sydney, approved in 2003 which will expand outreach in Australia and New Zealand.

Two factors that have catalyzed stronger partnerships are (i) expansion and devolution of responsibilities to resident missions;

and (ii) establishment of grant funds from several bilateral donors, including Canada, Denmark, Japan, the Netherlands, Norway, Sweden, and United Kingdom.

Experience gained in Bangladesh and Cambodia as well as lessons learned from other institutions led ADB to view sector-wide approach programs (SWAPs) as a way to enhance project effectiveness. SWAPs presume strong local capacities and require that stringent policy and fiduciary conditions be met up front, but with attention to the best blend of instruments, SWAPs can serve the needs of poorly performing countries.

In May 2003, a participatory process involving more than 500 representatives of the public, private, and nonprofit sectors culminated in the adoption of ADB-Government-NGO Cooperation: A Framework for Action, 2003–2005. This document provides a medium-term roadmap for increasing tripartite collaboration in poverty reduction efforts and recommends specific actions to increase NGO participation in ADB activities, to enhance transparency and interaction, to develop ADB capacity for NGO cooperation, to build NGO capacity, and to strengthen government-NGO cooperation.

One immediate step of the Framework's implementation was the creation of a pilot NGO small grants window, NGO Partnerships for Poverty Reduction, made possible by a \$500,000 regional technical assistance fund financed by the Poverty Reduction Cooperation Fund. Technical assistance will help NGOs design and implement innovative projects in several DMCs. Projects will emphasize poverty reduction and enhanced cooperation among ADB, governments, and NGOs.

This landmark development in ADB relations with civil society gives ADB greater flexibility and additional resources to support innovative NGO activities that complement poverty reduction efforts at the country level. NGOs may submit proposals for up to \$50,000 per country or up to \$20,000 per project.

Coordination with other development partners was given increased importance in 2003. Active participation in events organized by the European Union, the Organisation for Economic Co-operation and Development, the United Nations, and the World Trade Organization provided ADB with an effective platform to present regional perspectives to a global audience.

ENDNOTES

- 1 ADB. 2002. *Study of Human Resource Challenges at the Asian Development Bank*. Manila.
- 2 Ateneo de Manila University Graduate School of Business is one of the top schools in Manila offering a Masters in Business Administration Program.
- 3 Includes Management, i.e., the President and Vice-Presidents, Director's Advisors, 37 staff on secondment and special leave without pay, and 6 staff on loan to the ADB Institute.
- 4 Includes 13 staff on special leave without pay.
- 5 Includes 69 professional staff and 293 local staff.
- 6 Mainly due to normal retirement, voluntary resignations, expiration of fixed-term appointment, and separation in the interest of good administration.
- 7 Mainly due to separation in the interest of good administration, voluntary resignations, and normal retirement.
- 8 Seventeen percent of total offers for professional staff positions rejected due to salary-related and personal/family reasons.
- 9 ISO 14001 is an international standard that specifies requirements for environmental management systems. Certification signifies a commitment to prevent, control, and manage the impact of an organization's activities on the environment in areas it can control. OHSAS 18001 is a tool to manage the conditions and factors that affect staff's well-being in the workplace.