

# Action Plan to Improve Loan and Technical Assistance Portfolio Performance in Response to the 2004 Annual Report of the Operations Evaluation Department

November 2005

Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
BPMSD	–	Budget, Personnel and Management Systems Department, ADB
COSO	–	Central Operations Services Office, ADB
CSP	–	country strategy and program
DMF	–	design and monitoring framework
DMC	–	developing member country of ADB
EA	–	executing agency
ECRD	–	East and Central Asia Department, ADB
MfDR	–	managing for development results
MTS	–	medium-term strategy
OCR	–	Ordinary Capital Resources
OED	–	Operations Evaluation Department, ADB
PAI	–	project administration instructions, ADB
PAM	–	project administration memorandum
PDP	–	performance and development plan
PPMS	–	project performance management system
RD	–	regional department, ADB
RM	–	resident mission, ADB
SPD	–	Strategy and Policy Department, ADB
TA	–	technical assistance
WPBF	–	Work Program and Budget Framework

## NOTE

In this report, "\$" refers to US dollars

## I. INTRODUCTION

1. The fourth annual report of the Operations Evaluation Department (OED) on Loan and Technical Assistance (TA) Portfolio Performance for 2004 makes significant and useful observations and recommendations to improve portfolio performance of the Asian Development Bank (ADB). After discussion of the report at the Development Effectiveness Committee meeting on 5 August 2005, committee members determined that the OED recommendations are not sufficient to deal with the portfolio issues identified. They recommended that Management propose a comprehensive action plan to address the key strategic issues analyzed by the OED report.

2. The major findings identified by OED report are (i) stagnation in the volume of OCR loan approvals, (ii) delay in project implementation, (iii) problems with year-end bunching of loan and TA approvals, (iv) lack of accuracy and poor quality of project completion reports and TA completion reports, (v) decline in project loan disbursements, (vi) difficulties of many developing member countries (DMCs) to meet conditions of program loan tranche releases, (vii) heavy concentration of lending in a few DMCs, (viii) prepayment of OCR loans by a few large borrowers resulting in negative net resource transfers to DMCs, and (ix) a 43% decrease in OCR income during 2001–2004. The report also observes that OCR lending trends may indicate that ADB's traditional lending products and systems no longer meet many of the needs of its key clients.

3. The OED report recommends (i) enhancing the efficiency of project implementation, (ii) improving sector selectivity and focus in country strategies and programs (CSPs), (iii) improving TA portfolio management, (iv) improving planning and timing of Board consideration of loans, and (v) strengthening project monitoring and evaluation.

4. Improving project implementation performance is closely linked with improving project design, addressing project readiness, strengthening the capacity of executing agencies, providing adequate ADB resources for project implementation supervision, streamlining ADB business processes and accountability, and recognizing staff involved in project administration. To address the main issues affecting the quality of the portfolio and its relevance to key clients, ADB has been making considerable efforts under the reform agenda to enhance its organizational effectiveness and development impact. Particularly relevant to improved portfolio management are the (i) Enhanced Middle-Income and Ordinary Capital Resources Borrowing Countries Partnership Framework, (ii) Innovation and Efficiency Initiative,<sup>1</sup> and (iii) the second medium-term strategy (MTS). The Managing for Development Results (MfDR) Initiative has already set the stage for closely linking ADB portfolio performance to results monitoring in the DMCs, and the Work Program and Budget Framework 2006–2008 (WPBF) sets targets to be pursued to demonstrate improved operational efficiency of ADB and highlights the importance of project administration. These respond to several concerns in the OED report.

5. The action plan<sup>2</sup> to improve loan and TA portfolio performance and to address OCR lending issues comprises (i) actions being pursued under the reform agenda, (ii) more rigorous application of relevant existing procedures within ADB, and (iii) additional measures to address the specific OED report recommendations. A summary is attached as an appendix. Of note,

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<sup>1</sup> ADB. 2005. *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila (4 August, Doc. R193-05).

ADB. 2005. *Pilot Financing Instruments and Modalities*. Manila (4 August, Doc. R194-05).

ADB. 2005. *Introducing the Local Currency Loan Product*. Manila (4 August, Doc. R195-05).

<sup>2</sup> Management set up an interdepartmental task force to deliberate on issues and recommendations made in the OED report and to develop a draft action plan.

actions being proposed only for ADB will not ensure improvement in some of these problems. DMCs also need to take steps to identify and ease bottlenecks and closely monitor schedules.

## **II. ACTION PLAN TO IMPROVE LOAN AND TA PORTFOLIO PERFORMANCE**

### **A. The Reform Agenda and Results Framework**

6. The examination of issues involved with OCR operations in middle-income countries, under the Enhanced MICs/OCR Countries Partnership Framework, will result in a broad reform of ADB's business model, operational policies, and procedures. The partnership framework discusses (i) ADB's operational relevance to diversified Asian and OCR countries; (ii) rationale for ADB's engagement; and (iii) operational responsiveness to OCR clients' demands. It recommends ways to improve ADB modalities and approaches to meet the needs of middle-income and OCR-borrowing countries. Progress and key findings from this strategic exercise will be presented as a Board information paper.<sup>3</sup> Recommendations will be refined and consolidated as inputs for the MTS, to enhance ADB's relevance and development effectiveness. The MTS is scheduled for completion in 2006.

7. The approach to building results-based CSPs, introduced under the MfDR initiative, entails crafting a specific results framework that captures the logical chain for ADB interventions in the subject DMC. While this is a measurement and monitoring tool, experience suggests that by adopting a results-based approach, better selectivity can be achieved in country programs. Adopting results-based CSPs will enable better monitoring of development impact, and facilitate monitoring, measuring, and reporting achievements. Results-based CSPs are now being mainstreamed, with several CSPs already developed using the concept.

8. Improved project administration is fundamental to monitoring the impact of ADB's portfolio performance with the adoption of the MfDR initiative. Projects will be designed to contribute to the achievement of targeted development goals agreed to under the CSP. The implementation of the project performance management system (PPMS) action plan, including the design and monitoring framework (DMF), adopted in 2004, will improve ADB loan and TA portfolio management. Discussions are under way on how to strengthen the linkage between the country portfolio review mission and the CSP to appropriately reflect portfolio performance review findings in the country programming process. Project administration instructions (PAIs) for country portfolio review missions will be developed in 2006 to facilitate this process.

9. The implementation of changes proposed under the Innovation and Efficiency Initiative will enable ADB to reduce transaction costs to clients, be more flexible and timely in its operation, align its business to country cycles, increase its efficiency, expand and introduce innovative financial instruments, and become a more responsive and effective partner. The need for increased delegation through business process redesign for consultant recruitment and procurement is being pursued.<sup>4</sup> The Innovation and Efficiency Initiative is also expected to pursue other measures, including changes to CSPs; business processes; and internal

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<sup>3</sup> The paper is scheduled to be completed in the fourth quarter 2005. An informal Board seminar is planned during the same period.

<sup>4</sup> Some changes in the procurement policy and procedure were made during 2004–2005. Further changes as discussed with the Board under two working papers on (i) Revising ADB's Procurement Guidelines, and (ii) Policies and Procedures on the Use of Consultants by ADB and its Borrowers are under review and expected to be completed in 2006. Furthermore, by the second quarter of 2006, for loans under the proposed Revised Guidelines on the Use of Consultants by ADB and Its Borrowers, ADB will reduce the requirement for executing agencies to obtain prior reviews from ADB during the recruitment of consulting firms for quality-based selection and quality and cost-based selection. In the medium term and after intensive training and capacity building of executing agencies and deeper involvement by the resident missions, further relaxation of current ADB requirements may be possible.

procedures and practices related to project and TA processing, approvals, and implementation. These are scheduled for 2006. The paper on changes to CSPs and business processes will recommend reducing the preparation time for projects, and improving project implementation for ADB and its DMCs. To modernize and integrate risk management systems based on international standards and best practices, ADB established an independent risk management unit on 1 August 2005. This will allow ADB to deal with a greater range of borrowers and improve the quality of its assets. The unit is being staffed and will be fully functional in 2006. The TA Reform Task Force is examining TA reform issues. Similarly, the review of the Resident Mission Policy<sup>5</sup> will facilitate better functional distribution of responsibilities between the headquarters and resident missions and help improve rationalization of resources.

10. Business processes are also being improved through greater coordination with development partners. Under the Harmonization and Alignment of Procedures and Practices with Other Development Partners initiative, ADB will harmonize and align practices and procedures to reduce DMC transaction costs, and improve the efficiency and effectiveness of ADB development assistance. As indicated in the WPBF, to determine the viability of expanded application of country systems by ADB in its operations as well as their resource implications, ADB will undertake pilot programs in selected DMCs in cooperation with other development partners.

11. Accountability and incentives for the staff involved in portfolio management and project administration are also being addressed through the new Human Resources Strategy. Under this strategy ADB is implementing a new performance management system—the Performance and Development Plan (PDP). The PDP process clearly states the work plan outputs for which the staff member is responsible and the associated indicators and expected behavioral standards. The PDP will allow a meaningful assessment of staff performance with a clear focus on achieving results.

12. Implementation of the PPMS action plan (2004) will improve loan and TA portfolio management. Effective implementation of current procedures will be pursued to improve project design, implementation, and monitoring arrangements to address common problems during project implementation. At the beginning of each year, all operation departments will continue to develop a project and TA administration review plan. Increased emphasis will be given to the allocation of resources for project and TA implementation according to portfolio requirements in the respective PAIs. Operation departments will clearly reflect this plan in budget submissions and monitor its implementation. The directors general will monitor plan implementation and adequacy of resource allocation on a quarterly basis. All departments and offices will maintain more accurate information on TA administration activities, particularly TA review missions. Updating TA performance reports and attaching these to the back-to-office reports should be widely practiced.

## **B. Enhance the Efficiency of Project Implementation**

### **1. DMC Readiness Criteria**

13. Portfolio performance also depends on the country's own internal processes and procedures. Therefore, during country portfolio review missions, efforts will be made to improve the internal processes of DMC governments and executing agencies through policy dialogue and capacity building. ADB will need to address this issue of coordination and harmonization of processes and procedures with borrowers.

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<sup>5</sup> ADB. 2000. *Resident Mission Policy*. Manila.

## **2. Resources for Loan and TA Portfolio Administration**

14. As project design becomes more complex, specific attention is needed to requirements for staff involvement in project and TA administration. Standard coefficients provide a good reference. To enable closer scrutiny of implementation resource requirements, the issues paper prepared for each project's management review meeting will include an estimate of the current staff/consultant input requirements to support project implementation. Annual implementation plans will note the requirements for each project with special reference to complex projects.

## **3. Project Management Techniques for Efficient Project Implementation**

15. The critical path method is a useful project management technique to ensure timely and efficient project implementation.<sup>6</sup> Executing agencies will be encouraged to use proven project management techniques, including the critical path method, to monitor project implementation from inception. The Central Operations Services Office will provide training to executing agencies through a module on project management techniques, including the critical path method, in the Regional Project Implementation and Administration Seminar for DMC Project Staff. Currently, ADB staff are being trained in the use of project management software, and project officers will be encouraged to adopt such tools. Starting from 2006, the Human Resources Division (BPHR) will provide additional and more intensive training programs on project management targeting about 60–80 staff per year. As a supplementary measure for effective control of contract awards, ADB has introduced a user-friendly contract monitoring system for all contracts above \$10 million.

## **4. Delegation of Project Implementation to Resident Missions**

16. ADB is also addressing improved portfolio management performance by increasing delegation of project administration to resident missions and rationalizing internal resource allocation. With increasing delegation of implementation responsibilities to resident missions, headquarters must provide adequate support in complex cases. For this purpose, regional departments (RDs) will be encouraged to establish special units or focal points to coordinate portfolio management issues and provide adequate support to resident missions.

## **5. Staff Needs for Project Administration**

17. Sustained attention to project implementation and portfolio management requires appropriate skills, resources, and incentives (para. 27). Consistent with the overall budgetary policy, this must be achieved within zero real growth in budgetary resources for ADB in 2006, and take account of overall ADB priorities. Therefore, the Budget, Personnel, and Management Systems Department (BPMSD) and RDs will undertake a technical study in 2006 to clearly define staff strength and skills mix requirements for project implementation and portfolio management, while paying particular attention to the current technical strength and skills mix of resident missions. Recognizing that many staff are involved both in project processing and administration, the study will review current and future project administration resource allocations, and the means of recognition (e.g., career path and project management accreditation) for staff involved in project administration.

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<sup>6</sup> The critical path method is more suited to determining the resource and time mix required; and the critical path is based on these factors, making factoring in non-project-related issues difficult.

### **C. Improve CSP Sector Selectivity and Focus**

18. Sector selectivity must be based on ADB's operational experience, comparative advantage, and track record in the DMC.<sup>7</sup> Results-based CSPs are expected to be adopted for all DMCs.<sup>8</sup> This will enable better monitoring of development impact and facilitate monitoring, measuring, and reporting of achievements. The emerging experience and lessons learned in the preparation of a results-based CSP are incorporated in the Practice Note for staff issued by the Strategy and Policy Department (SPD) on 7 September 2005.

### **D. Improve TA Portfolio Management**

19. The ongoing TA Reform Task Force will examine the possibility of adopting innovative measures to reduce resource requirements for TA processing, making more resources available for TA implementation. These measures include (i) establishing uniform and simple processing and implementation procedures for all types of grant funds, (ii) increasing the limit of small-scale TAs to \$300,000 and enhancing delegated Management approval limits of other TAs to \$2 million, and (iii) establishing a TA loan facility with simplified processing and approval procedures for preparatory activities to ensure project readiness. By increasing the limits for small-scale TAs and the Management approval limit for other TAs, resources can be rationalized between approval processes and TA monitoring and implementation. To improve and ensure country ownership of TAs, the TA Reform Task Force will propose specific measures to ensure and enhance DMCs involvement in identification, design, implementation, and monitoring.

20. To improve the analytical content and fulfill the revision requirement under the Innovation and Efficiency Initiative, the TA completion report format will be reviewed and revised in 2006; PAI 6.08 will be revised to reflect the new requirements. OED is currently developing a new rating system for project performance evaluation reports. PAI 6.08 will be revised only after the new rating system is approved.

### **E. Improve Planning and Timing of Board Consideration of Loans**

#### **1. Using Project Readiness Filters**

21. All six project readiness filters in PAI 1.01 (para. 8) provide a good measure for project preparation. The OED report suggested two additional filters: (i) preparatory actions to recruit project consultants, and (ii) finalization of the project administration memorandum (PAM). RDs will make extra efforts to monitor the status of project readiness at different stages of project processing.<sup>9</sup> Operation departments will be required to adopt a checklist to monitor the status of each filter prior to each project processing stage.

22. All six filters cannot always be applied in all DMCs. Therefore, the project readiness filters and their time frame for completion will be discussed and agreed during the CSP process, including the countries' own readiness filters. Readiness filters may differ given the type of

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<sup>7</sup> This approach was adopted in the 2005–2007 Philippines CSP (ADB. 2005. *Country Strategy and Program [2005–2007]: Philippines*. Manila.), endorsed by the Board in July 2005. It identified and prioritized the development constraints to poverty reduction, then selected the constraints that ADB would address, and defined potential sectors for ADB assistance and full engagement.

<sup>8</sup> By 2008, 24 DMCs are expected to have results-based CSPs.

<sup>9</sup> Already adopted by East and Central Asia Department.

operation.<sup>10</sup> An appendix on the status of identified project readiness criteria will be included in the report and recommendation of the President for each project.

23. Most of the start-up delay results from delays in procurement and consultant selection. An increased number of DMCs now have standard bidding documents that can be reviewed and updated during project preparatory TA. But the procurement process (the advance procurement action) itself requires advertisement, prequalification of contractors, call for bids, evaluation, selection, and contract award. Smaller DMCs usually have neither the capacity nor budget allocation to undertake this process before the loan becomes effective and funds are available. In such instances, additional project preparatory TA funds will be provided to facilitate initial preparatory work (including advance procurement action, consultant recruitment actions, capacity development, and capacity assessment) after loan negotiations are complete. Mission leaders will identify costs for project preparatory work and adequate budget will be provided. Management approval of advance action for such DMCs will not be sought until the necessary documentation is available, a timetable for actions to be taken agreed to by the executing agency, and budget resources required and the country's own readiness filters are identified.

24. A draft PAM will be prepared prior to loan negotiations. Additional project preparatory TA support will be provided to prepare the draft PAM to enable the executing agency to have a clearer idea of the challenges to achieving targets and milestones. The PAM may also incorporate the key project start-up indicators for the loan for ADB to monitor progress.

## **2. Bunching**

25. Management has introduced a ceiling, currently set at 65%, on the percentage of project proposals for Board consideration in the last quarter; this method will continue to be applied as necessary. To help reduce year-end bunching, the management committee will continue to monitor the project processing schedule every 2 weeks, and provide appropriate instructions to operation departments.

26. Internal pressures contributing to bunching will continue to be reduced. These include the application of the new performance-based allocation policy,<sup>11</sup> which makes country allocations every 2 years and addresses the incentive for approving projects by the end of any given year. The new PDP process will stress outcome and output achievement, and de-stress the role of yearly project approvals in staff's performance evaluation. In addition, the reduction in number of TAs will free up staff resources to allow greater control over project processing and scheduling. Management will also reinforce the application of project readiness filters through monitoring of the project processing schedule.

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<sup>10</sup> For investment projects, the six filters can generally all be applied, including factors preparatory to implementation of investment operations, such as financial management capacity, funding for the first year of implementation from the budget, preparation of bidding documents, and completion of resettlement plans. However, project readiness criteria may vary across modalities, and appropriate filters should be applied accordingly. For example, for program lending operations, project readiness needs to focus on establishing the appropriate program management unit and the relevant monitoring and evaluation indicators, and ensuring appropriate capacity support. For sectorwide approaches or budget support operations, project readiness may focus on the government expenditure system, specific program expenditure plans, and appropriate monitoring and evaluation and fiduciary control mechanisms being in place for the program of expenditures.

<sup>11</sup> ADB. 2004. *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of Asian Development Fund Resources*. Manila (19 November, Doc. R249-04).

### 3. Staff Recognition

27. The PDP process clearly states the work plan outputs for which the staff member is responsible, along with the associated indicators and the expected behavioral standards. The required individual staff outputs cascade from the department's work plan. Beginning in 2006, the department work plans will clearly allocate resources for project administration and specify expected outputs. The PDP will allow a meaningful assessment of staff performance with a clear focus on achieving results. In addition, the technical study (para. 17) will include a review of career incentives for staff involved in project implementation and portfolio management.

#### F. Strengthen Project Monitoring and Evaluation

##### 1. Quality of Project and TA Performance Reports and Ratings

28. The project performance report (PPR) format needs to be synchronized with the newly adopted project design and monitoring framework. Revised PPRs need analytical as well as monitoring tools to measure project progress, constraints, and development impact. Under the Information Systems and Technology Strategy II initiative, the PPR and TA performance report format will be assessed, and if necessary, revised to improve efficacy and efficiency. In the second quarter of 2006, an interdepartmental working group will be formed, led by East and Central Asia Department (ECRD), to recommend measures to enhance the quality of PPRs, TA performance reports, and ratings. Simplified synchronization of the PAM, PPR, and design and monitoring framework will make the monitoring of project progress more efficient.

##### 2. Monitoring of Loan and TA Frameworks

29. Under the implementation of the PPMS action plan, the Central Operations Services Office (COSO) will continue to provide staff training on preparing design and monitoring frameworks as well as assist RDs with preparations during loan or TA processing if required. In view of OED's close involvement in design and implementation, OED will continue to evaluate the loan and TA frameworks as part of its independent evaluation function.

#### G. Increasing and Improving the OCR Portfolio

30. The middle-income and OCR countries have indicated the need for more flexibility from ADB with regard to (i) allocation of loan and TA resources; (ii) type of lending instruments offered; (iii) application of loan commitment fees, interest rates, and repayment periods; (iv) use of country systems; (v) application of various policies and procedures associated with poverty reduction strategies, safeguards, etc.; and (vi) addressing the growing demand for support to the private sector. ADB is addressing these issues. Some major initiatives in this regard are highlighted here.

31. ADB will review loan charges, including commitment charges in 2006. Any proposed changes are expected to be net income neutral and could be reflected, at the earliest, during the Board discussion on the Review of ADB's Loan Charges and Allocation of 2005 Net Income. On 25 August 2005, the Board approved (i) *Cost Sharing and Eligibility of Expenditures for ADB Financing: a New Approach*,<sup>12</sup> (ii) *Pilot Financing Instruments and Modalities*,<sup>13</sup> and (iii) *Local Currency Lending*.<sup>14</sup> These initiatives will help improve ADB's business model by removing bottlenecks that constrain its capacity to respond better and more quickly to its clients. The new

<sup>12</sup> Refer to Footnote 1.

<sup>13</sup> Refer to Footnote 1.

<sup>14</sup> Refer to Footnote 1.

approach involves more flexible determination of cost-sharing limits and increases eligible expenses; this will improve ADB's project financing capability in a manner more consistent with market practices. Over the next 3 years, ADB will pilot test new financing modalities and instruments, such as the multitranche financing facility, subsovereign and nonsovereign public sector financing facility, local currency lending for the public sector, refinancing and restructuring modality, financing of syndications and risk-sharing agreements, and commitment fee flexibility options. The aim is to provide ADB and its DMCs with alternatives to better and more effectively respond to development financing needs. In addition, the paper on changes to CSP and business processes will reduce the preparation time for projects, and improve project implementation for ADB and its DMCs.

32. During WPBF implementation, robust OCR pipelines are expected to be developed based on a series of active measures such as (i) exercising greater selectivity and strategic focus during CSP preparation; (ii) achieving economies of scale (i.e., fewer but larger projects) made possible by a greater sector focus and underpinned by better planning and analysis (i.e., sector roadmaps); (iii) rationalizing approaches to cross-cutting thematic priorities; (iv) aligning ADB pipelines with DMC plans, and increasing use of country systems; (v) reducing transaction costs and response times, simplifying business processes, and improving technical services and quality; (vi) increasing concessionality by a better blend of loan financing with TA or grant financing; (vii) integrating public and private sector approaches; and (viii) developing a new generation of clients.

### **III. MONITORING PROGRESS**

33. The WPBF identifies the concrete results expected as a result of the initiatives described in paras. 31–32. The WPBF, which was discussed by the Board on 11 October 2005, is expected to enhance development effectiveness, by focusing on (i) scaling-up assistance with a stronger focus on results, (ii) improved portfolio performance, (iii) synergy between private and public sector operations, (iv) regional cooperation and integration, (v) more strategic application of nonlending resources, (vi) greater DMC alignment and improved partnerships, and (vii) institutional efficiency. An increased proportion of the portfolio (from 38% in 2005 to 55% in 2008) will be delegated to resident missions in the next few years; significant progress was made in this respect in 2004. The WPBF includes measures to improve strategic applications of TA resources and TA consolidation, such as (i) gradually reducing the number of new TA approvals; (ii) gradually reducing the TA portfolio; and (iii) improving TA quality and strategic relevance by strengthening the linkage between TA and lending operations, reinforcing strategic relevance, and improving TA frameworks. The WPBF identifies results indicators and targets for monitoring portfolio performance; in addition ADB will monitor its institutional progress.<sup>15</sup>

34. The Management Committee will continue to coordinate and monitor implementation of the reform agenda as a whole including this action plan to improve ADB's loan and TA portfolio performance.

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<sup>15</sup> Primarily through the following results indicators: (i) annual disbursement levels; (ii) number of loan projects "at risk" as a percentage of total loan projects; (iii) number of lending projects administered by resident missions as a percentage of total lending projects; (iv) number of advisory TAs (all funding sources) approved annually; (v) number of advisory TAs not financially closed 90 days after their technical completion date as a percentage of total advisory TAs.



Objectives and Actions	Time Frame/ Milestones	Focal Units for Implementation	Comments
Selection and Quality and Cost-Based Selection. In the medium term and after intensive training and capacity building of executing agencies and deeper involvement by the resident missions, further relaxation of current ADB requirements may be possible.			
(ii) Staff (strength and skills mix) and budget allocations will be aligned with specified output deliverables in the Work Program and Budget Framework 2006–2008 with due regard to project implementation and portfolio management.	From 2006	Budget, Personnel, and Management Systems Department (BPMSD); Regional departments (RDs)	BPMSD will undertake a technical study to define staff and skill mix requirements for project implementation.
(iii) To strengthen role of resident missions in project administration, BPMSD and Strategy and Policy Department (SPD) will conduct a review of the Resident Mission Policy, identify measures to strengthen the role of resident missions, and identify staffing needs based on functions.	From 2006	BPMSD, SPD, RDs	
(iv) At the beginning of each year sector divisions/resident missions will continue to prepare a portfolio administration review plan for the year to ensure that the portfolio is adequately monitored and adequate resources are allocated. The directors general will monitor implementation of the work plan and adequacy of resource allocation on a quarterly basis.	Q1 2006	RDs	As a supplementary measure, ADB has introduced a user-friendly contract monitoring system for all contracts of more than \$10 million.
(v) Project officers will be encouraged to adopt project management tools such as Microsoft (MS) Project, with the Human Resources Division providing additional training programs.	From Q1 2006	Human Resources Division, RDs	
<b>2. Actions Proposed</b>			
(i) Issues papers will be prepared for management review meetings and include staff/consultant resource requirements during implementation.	Q1 2006	RDs, SPD	
(ii) Executing agencies will be encouraged to use proven project management techniques to monitor project implementation from	From Q1 2006	COSO, RDs	COSO will consider including a module on the critical path method

Objectives and Actions	Time Frame/ Milestones	Focal Units for Implementation	Comments
inception, such as, the critical path method; training will be provided as required.			in the Regional Project Implementation and Administration Seminar for DMC project staff.
(iii) RDs will be encouraged to establish focal points/units to coordinate portfolio management issues and provide adequate support to resident missions.	2006	BPMSD, RDs	
(iv) Career incentives and development for staff involved in project implementation and portfolio management will be reviewed.	By June 2006	BPMSD, RDs	
<b>B. Improve TA Portfolio Management</b>			
<b>1. Ongoing and Planned Initiatives and Efficient Use of Existing Procedures</b>			
(i) ADB will implement measures identified in the Work Program and Budget Framework 2006–2008 for improving strategic application of TA resources including (i) reducing the number of new TA approvals, (ii) reducing the existing TA portfolio, and (iii) improving TA quality and strategic relevance.	2006–2008	All departments and offices	
(ii) All departments and offices will maintain more accurate information on TA administration activities and TA review missions. The TA performance report will be updated and attached to the back-to-office report.	From Q1 2006	All departments and offices	
<b>2. Actions Proposed</b>			
(i) The TA Reform Taskforce will consider adopting the following measures to reduce resource requirements for TA processing and increase resource allocation for TA implementation: <ul style="list-style-type: none"> <li>• Establish uniform and simple approval and implementation procedures for all types of grant funds.</li> <li>• Increase the limit for small-scale TAs to \$300,000.</li> <li>• Increase delegation of approval limits to Management for other TAs to \$2 million.</li> <li>• Establish a TA loan facility with simplified processing procedures for preparatory activities to ensure project readiness.</li> </ul>	By June 2006	SPD	

Objectives and Actions	Time Frame/ Milestones	Focal Units for Implementation	Comments
(ii) The TA Reform Task Force will examine specific measures to improve developing member country (DMC) ownership, such as requiring executing agencies to submit a (draft) TA completion report.	By June 2006	SPD	
(iii) To improve the analytical content, PAI 6.08 will be revised providing a new format and guidelines for an overall assessment of TA performance using the criteria provided in PAI 6.07 for the preparation and evaluation of project completion reports.	Q3 2006	COSO, SPD	<p>The revision will be consistent with the PAI revision requirement resulting from changes proposed under the Innovation and Efficiency Initiative (IEI).</p> <p>The Operations Evaluation Department (OED) is currently developing a new rating system for project performance evaluation reports. PAI 6.08 will be revised only after the approval of the new system.</p>
<b>C. Improve Planning and Timing of Board Consideration of Loans</b>			
<b>1. Efficient Use of Existing Procedures</b>			
(i) All heads of departments will issue instructions to mission leaders and sector directors to submit a checklist of the status of each of the filters prior to each project processing stage.	From 2006	RDs, SPD	<p>Countries' own project readiness filters need to be identified and recognized.</p> <p>To help reduce year-end bunching, Management will continue to monitor the projected project processing schedule on a monthly basis and provide appropriate guidance to operation departments.</p>
(ii) Management approval of advance actions will be given only when documents are ready and implementation arrangements are agreed.			
<b>2. Actions Proposed</b>			
(i) Country strategy and programs (CSPs) will identify and agree with DMCs on country-specific filters to be used in project processing.			

Objectives and Actions	Time Frame/ Milestones	Focal Units for Implementation	Comments
(ii) Mission leaders will identify costs for actions to complete project preparatory work; adequate budget will be provided under the project preparatory TA.			
(iii) The report and recommendation of the President will include an appendix indicating the status of project readiness criteria.			
<b>D. Improve Sector Selectivity</b>			
<b>1. Ongoing and Planned Initiatives</b>			
(i) ADB will formulate the second medium-term strategy to reflect enhancing ADB relevance and development effectiveness.	Board consideration by March 2006	SPD	
(ii) Adoption of results-based CSPs.	Ongoing	RDs, SPD	
<b>E. Strengthen Project Monitoring and Evaluation</b>			
<b>1. Ongoing and Planned Initiatives</b>			
(i) Under the Information Systems and Technology Strategy II implementation program, project and TA performance report formats will be revisited and, if needed, revised to improve their efficacy and efficiency. An interdepartmental working group will be formed, led by East and Central Asia Department, to review project and TA performance reports.	2006	East and Central Asia Department, Office of Information Systems and Technology, COSO	
(ii) ADB will continue to train staff on preparing design and monitoring frameworks and COSO will assist RDs in preparing design and monitoring frameworks during loan and TA processing, if and when required, as part of the ongoing project performance management system action plan implementation.	Ongoing	RDs, COSO	OED should continue with its independent assessment of loan and TA frameworks as part of its independent evaluation function.
<b>F. Increase and Improve the Ordinary Capital Resources Portfolio</b>			
<b>1. Ongoing and Planned Initiatives</b>			
(i) ADB will review loan charges including the commitment charge.	2006	Treasury Department, SPD	Any proposed change will be on a net income neutral basis and could

Objectives and Actions	Time Frame/ Milestones	Focal Units for Implementation	Comments
			be reflected, at earliest, during the board paper discussion in 2006 on Review of Loan Charges and Allocation of 2005 Net Income.
(ii) ADB will prepare and implement various measures under the IEI: <ul style="list-style-type: none"> <li>• cost-sharing and eligibility of expenditures approved by the Board;</li> <li>• review of CSP and business processes; and</li> <li>• use of consultants, and procurement of goods and works to be prepared.</li> </ul>	September 2005  2006  2006	IEI Task Force	
(iii) ADB will pilot-test new financial modalities and instruments under the IEI.	From 2005	Controller's Department, COSO RDs, Regional and Sustainable Development Department, Treasury Department	They will include multitranchise financing facility, subsovereign and nonsovereign public sector financing facility, local currency lending for the public sector, refinancing and restructuring modality, financing syndications and risk-sharing agreements, and commitment fee flexibility options.
(iv) ADB will review the policy on supplementary financing.	R-paper will be considered by the Board in November 2005	SPD	
(v) ADB will review the Private Sector Development Strategy and private sector operations.	R-paper under preparation for Board consideration by November 2005	Special Task Force on the Private Sector Development Strategy	A special task force on ADB's role in private sector development has been formed to identify options for discussion with Management and the Board by November 2005.
(vi) Fully functioning risk management unit.	2006	Risk Management Unit	Modernizing and integrating risk management systems and tools will enable ADB to deal with a greater range of borrowers and improve the quality of its assets.