



# POLICY AND STRATEGY OVERVIEW

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Strategy 2020 sets a strategic direction for ADB with a clearer focus on poverty reduction through inclusive growth, environmentally sustainable growth, and regional integration. Its implementation is a challenge requiring substantial resources, knowledge, and expertise. In May, ADB concluded the ninth replenishment of the Asian Development Fund and started discussion on a general capital increase. In September, ADB became the first multilateral development bank to adopt a corporate-wide results framework with specific performance indicators and targets. The framework will serve as a key management tool to monitor ADB's performance in realizing its vision of a region free of poverty by 2020.

## LONG-TERM STRATEGIC DIRECTIONS

### Strategy 2020

On 7 April, ADB adopted a new long-term strategic framework for 2008–2020. Known as Strategy 2020, the framework is based on a thorough examination of the region’s challenges, a comprehensive review of ADB’s past and ongoing operations, and extensive stakeholder consultations. Strategy 2020 reaffirms both ADB’s vision of an Asia and Pacific free of poverty and ADB’s mission to help developing member countries reduce poverty and improve living conditions and quality of life. It also lays out clear directions for planning ADB’s operations and its organization and business processes to 2020.

To achieve its mission, ADB will focus on three strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. ADB operations will emphasize five key drivers of change: private sector development and operations, good governance and capacity development, gender equity, knowledge solutions, and partnerships.

Strategy 2020 recognizes that ADB cannot and will not attempt to meet all needs of all developing member countries. To maximize results, efficiency, and impact, ADB will focus its financial and institutional resources in five core areas that best support its agenda, reflect developing member countries’ needs and ADB’s strengths, and complement the efforts of development partners. These five core operational areas are infrastructure; environment, including climate change; regional cooperation and integration; finance sector development; and education. In other areas, ADB will continue operations selectively and in close partnership with other agencies.

**ADB will pursue its vision of an Asia and Pacific region free of poverty through three strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration**

Approved in October, ADB’s work program and budget framework for 2009–2011 outlines how ADB will align its operations, organization, and resources with Strategy 2020 over the medium term. Alignment of 80% of ADB operations with the five core operational areas will be achieved by 2011. Strategy 2020 also sets specific operational and institutional goals, which have been incorporated into ADB’s corporate-wide results framework, which was formally adopted in September (Toward Greater Institutional and Development Effectiveness, ADB Results Framework, page 18).

### Streamlining and Realigning ADB’s Policies and Strategies

In tandem with refocusing its operations, ADB will promote greater coherence across its entire operational policy framework by streamlining its policies and strategies. A comprehensive inventory of all existing strategies and policies has begun, starting with the review of policies and strategies with substantive implications for achieving Strategy 2020’s operational goals. Depending on the degree to which they are relevant to Strategy 2020, ADB’s policies and strategies will be revised, consolidated, or retired. This will enhance ADB’s operational efficiency, improve client responsiveness, and optimize the use of institutional resources, resulting in greater development impact.

## RESOURCE MOBILIZATION

Strategy 2020 charts a new strategic course for ADB. Its successful implementation will require substantial resources in addition to knowledge and expertise.

### Review of the 1998 Graduation Policy

ADB has two lending windows for channeling development assistance to its developing member countries: the Asian Development Fund (ADF) and ordinary capital resources (OCR). The eligibility criteria for access to both are stated in ADB’s 1998 graduation policy, a review of which was completed in April. This review included the eligibility criteria for ADF and OCR, the country classification framework, and the procedures for graduation from ADF and OCR; and the country classification re-

view process and procedures. While the review concluded that the 1998 graduation policy remains broadly relevant and useful for guiding resource allocation and contributing to risk management, it also introduced some noteworthy changes. These include using the term “creditworthiness” in place of “debt repayment capacity” to ease communication with stakeholders and link ADB’s country classification framework more closely with the creditworthiness consideration under ADB’s recently approved income-planning framework; using a refined methodology to assess creditworthiness through analysis of both quantitative and qualitative indicators by a creditworthiness assessment committee; replacing the previous four-tier classification system with a three-tier system that identifies developing member countries as “ADF only,” “blend,” or “OCR only;” and further strengthening the classification review process.

### ADF X Replenishment and Follow-Up Initiatives

In May, ADB successfully concluded negotiations for the ninth replenishment of ADF (ADF X) and the fourth regularized replenishment of the Technical Assistance Special Fund. These negotiations, held in Madrid, Spain, resulted in a total replenishment amount of SDR7.1 billion (about \$11.3 billion) for ADF X from 1 January 2009 to 31 December 2012. This amount, which is considerably larger than the ADF resources previously available, will enable ADB to make a greater contribution to poverty reduction in its lower-income developing member countries and fulfill its priorities as articulated in Strategy 2020.

In Madrid, donors endorsed the role and priorities of ADF, both of which are aligned with Strategy 2020. They also agreed on the allocation rules for ADF X, including refinements to the performance-based allocation system and the financial management and framework for ADF X. Discussions emphasized the importance of increasing ADB’s institutional effectiveness as a means of ensuring effective implementation of the ADF X program. To achieve this objective, the donors and ADB agreed on a time-bound implementation plan for ADF X. The donors likewise endorsed an ADF results framework with specific performance indicators and targets, and results-based performance reporting that is to be accomplished through annual

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development effectiveness reviews. Finally, donors authorized the use of ADF X contributions for grants. ADB has requested all donors for their consent to amend the ADF regulations to enable the use of all ADF resources, including reflows, for grants. Earlier in the year, ADB also adopted a policy allowing its participation in the Heavily Indebted Poor Countries Initiative for debt relief and approved associated relief to Afghanistan.

### Optimizing the Use of Ordinary Capital Resources

*Review of ADB’s ordinary capital resource requirements.* On 6 May, the Board of Directors reported the status of ADB’s resources to the Board of Governors. The Board of Directors highlighted the need for a study of ADB’s financial resources. This led to a working paper that assessed ADB’s financial position over Strategy 2020’s implementation period and reviewed all possible avenues for resource mobilization. The analysis revealed that without a robust general capital increase, ADB would need to significantly reduce its lending level.

In their discussion of the working paper on 6 October, the Board of Directors requested a second working paper that would examine several issues more comprehensively. Examples include further analysis of demand, articulation of a clear strategy to tackle development issues in middle-income countries, analysis of the ramifications of an increased level of private sector operations, the progress achieved in carrying out ADB’s institutional reforms, analysis of all resource mobilization options, and a more detailed indication of the likely consequences of a delay in the general capital increase process as well as a contingency plan for addressing these consequences.



ADB's mission is to help developing member countries such as Bangladesh reduce poverty and improve living conditions and quality of life

*Review of ADB's lending and borrowing limitations.* During the Board of Directors' October meeting, directors requested a review of ADB's current interpretation of the lending limitation as set out in Article 12.1 of ADB's Charter. In December, the Board reviewed ADB's lending limitation and approved a new lending limitation policy. Under the policy, the total amount of disbursed loans, approved equity investments, and maximum amount that could be demanded from ADB under its guarantee portfolio must not exceed the total of ADB's unimpaired subscribed capital, reserves, and surplus. The policy allows ADB's existing

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capital resources to be used more efficiently by reducing the likelihood that lending headroom will constrain future OCR operations. The Board also approved a borrowing limitation policy that prevents ADB's gross outstanding borrowings from exceeding the sum of callable capital of nonborrowing members, paid-in capital, and reserves (including surplus).

The Board approved a revision in the treatment of ADB guarantees. For purposes of accounting for lending headroom, guarantees are to be included only as and when they become payable, and only the actual amount that is contingently payable is to be included in the calculation. This revised treatment of ADB guarantees will more effectively leverage ADB's capital base without negatively impacting its ability to ensure compliance with the lending limitation.

*Review of ADB's capital adequacy framework.* In June, the Board of Directors approved an enhanced capital adequacy framework. Introduced in 2004, ADB's risk-based capital framework was used as the basis for both its capital adequacy assessment and income planning. The 2004 risk-based capital framework used a fixed equity–loan ratio initially set at 35% as an indicator of capital adequacy. In contrast, the new risk-based capital framework replaces the fixed equity–loan ratio with a stress test. This enables ADB to immediately capture the impact on its capital adequacy of positive and negative changes in portfolio credit quality. This modification, in turn, allows ADB to moni-

tor and plan its equity capital position in advance and thus avoid being over- or undercapitalized. ADB's new capital adequacy framework was reviewed by credit agencies and found to be consistent with the practices of other multilateral development banks.

## TOWARD GREATER INSTITUTIONAL AND DEVELOPMENT EFFECTIVENESS

Strategy 2020 lays out the corporate pathway for reshaping ADB into a more effective and innovative development institution. However, many organizational changes outlined in Strategy 2020 build on the gains in institutional effectiveness that ADB achieved through the reform agenda it adopted in 2004. The key reforms that ADB implemented in 2008 are summarized below.

### ADB Results Framework

In September, ADB became the first multilateral development bank to adopt a corporate-wide results framework. The framework consists of specific performance indicators and targets that fall into four groups: Asia-Pacific outcomes, contribution to country outcomes through key outputs, operational effectiveness, and organizational effectiveness (page 19).

While preparing the results framework was a comprehensive exercise that drew on a considerable amount of internal and external consultation, ADB will continue to refine its results framework over time on the basis of experience gained through its use. Overall, the purpose of the results framework is to focus ADB operations on development effectiveness as visualized by Strategy 2020 and promote a culture of results and performance management throughout the institution. It will thus be a key management tool in implementing Strategy 2020.

### Development Effectiveness Review

One of the first tangible outputs of the results framework was ADB's first annual development effectiveness review, which was completed in November. The purpose of the review was to assess ADB's performance in achieving the

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desired results and identify effectiveness issues requiring attention as well as actions for dealing with them. Management will regularly monitor the progress of such actions to ensure that they lead to improved operational effectiveness. As with the ADB results framework, the development effectiveness review will be refined over time.

### Accra High-Level Forum on Aid Effectiveness

ADB continued to implement and monitor its own progress toward the Paris Declaration on Aid Effectiveness commitments. ADB was a sponsor of and key participant in the Third High-Level Forum on Aid Effectiveness held in Accra, Ghana, in September. The forum's major outputs included reaffirmation by the entire development community of the efficacy of the Paris Declaration and its

### The Accra Agenda for Action

The Accra Agenda for Action identifies three major challenges to accelerating progress in aid effectiveness: enhanced country ownership, more effective and inclusive partnerships, and achievement of development results and accountability for them. Necessary actions identified by the agenda include enhancing the role of civil society organizations, the private sector, and other stakeholders in the development process; encouraging south-south cooperation; developing capacity in partner countries to ensure leadership of the development agenda and adequate use of country systems; achieving better division of labor between development partners; following good practices in international engagement in fragile and conflict situations; and delivering and accounting for results.

Many of the above issues are addressed by recent ADB initiatives, as they are specifically referred to in Strategy 2020. As a result, ADB has already incorporated many of the actions identified by the Accra Agenda for Action.

## ADB's Results Framework

Strategy 2020 includes development of a results framework for monitoring ADB's performance in realizing its vision of a region free of poverty by 2020. ADB's results framework is in harmony with the results measurement systems of the International Development Association and the African Development Fund. It likewise contributes to the fulfillment of ADB's Paris Declaration on aid effectiveness, harmonization, and alignment commitments. The results framework is an important management tool for monitoring development effectiveness, and for promoting continuing operational and institutional improvement.

ADB's results framework has four levels:

**Level 1: Asia-Pacific outcomes.** The region's development progress is tracked through major outcomes to which ADB and its development partners contribute, including gross domestic product per capita, indicators of poverty and human development, regional cooperation and integration, access to basic infrastructure, governance, and environmental sustainability.

**Level 2: Contribution to country outcomes through key outputs.** ADB's contribution to country and regional outcomes is assessed through key outputs delivered to developing member countries through ADB projects in sectors given priority by Strategy 2020: education, energy, finance, transport, and water.

**Level 3: Operational effectiveness.** Improving ADB's operational performance increases its contribution to country outcomes. ADB's operational performance is measured by indicators falling into five major categories: operational quality and portfolio performance, financial mobilization, strategic focus in operations, knowledge development, and partnerships.

**Level 4: Organizational effectiveness.** ADB's progress in improving efficiency in the use of its internal resources, and in implementing reforms essential to maintaining its relevance, its focus on results, and its contribution to development effectiveness is measured by three major categories of indicators: use of human resources, use of budgetary resources, and business processes and practices.

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principles; discussion of the expanded aid effectiveness agenda, including its political economy dimensions; and the Accra Agenda for Action (page 18).

Together with its development partners, ADB is working to localize the Paris Declaration in Asia and the Pacific. ADB measures the progress achieved via its own monitoring survey of Paris Declaration implementation. The second phase of the monitoring survey covers 17 countries, including three OCR borrowers.

**As indicated in Strategy 2020, the purpose of the technical assistance reform program is to strengthen ADB's role as a knowledge institution to allow delivery of high-quality technical assistance with tangible development impact**

## Increasing the Impact of ADB's Technical Assistance Program

In May, the Board of Directors approved a paper outlining a reform program to increase the development effectiveness of ADB's technical assistance operations. As indicated in Strategy 2020, the purpose of the reform program is to strengthen ADB's role as a knowledge institution to allow delivery of high-quality technical assistance with tangible development impact. This is to be achieved by greater synergy between ADB lending and nonlending products at the country and regional levels, and greater developing member country involvement and ownership at all levels. The reform program is to be implemented over 2008–2011.

The various types of technical assistance to be offered by ADB were redefined as capacity development, policy and advisory, project preparatory, and research and development. As mandated in Strategy 2020, ADB is to engage in research activities that provide knowledge support to its developing member countries, best achieved through research and development technical assistance. At its first



An ADB loan of \$73.4 million is helping Tata Power Company in India become a major player in the renewable energy sector, a priority of Strategy 2020

strategic forum held in August, ADB established five strategic priorities for guiding ADB's research and development technical assistance: promote inclusive growth, deal with climate change for sustainable development, facilitate knowledge for regional integration, support efforts to tackle rising food and commodity prices, and assess and respond to demographic change. These strategic priorities likewise provide a means of establishing knowledge partnerships with external partners such as development institutions, research institutes, and private and civil society organizations.

### Review of Resident Missions' Operations

In September, ADB completed its review of resident mission operations to identify options for improvement in

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both the short and medium term. The review drew on the findings of an October 2007 special evaluation study of the resident mission policy and related operations by the Operations Evaluation Department (OED).

The review concluded that the 2000 resident mission policy succeeded in reorienting the work of the resident missions from a primary focus on project administration to a wider range of functions involving all aspects of ADB operations. Evidence from a number of sources suggests that decentralization has positively impacted on ADB operations, thereby justifying the corresponding increase in both staff numbers and budgets of the resident missions. This finding is consistent with OED's special evaluation study, which concluded that the resident mission policy was successful.

The review pointed to several areas where implementation of the resident mission policy could be strengthened, including identifying arrangements that would enable greater integration of the activities of headquarters and resident missions, further adjusting the number and skills mix of staff in selected resident missions to align with functional requirements, strengthening incentives for resident mission postings for both local and international staff, and further expanding bandwidth and improving connectivity.

The major conclusions of the review were that with some strengthening, the resident mission policy is sufficiently robust to support implementation of Strategy 2020;

and further delegation of responsibilities to resident missions is desirable, provided the improvements suggested are undertaken. To better position resident missions to implement Strategy 2020 successfully, the review recommended expanding resident missions' role in knowledge production and dissemination, strengthening resident mission skills in private sector development and nonsovereign operations, and clarifying resident missions' role with respect to regional cooperation and integration.

### Mainstreaming the Multitranche Financing Facility and Expanding Nonsovereign Operations

Under the innovation and efficiency initiative, new financing instruments and modalities were approved in August 2005. Some were implemented on a pilot basis from September 2005 to August 2008 to allow ADB's management and Board of Directors to assess their viability, relevance, effectiveness, and uptake. The status of each new modality is as follows:

- The multitranche financing facility was mainstreamed into ADB's financing operations in July because of high demand and portfolio size, as well as the assessment that the instrument has created efficiency in implementing sovereign lending through shorter processing times and cost savings. As of 31 December, 29 multitranche financing facilities—representing total available financing of \$15.1 billion—had been approved.
- The pilot period for the subsovereign and nonsovereign public sector financing facilities were extended to 31 August 2011. Although the nonsovereign public sector financing facility is fully aligned with Strategy 2020, more time and transactions are required to evaluate both its ability to meet client needs and the efficiency and effectiveness of its delivery. As of 31 December, seven nonsovereign public sector financing facilities—representing total available financing of \$1.4 billion—had been approved. Three, however, were canceled.
- The refinancing facility, as defined in the pilot paper of 2005, was discontinued.
- A local currency loan mechanism was introduced into core ADB lending operations in August 2005 as an al-

ternative to US-dollar loans based on the London interbank offered rate. Local currency loans have since been extended to nonsovereign borrowers. As of 31 December, local currency loans were available to the People's Republic of China, India, Indonesia, Kazakhstan, and Philippines.

- Syndication and risk-sharing policy and operating frameworks were developed further since the introduction of the innovation and efficiency initiative, and were mainstreamed into ADB's financing operations.

With the mainstreaming of all areas under the innovation and efficiency initiative except for the nonsovereign public sector financing facility, the initiative's mandate and scope are now deemed completed.

### Safeguard Policy Update

The purpose of the ongoing safeguard policy update is to strengthen the relevance and enhance the effectiveness of ADB's safeguard policies (environment, indigenous peoples, and involuntary resettlement). The policy update is intended to better articulate the safeguard policies to improve their clarity, coherence, and consistency; achieve a better balance between a front-loaded procedural approach and attention to delivery of results during project implementation; adapt policy implementation to an evolving range of lending products and innovative financing modalities; work toward greater harmonization with the safeguard practices of other multilateral financial institutions and tailor safeguard approaches to different clients with varying levels of capacity; and improve internal processes and resource allocation.

Between October 2007 and April 2008, ADB conducted 14 consultation workshops in developing and developed member countries on the consultation draft of the safeguard policy statement. ADB received widespread feedback and detailed suggestions. A second draft of the

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safeguard policy statement was made available for public comment in October, and a multistakeholder consultation on the second draft was held in Manila in November. A working paper on the safeguard policy statement was circulated to the Board of Directors for guidance and posted on ADB's website in January 2009.

## Review of the Independence and Effectiveness of the Operations Evaluation Department

In February, ADB committed to a comprehensive review of its Operations Evaluation Department (OED). An ad hoc working group, chaired by an executive director and comprising two additional executive directors and the managing director general, was created to undertake the review. Two external experts were engaged to assist in the process.

The review concluded that while ADB has a clearly articulated model of independent evaluation, OED's credibility as an independent evaluation unit could be further enhanced by adopting the following measures: expanding the nonrenewable term of OED's director general from 3 to 5 years; allowing OED's director general to be appointed by the Board of Directors upon recommendation by the Development Effectiveness Committee in consultation with the President; strengthening the selection process for OED's director general with the Development Effectiveness Committee leading the process and using an executive search firm and extensive media advertising; exempting OED's director general from the formal performance review process, with his or her salary determined by a formula; allowing OED's budget to be approved by the Board of Directors separately from ADB's overall administrative budget; and renaming OED the Independent Evaluation Department to reflect its more independent status. To further strengthen the department's effectiveness, the review urged that interaction between the department and operations staff be intensified to ensure ownership of evaluation results and accelerate the application of lessons learned; and that a more rigorous system for monitoring the progress achieved in implementing the department's recommendations be put in place.

A revised policy was approved by the Board on 15 December to give effect to the changes referred to above. This policy supersedes the 2003 policy on enhanc-

ing the independence and effectiveness of the department and the 2008 amendment of terms of appointment of the director general, with effect from 1 January 2009.

## Review of ADB's Human Resources Strategy

Under the human resources strategy (2005–2007), ADB committed to conducting a review following the 3-year implementation period. The review, which was undertaken with the assistance of external experts, underscored the importance of linking ADB's human resources management to its business strategy to support and deliver the results required by Strategy 2020 (Finance and Administration, Human Resources, page 103). A Board paper on the subject was issued in December. As a next step, a detailed action plan will be drawn up, based on the external experts' recommendations and the Board's comments, among other inputs.

## Disclosure

Since approval of its public communications policy in April 2005, ADB has become much more transparent in the way it communicates with the public and shares information with its stakeholders, particularly about ADB projects. In 2005, ADB disclosed on its website 876 operational documents; in 2008, the number increased by 70% to 1,512. Postings of project summary pages—the primary source of information about ADB operations—increased by 13% in 2008 alone. Overall, timeliness of disclosure has improved significantly since the policy's approval.

Policy and strategy papers, agendas, and minutes of meetings of ADB's Board of Directors, and summaries of Board discussions on strategy, policies, and regional and country partnership strategies were freely available to the public, as were documents prepared in the normal course of project design and implementation, including environmental assessments.

**Timeliness of disclosure has improved significantly since the approval of the public communications policy**



With education as one of the five priority sectors under Strategy 2020, ADB supported the construction of 1,000 computer learning centers in Sri Lanka's schools through the Secondary Education Modernization Project

Staff members were routinely briefed on the public communications policy, both to update knowledge about the policy and respond to staff turnover. Awareness-raising seminars on the policy were conducted for about 100 development partners, including officials of develop-

ing member countries and civil society organizations, at ADB headquarters and in Nepal. The public information and disclosure unit responded to all external requests in 7 days on average, the maximum time limit allowed by the policy being 30 days.