

A photograph of two women, one in the foreground and one slightly behind her, both wearing red clothing. They are looking down at a smartphone held by the woman in the foreground. The background is blurred, suggesting an indoor setting. The text 'Policy and Strategy Overview' is overlaid in white on the image.

# Policy and Strategy Overview

ADB formally began a comprehensive review of its long-term strategic framework to keep the institution relevant and effective as a regional development bank. It convened a panel of six eminent persons in 2006 to provide insights on the future of the region and the role of ADB.

The Eminent Persons Group's report, commissioned by President Kuroda and made public in March 2007, envisioned a dramatically transformed Asia by 2020: most countries would have conquered widespread absolute poverty but would be facing formidable development challenges, stemming largely from unprecedented growth and economic successes.

The report urged ADB to become better prepared to help members meet these challenges by adopting three mutually complementary strategic directions— inclusive growth, environmentally sustainable growth, and shift from a national to a regional and global focus. To become more responsive and enhance institutional effectiveness, the report also urged ADB to be more selective in its operations and to streamline its business processes further.

Internal and external stakeholders were consulted extensively on the way forward for ADB. Several in-house studies, notably on inclusive growth, and a special evaluation study by the Operations Evaluation Department on the implementation of the long-term strategic framework (2001–2015) during 2001–2006, were produced to aid discussion and build consensus. A retreat was organized in October with ADB's Board of Directors and Management to deliberate on the new long-term strategic framework until 2020 and on measures to enhance ADB's institutional effectiveness.

The vision of an Asia and Pacific region free of poverty continues to be the foremost aspiration of ADB's member countries. Preliminary analysis and consultations, however, have revealed the changing nature of poverty in the region and the need to place much greater and concerted attention on inclusive growth: creating opportunities through economic growth and private sector development, and giving all citizens more chances to participate in and benefit from growth. The increasing importance of environmental sustainability and the role of regional cooperation and integration have also been noted.

Under the new long-term strategic framework to be adopted in 2008, ADB will define its role and strategic directions to guide operations in 2008–2020, with strong emphasis on achieving development impact in developing member countries in association with a wide range of partners within and outside the region.

## REPLENISHMENT AND MANAGEMENT OF ASIAN DEVELOPMENT FUND RESOURCES

On the sidelines of the 2007 Annual Meeting in Kyoto, Japan, ADB met informally with donors to the Asian

Development Fund (ADF) in preparation for the negotiation of the ninth replenishment of the ADF (ADF X).

At the first meeting in Sydney, Australia, in September, ADB called for an ADF X significantly larger than ADF IX, as this replenishment covering 2009–2012 would be the last chance to have an impact on the Millennium Development Goals by the target date of 2015. New challenges such as climate change, the plight of weakly performing countries, and the potential for enhanced regional cooperation also need to be given special attention. The role and priorities of the ADF in the international aid architecture were examined, and the conclusion was that poverty reduction should be the goal of ADF X. Meeting participants agreed that ADF operations should be more selective, and endorsed the proposed sector focus on infrastructure (including rural and social infrastructure) and education.

Both the meeting in Sydney and the one that followed in Vientiane, Lao People's Democratic Republic, in November noted that operational effectiveness had improved, and highlighted the need to increase institutional effectiveness. Managing for development results was seen as crucial to this quest, along with human resource reforms, streamlined business processes, continued strengthening of resident missions, and further decentralization of decision making. Discussions also centered on the performance-based allocation of ADF resources, the new grants framework based on the debt-repayment capacity of recipient countries, and ADB's participation in the debt relief initiative for heavily indebted poor countries. The Operations Evaluation Department presented preliminary findings of a special evaluation study on ADF VIII (2001–2004) and ADF IX (2005–2008), which was critical of the targeting-of-the-poor approach applied under ADF VIII but more positive about ADB's present approach to poverty reduction. The study recommended that the ADF be enlarged to accelerate the achievement of the Millennium Development Goals.

The ADF X replenishment negotiations are expected to be concluded by early May 2008, ahead of the Annual Meeting in Madrid, Spain.

**An Asia and Pacific region free of poverty continues to be the foremost aspiration of ADB's member countries**

## DEVELOPMENT EFFECTIVENESS

### Managing for Development Results

ADB continued to implement the managing for development results (MfDR) initiative as the cornerstone of its reform agenda. In line with the MfDR Action Plan for 2006–2008, implementation rests on three key pillars: supporting the capacity of developing member countries to manage for development results, enhancing ADB's results orientation, and maintaining effective results partnerships.

**Supporting the capacity of developing member countries to manage for development results.** With the introduction of results-based country partnership strategies, ADB's regional departments have enhanced national dialogue on MfDR, with particular attention to country systems and capacity to manage for outcomes. Technical assistance in support of national MfDR agendas, including pilot initiatives financed from the MfDR Cooperation Fund, continued. In parallel, ADB's Economics and Research Department is pursuing a new approach to statistical capacity building (SCB), paying closer attention to weak developing member countries (DMCs), as well as identifying longer-term financing for SCB via the Fund for Asia-Pacific Statistical Capacity Building.

The Community of Practice on Managing for Development Results (CoP-MfDR), established in March 2006 with ADB sponsorship, has emerged as an important initiative to build sustainable partnerships and networks in participating DMCs. The CoP-MfDR

now comprises more than 80 active members from 18 DMCs, development partners, private sector and civil society organizations, and over 200 peripheral members.

**Improving ADB's results orientation.** Results-based operational tools are now in place and widely used across ADB. The country programming and related business processes have been strengthened with revised guidelines, the design and monitoring frameworks for results-based projects and country partnership strategies have improved, and results are increasingly monitored and discussed with governments during country portfolio reviews, now more often held jointly with other development partners. The results orientation was further enhanced in institution-wide reports and planning documents, including the annual report on the implementation of the poverty reduction strategy, the reform agenda, and the progress report on the MfDR Action Plan. In the interest of greater clarity and simplicity, starting in 2008, ADB will consolidate these reports into a single review on development effectiveness.

**ADB continued to implement the managing for development results initiative as the cornerstone of its reform agenda**



The long-term strategic framework will guide ADB operations in 2008–2020



ADF X participants agreed that operations should be more selective and center on infrastructure and education

To support the new development effectiveness reporting system and the ADF X replenishment process, ADB also started to prepare country briefs on development effectiveness to give development partners a better sense of ADB's key contributions to national development outcomes and aid effectiveness. A more comprehensive MfDR curriculum was developed for staff learning and development. So far, 11 MfDR learning programs, including three programs for director-level staff and above, have been implemented.

**Maintaining effective results partnerships.** ADB remained a lead member of the emerging global partnership on MfDR, in particular by cochairing the Organisation for Economic Co-operation and Development (OECD)–Development Assistance Committee Joint Venture on MfDR, contributing to the annual editions of the Common Performance Assessment System (COMPAS) developed by multilateral development banks, cosponsoring the Third International Roundtable on MfDR (Ha Noi, Viet Nam, February), and sharing knowledge of and experience in MfDR with other multilateral development banks.

The Operations Evaluation Department independently evaluated the progress of MfDR, and, among other things, concluded that ADB's progress and challenges were generally comparable to those of other multilateral development banks.

### Implementing the Paris Declaration

ADB has worked closely with other funding agencies and partner countries in supporting the Paris Declaration on Aid Effectiveness and Harmonization.

To harmonize reporting on implementation with its partners, ADB is using a quantitative and qualitative monitoring framework similar to that of the World Bank and OECD. The declaration commitments are tracked through a set of 12 indicators to measure implementation status against global targets set for 2010. A first round of monitoring, by OECD in 2006, covered six ADB member countries. A second round, by the Strategy and Policy Department in 2007, dealt with 13 countries.

The monitoring has revealed mixed results thus far. For some indicators—coordinated technical support, the use of country public financial management and procurement systems, aid predictability, and joint analytic work—the results are reassuring, and with some extra effort the 2010 targets are likely to be achieved. However, for others—the use of program-based approaches and parallel implementation structures and joint missions—much more needs to be done to reach the desired goals. ADB is actively engaged with its partner countries in the run-up to the Third High Level Forum on Aid Effectiveness (Accra HLF), scheduled in 2008, to help present a regional perspective and report on progress made in the Asia and Pacific region.

A special evaluation study by the Operations Evaluation Department on ADB's approach to partnering and harmonization found ADB's achievements to be substantially under-recorded. Its principal recommendations were to clarify what qualifies (and what does not) as meeting the Paris declaration commitments, particularly for program-based approaches, and to strengthen ADB's management information systems related to its activities in support of the Paris

declaration. ADB, through its relevant departments and resident missions, is now working closely with OECD to consider these recommendations.

## ADB's Approach to Weakly Performing Countries

On 30 May, ADB's Board of Directors endorsed an approach to dealing with weakly performing countries (WPCs). ADB identifies WPCs based on country performance assessments carried out under the performance-based allocation policy, and taking into account conflict or post-conflict situations in the countries. A WPC is either ranked in the fourth or fifth quintile during country performance assessments for 2 of the most recent 3 years or considered to be in, or recovering from, conflict and thus fragile. Weak performance and fragility do not disappear when a country shows a small improvement in performance scores that might move it slightly above a cutoff point. Higher-income or higher-performing countries in vulnerable post-conflict or political transition situations, as well as countries with fragile areas that could have spillover effects on neighboring countries, also require particular types of engagement.

ADB takes a selective approach to WPCs: it will generally support a limited number of major reforms to extend the benefits of development, and augment capacity so as to strengthen ownership and the ability to absorb and manage assistance, for more effective development. Thus, in these countries, ADB will increase technical assistance and other grant-funded operations, and strengthen partnerships, including cofinancing opportunities. In parallel, ADB will keep refining its approach to identifying weak performance, rethinking its operational planning, and adapting its business processes and instruments to suit the needs and capabilities of individual WPCs.

ADB intends to further strengthen its operations in WPCs by increasing coordination, mutual learning, and networking with partners through the newly established WPC committee and a WPC focal point. ADB's work program and budget framework for 2008–2010 indi-

**ADB will strengthen its operations in weakly performing countries by increasing coordination, mutual learning, and networking with partners**

cates that ADB will step up the use of grant resources, including those from the Japan Fund for Poverty Reduction, for WPCs, and allocate 20% more technical assistance to these countries than in 2004–2006.

## IMPROVING INSTITUTIONAL EFFICIENCY

### Review of Technical Assistance Management

The comprehensive review of ADB technical assistance (TA) operations proceeded, with a view to increasing their development effectiveness.

While developing member countries generally appreciate ADB's TA, the special evaluation study of the Operations Evaluation Department on TA performance concluded that only about two thirds of ADB's TA activities have been successful. This is below the 70% success rate target established under the poverty reduction strategy, indicating considerable room for improvement in development effectiveness.

The ongoing review has systematically covered strategy, planning, quality, implementation, ownership, and financial management issues. The proposed reforms combine product and procedural changes and pay particular attention to defining responsibility and accountability for decisions and outcomes at various steps, shifting decision-making responsibility (and accountability for the results of the decision) to the lowest appropriate level, while clarifying the type of oversight that higher levels in the organization should provide. The review is expected to be completed in 2008.

The TA reforms also present an opportunity to tackle some concerns related to TA financial management. In recent years, TA financing has increasingly been sourced from externally funded trust funds. While more diversified funding has allowed ADB to maintain a sizable and stable program in the face of fluctuating financial flows, overreliance on trust funds also carries some risks. First, the objectives of the suppliers of funds may not match ADB's or the region's priorities. Second, ADB staff and developing member countries can incur substantial transaction costs in aligning to different guidelines, procedures, and reporting requirements.

ADB has responded to these trends through a financing partnership approach, with the creation of facilities to support broad themes that address the priorities of ADB and the Asia and Pacific region. So far, such facilities have been established for water (November 2006), regional cooperation (February 2007), and clean energy (April 2007). By the end of 2007, over \$85 million had been mobilized, \$40 million of this

from ADB's resources. ADB will also try to harmonize guidelines across funds and encourage contributors to bilateral trust funds to merge their funds with the broader facilities as far as possible.

### Strengthening Resident Mission Operations

ADB started to review its resident mission operations in 2007, to assess the extent to which the objectives and expectations of the 2000 resident mission policy are being achieved, to identify issues and constraints on effective implementation, and to find ways of resolving them. The ongoing review is also looking into recent changes in ADB's strategic and operational context, and assessing how these changes have affected or might affect resident mission operations. The ultimate objective of the exercise is to come up with short- and medium-term options for improving resident mission operations. The review also draws on the findings of the Operations Evaluation Department's Special Evaluation Study on Resident Mission Policy and Related Operations: Delivering Services to Clients, which included extensive survey work.

The preliminary findings of this review show that resident mission activities have significantly expanded to meet the broad objectives of the 2000 resident mission policy (Table 2). Evidence from various sources suggests that delegation to resident missions has had a positive impact on ADB operations. To sustain and amplify the encouraging results, the Strategy and Policy Department will recommend ways to further strengthen the implementation of the policy over the short to medium term. The final paper on the review is expected to be completed by the first half of 2008.

**TABLE 2 Evolution of Resident Mission Responsibilities since the Approval of the Resident Mission Policy**

Resident Mission Activities	ADB Total			
	2000		2007	
	No.	%	No.	%
Resident Missions Leading Country Programming	3	23	21	91
Public Sector Projects Processed	5	7	5	7
Technical Assistance Processed	6	2	26	11
Public Sector Projects Administered	67	15	187	39
Technical Assistance Administered	65	6	147	16

Sources: Budget, Personnel, and Management Systems Department; 2002 Review of the Implementation of Resident Mission Policy; budget document; project performance report system; technical assistance performance system; project processing information system; regional departments.

## Delegation to resident missions has had a positive impact on ADB operations

### Innovation and Efficiency Initiative

ADB continued to implement the innovation and efficiency initiative, which is aimed at improving ADB's business model and aligning services, products, and practices more closely with client priorities and market trends.

**Cost sharing and eligibility of expenditures.** New country cost-sharing ceilings and financing parameters for 13 developing member countries have been agreed on and approved. In most cases, the new portfolio ceilings (which define the share of project cost that ADB can finance) are higher than the old project ceilings. Depending on the project and the sector, the new ceilings can

### Multitranches Financing Facility for the Rural Roads Sector II Investment Program in India

This multitranches financing facility (MFF) supports a program to bring economic growth to the rural communities of Assam, Orissa, and West Bengal. All-weather roads are to be built to give people better access to markets and social services. The total cost of the investment program is estimated at \$2.1 billion. ADB has agreed to make available up to \$750.0 million in several tranches over 5 years.

Advance action was allowed with the first MFF financing request and, in accordance with the new policy on eligibility of cost sharing and expenditures, retroactive financing was permitted for contracts awarded as early as 12 months before loan signing. This allows the executing agency to contract services and goods well before the first loan is signed. The size of the financing request can then be based on the volume of contracts already awarded. This MFF was approved in December 2005. In 2006, contracts worth about \$172.0 million were awarded, and the first loan for \$180.0 million was signed in August and took effect in October. The entire amount of the loan has been contracted out and \$110.4 million, or close to 61.3% of the loan amount, has been disbursed.

go up to 99%. The financing of reasonable taxes is now generally allowed for both loans and grants, as is the financing of recurrent costs, subject to sustainability.

**New financing instruments and modes.** Among the new financing instruments, the multitranche financing facility (MFF) has emerged as the most-used and most-sought-after product. As of 31 December, 17 MFFs, with total available financing of \$9.4 billion, had been

approved. Flexibility, lower costs, and a programmatic approach under a partnership agreement are all attractive features of the MFF.

Several of these facilities have been performing well in terms of contract awards and disbursements. In view of the large volume of MFFs that have been approved or are in the pipeline, the incorporation of this pilot instrument into ADB's operational tool kit by the first half of 2008 is being proposed.

With respect to the other instruments, as of the end of 2007, five nonsovereign public sector financing facilities had been processed (all of them corporate loans to state-owned enterprises), and one transaction was being considered under the refinancing facility. While ADB expects few proposals for refinancing transactions, the facility is still useful where public interest is involved or where demonstration projects are needed to establish a precedent in the market. Local-currency loan products were made available to five countries—the People's Republic of China, India, Indonesia, Kazakhstan, and the Philippines—with a total of 13 loans (all of them for the private sector) worth \$779.5 million approved. By extending or guaranteeing long-term local-currency loans, ADB can play an important role in selected developing member countries in ensuring the sustainability of companies and projects, particularly those that generate revenues only in local currency.

**Country strategies and business processes.** For the effective implementation of ADB's new business processes in preparing country partnership strategies (CPSs), Management approved on 21 February the revised Operations Manual section on CPSs and the new CPS guidelines, which emphasize results orientation, selectivity, and the participation of governments, the private sector, and civil society. Two workshops were held in September to familiarize staff with the new guidelines.

## Safeguard Policy Update

The Operations Evaluation Department 2006 studies on the three safeguard policies (environment, indigenous people, and involuntary resettlement) highlighted the need to improve safeguard implementation, clarify policy principles, streamline procedures, and better align ADB's safeguard requirements with those of its developing member countries. The ongoing safeguard policy update is aimed at making ADB's safeguard policies more effective and more relevant to changing client needs. In particular, the policy update will include clearer, more coherent, and more consistent safeguard requirements; a better balance between a front-loaded approach and attention to the delivery of results during

## Reducing the Cost of Doing Business with ADB

Through the innovation and efficiency initiative and the broader reform agenda, ADB has become better able to respond to clients, and the results are becoming apparent. For example, business process streamlining has reduced processing time (Table 3).

TABLE 3: Average Processing Time from Loan or TA Fact Finding to Board Approval (months)

Year	Sovereign Loan Projects	Nonsovereign Operations <sup>a</sup>	Grants
1998	21	9	–
1999	26	14	–
2000	26	9	–
2001	24	10	–
2002	25	9	–
2003	27	6	–
2004	23	6	–
2005	23	12	8
2006	22	8	12
2007	20	8	9

– = not applicable, TA = technical assistance.

a Concept clearance date is used where the loan or TA fact-finding date is not available.

In parallel, the Board approved on 7 December simplified and reduced loan charges for new loans from ordinary capital resources to sovereign borrowers or borrowers with sovereign guarantee, negotiated on or after 1 October. Under the new loan pricing structure, the effective contractual spread has been reduced to 0.20% per year and the annually approved waiver mechanism abolished. All new London interbank offered rate (LIBOR)-based loans will carry a small commitment charge of 0.15%, down from 0.75% for program loans and 0.35% for project loans. Front-end fees have also been eliminated.



Experience in managing for development results was shared at the Shanghai International Program for Development Evaluation Training

project implementation; safeguard practices that are more in harmony with those of other multilateral financial institutions, and approaches tailored to the varying safeguard systems and implementation capacities of ADB's developing member countries; safeguard policies that are more adaptable to new lending modes and instruments; and improved internal processes and resource allocation. An overarching safeguard policy statement covering the three safeguard policies is expected to be presented for Board consideration in the fourth quarter of 2008.

### Disclosing Information on ADB Operations

The public communications policy, adopted in April 2005, has increased ADB's accountability and transparency. The policy commits the institution to proac-

## ADB aims to make safeguard policies more effective and more relevant to changing client needs and new modes of lending

tively making information available and to responding to ad hoc requests for information. ADB has taken a firm stand in favor of disclosure. The information on ADB-assisted projects that is disclosed on the ADB website has increased continuously since the policy was adopted (from an average of 73 documents posted monthly in 2005, after the policy took effect, to 86 in 2006 and 104 in 2007). The public disclosure advisory committee has so far received no complaints or petitions to review denied requests.

A significantly greater number of project summaries have been posted on the ADB website. Compliance with the circulation of documents, including social and environmental information, to the Board continues to be high but could be more timely. Project appraisal reports of private sector operations are disclosed after confidential information is excised, in a significant step toward increased transparency. The minutes of all ADB Board meetings and the chair's summaries of Board discussions on ADB policies and strategies are posted on the ADB website. Country partnership and regional cooperation strategies are also circulated in draft form to increase country ownership. ADB's core administrative documents, such as the budget, are posted online.

ADB, along with 30 other organizations, was recently assessed in *2007 Global Accountability Report*, published by One World Trust, and received a perfect (100%) score for good practice in transparency because of its public communications policy.