



19 March 2007

Progress Report on the Innovation and Efficiency Initiative, September 2005 – December 2006

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
COSO	–	Central Operations Services Office
CPS	–	country partnership strategy
CSP	–	country strategy and program
DMC	–	developing member country
IEI	–	Innovation and Efficiency Initiative
LIBOR	–	London interbank offered rate
MFF	–	multitranche financing facility
NSP	–	nonsovereign public sector financing facility
SPD	–	Strategy and Policy Department
SPU	–	safeguard policy update
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars.

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I. OVERVIEW

1. The Innovation and Efficiency Initiative (IEI) was launched in November 2003. It aims to improve the Asian Development Bank's (ADB) business model, as well as its ability to align services, products, and practices more closely with client priorities and market trends. IEI also aims to reduce bottlenecks to processing and implementing development assistance. To commence the initiative, work focused on seven priority areas: cost sharing and eligibility of expenditures, procurement, consulting services, business processes, country strategies, safeguard policies, and new financing instruments and modalities.

2. This is a report on milestones and activities in each of the priority areas from 26 August 2005 to 31 December 2006. This report also summarizes important tasks and challenges over the next 12 months. Two other reports are being prepared for submission to the Board before mid-year. These are the demand analysis on nonsovereign financing and an analysis of the multitranche financing facility.

II. REPORT ON 2005–2006 ACTIVITIES

A. Cost Sharing and Eligibility of Expenditures

1. Cost Sharing

3. On 25 August 2005, the Board approved a new policy framework on cost sharing, expenditure eligibility, and local cost financing for public sector assistance.¹ In the past, cost-sharing limits were fixed up front and equally for all projects. The old limits were based on the developing member country's (DMC) classification.² The new policy harmonizes ADB's approaches and practices with those of other development institutions, including the World Bank. On 15 March 2006, Management issued Staff Instructions³ and Operations Manual Section H3 (Cost Sharing, and Eligibility of Expenditures for ADB Financing)⁴ to provide detailed guidance on the implementation of the new policy.

4. With the foregoing in place, ADB offers clients greater flexibility in terms of cost-sharing ceilings and expenditure items. Each DMC will have its own ceiling for the entire portfolio of operations agreed with the government over a given time period. The new limits will take into account existing and projected macroeconomic conditions in the DMC, and reflect the ability of governments to cofinance with ADB a specific program of assistance. For each project, the financing plan—and, as part of that, the share of ADB debt—is linked more closely to the nature and characteristics of the project. It will follow sound banking principles, linking debt finance to cost-recovery and sustainability capabilities.

¹ ADB. 2005. *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila (Doc. R193-05).

² For DMCs classified A, the project cost-sharing ceiling was 80%; for DMCs classified B1, the project cost-sharing ceiling was 75%; for DMCs classified B2, the project cost-sharing ceiling was 70%; and for DMCs classified C, the project cost-sharing ceiling was 65%.

³ ADB. 2006. *Staff Instructions on Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing*. Manila. (15 March 2006).

⁴ ADB. 2006. *Operations Manual Section H3 (Cost Sharing, and Eligibility of Expenditures for ADB Financing)*. Manila. (15 March 2006).

5. In general, ceilings and parameters for each DMC will be established when the country partnership strategy (CPS) is prepared for the DMC. In special circumstances, for example when the fiscal situation of a DMC changes substantially and materially in the middle of the CPS period, the ceilings may be reviewed and redefined on a stand-alone basis. Management will approve the ceilings and parameters and submit them to the Board for information as part of the CPS. Until a country cost-sharing ceiling under the new policy is agreed for a DMC, the old project cost-sharing ceiling applicable to the DMC will constitute the country cost-sharing ceiling.

6. Four CPSs were brought to the Board for approval during the report period: Indonesia, Lao People's Democratic Republic (PDR), Papua New Guinea, and Viet Nam. All four CPSs, plus the country strategy and program update⁵ for Mongolia (2007–2009), included sections on the country cost-sharing ceilings. Table 1 summarizes the ceilings and parameters for these countries.

Table 1: Summary of Country Cost-Sharing Ceilings and Financing Parameters
(as of 31 December 2006)

Country	Board Endorsement Date	Country Strategies Application Period	Country Cost-Sharing Ceiling for Projects (%)	Country Cost-Sharing Ceiling for TAs (%)	Recurrent Cost	Taxes and Duties
PNG*	12 Jul 2006	2006–2010	70	90	No specific limit	No exclusions
Lao PDR**	7 Aug 2006	2007–2011	92	85	No specific limit	Will not be Financed
Viet Nam***	30 Aug 2006	2007–2010	90	80	Continuing exercise	Continuing exercise
Indonesia ****	10 Oct 2006	2006–2009	70	80	No specific limit	No exclusions
Mongolia*****	4 Sep 2006	2007–2009 (update)	80	85	No set parameters	No set parameters

* ADB. 2006. *Papua New Guinea: Country Strategy and Program (2006-2010)*. Manila. (Sec.M58-06).

** ADB. 2006. *Lao People's Democratic Republic: Country Strategy and Program (2007-2011)*. Manila. (Sec.M94-06).

*** ADB. 2006. *Viet Nam: Country Strategy and Program (2007-2010)*. Manila. (Sec.M86-06).

**** ADB. 2006. *Indonesia: Country Strategy and Program (2006-2009)*. Manila (Sec.M104-06).

***** ADB. 2006. *Mongolia: Country Strategy and Program Update (2007-2009)*. Manila. (Sec.M78-06).

Lao PDR = Lao People's Democratic Republic, PNG = Papua New Guinea, TA = technical assistance.

7. Of the five, Indonesia (70%), Mongolia (80%), and PNG (70%) adopted the old limits of project cost sharing. Both Lao PDR (92%) and Viet Nam (90%) increased their country cost-sharing ceilings from 70% and 75%, respectively.

8. CPSs for 12 DMCs⁶ are expected to be submitted for Board approval in 2007. These submissions will include information on cost-sharing ceilings and financing parameters that ADB

⁵ ADB. 2006. *Mongolia: Country Strategy and Program Update (2007-2009)*. Manila. (Sec.M78-06).

⁶ These include Afghanistan, Azerbaijan, Cook Islands, India, Kyrgyz, Maldives, Pakistan, People's Republic of China, Sri Lanka, Thailand, Tonga, and Tuvalu.

and the respective DMCs have agreed upon, and that Management has approved. The regional departments processing the CPSs will consult with their respective DMCs and development partners on the establishment of these parameters. IEI will provide upstream support to these departments. In addition, IEI has engaged an international expert to advise the regional departments on these exercises. This process will support the development by ADB of best practices and a common approach to the exercise, taking into consideration the lessons from recent experience, as well as harmonization of cost sharing arrangements with the World Bank.⁷

2. Eligibility of Expenditures

9. Since the issuance on 15 March 2006 of staff instructions for the new policy, ADB can finance the items newly made eligible under the policy. As long as adequate due diligence is undertaken on the incurring and bona fide nature of these costs, ADB can finance (i) reasonable amounts of taxes and duties associated with project expenditures, (ii) the acquisition of land and rights of way, (iii) leased assets, (iv) second-hand goods, (v) late payment charges, (vi) severance pay, (vii) recurrent costs, (viii) food expenditures, (ix) interest during construction on cofinancing loans, and (x) local transport and insurance. The new policy also modifies past rules on retroactive financing by increasing the proportion that may be retroactively financed, and extending the coverage period. Finally, for projects approved under the new policy, ADB no longer needs to classify investment plan components in terms of foreign and local currency equivalents.

3. Training

10. The IEI team has delivered several training courses and workshops at headquarters and in resident missions.⁸ This training work will continue in 2007 and beyond. IEI also has made presentations directly to key agencies in some DMCs.

B. Financing Instruments and Modalities

11. On 25 August 2005, the Board approved the 3-year pilot testing⁹ of three new financing instruments and modalities. These were the multitranche financing facility (MFF), the nonsovereign public sector (NSP) financing facility, and the refinancing facility. The local currency loan product, a mainstreamed product, is not being pilot tested. The IEI pilot financing instruments and modalities are intended to provide ADB clients and operational teams with additional and flexible alternatives to help finance individual projects and investment programs. Rather than replacing ADB's existing instruments, they expand the range of alternatives available within ADB's portfolio of development finance solutions.

1. Multitranche Financing Facility

12. The MFF is similar to a standby and non-contingent line of credit, with financing being provided either as a loan or a guarantee. The MFF is the pilot financing modality most demanded by clients. Between August 2005 and December 2006, the Board received 10 MFF

⁷ It must be borne in mind that the harmonization will not result in full alignment since ADB's public sector debt financing always will represent less than 100% of the financing plan, whereas the World Bank can finance up to 100% of a loan-financed project. This limitation is the result of a Charter restriction. *Cf.* Article 13, Agreement Establishing the Asian Development Bank. ADB can, however, finance up to 100% of grant-financed projects.

⁸ These included resident missions in Azerbaijan, Bangladesh, India, Indonesia, Papua New Guinea, People's Republic of China, the Philippines, and Viet Nam.

⁹ The 3-year period ends in September 2008.

proposals. The financing made available through this facility totals \$5.33 billion. As of 31 December 2006, two loan agreements had been executed for a total of \$360 million.

Table 2: Multitranche Financing Facilities Approved
(as of 31 December 2006)

Program	MFF Approval Date	MFF Amount (\$M)		Initial Tranches/ Loan Execution Date	Loan Amount (\$M)
		OCR	ADF		
1. PAK: National Highway Development Sector Investment Program	13 Dec 05	770		14 Jun 06	OCR 180
2. IND: Rural Roads Sector II Investment Program	20 Dec 05	750		29 Aug 06	OCR 180
3. IND: Uttaranchal Power Sector Investment Program*	30 Mar 06	300			
4. BAN: Railway Sector Investment Program	10 Oct 06	400	30		
5. PAK: Renewable Energy Development Sector Investment Program	1 Dec 06	500	10		
6. IND: North Karnataka Urban Sector Investment Program	6 Dec 06	270			
7. PAK: Power Transmission Enhancement Investment Program**	12 Dec 06	790	10		
8. PAK: Punjab Irrigated Agriculture Sector Development Investment Program	13 Dec 06	890	10		
9. PRC: Gansu Heihe Rural Hydropower Development Investment Program***	13 Dec 06	50			
10. IND: Uttaranchal State Road Investment Program	18 Dec 06	550			
Total		5,270	60		360
% of Total MFF Amount					6.75

*A Loan agreement for the amount of \$41.9 million was signed under the MFF on 22 February 2007 for the IND: Uttaranchal Power Sector Investment Program.

**A Loan agreement for the amount of \$236M was executed on 16 January 2007 for the PAK: Power Transmission Enhancement Investment Program.

***A Loan agreement for the amount of \$22M was executed on 19 January 2007 for the PRC: Gansu-Heihe Rural Hydropower Development Investment Program.

BAN = Bangladesh, IND = India, PAK= Pakistan, PRC = People's Republic of China, MFF = multitranche financing facility, OCR = ordinary capital resources, and ADF = Asian Development Fund.

Source: ADB. Reports and Recommendations of the President and Loan Agreements. Manila

13. About 16 MFFs are being processed for the Board's consideration in 2007 (Table 3).

Table 3: Multitranche Financing Facilities in 2007 Pipeline
(as of 31 January 2007)

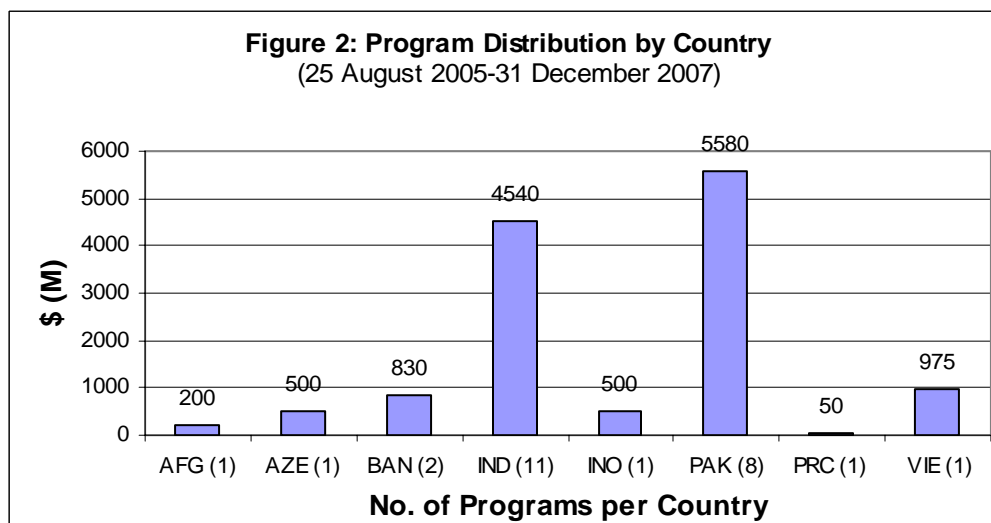
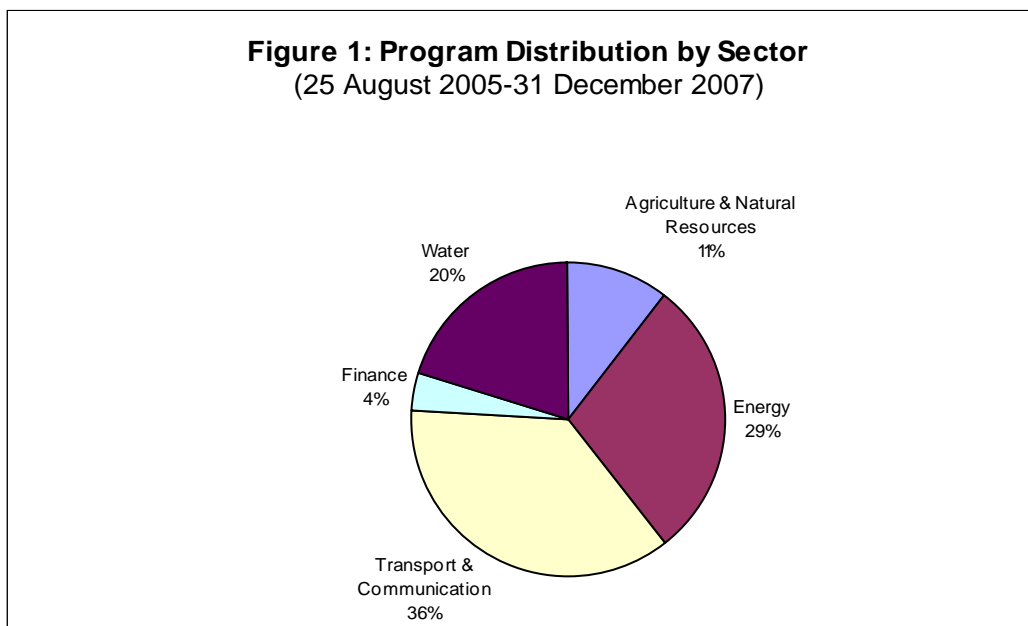
Program	MFF Amount (\$M)		Expected First Tranche (\$M)
	OCR	ADF	
1. AFG: Road Development		200	130.0
2. AZE: Road Network Investment Program	500		188.6
3. BAN: Dhaka Water Supply and Sanitation	400		200.0
4. IND: Jammu and Kashmir Urban Sector Development	300		40.0
5. IND: North Eastern Region Capital Cities Development Investment Program	300		40.0
6. IND: North Eastern State Roads Investment Program	300		50.0
7. IND: National Highway Public-Private Partnership (Sector)	400		53.0
8. IND: Madhya Pradesh Power Sector Investment Program	620		215.0
9. IND: National Power Grid Development Program	550		50.0
10. IND: Rajasthan Urban Sector Development Investment Program	200		30.0
11. INO: Integrated Citarum Water Resources Management	500		
12. PAK: National Trade Corridor (NTC) formerly PPP Dev for National Highways	900		360.0
13. PAK: Mega City Project	800		200.0
14. PAK: Private Participation Infrastructure Development Project	500		25.0
15. PAK: Sindh Secondary Cities I	400		50.0
16. VIE: Mong Dong Thermal Power Investment Program	975		42.0
Total	7,645	200	1,673.6
% of Total MFF Amount			21.33

AFG = Afghanistan, AZE = Azerbaijan, BAN = Bangladesh, IND = India, INO = Indonesia, PAK = Pakistan, VIE = Viet Nam, MFF = multitranche financing facility, PPP = public-private partnership, OCR = ordinary capital resources, and ADF = Asian Development Fund.

Source: ADB. Management Information System Report of Regional Departments. Manila.

14. Figures 1 and 2 indicate the expected program distribution of MFFs between 25 August 2005 and 31 December 2007.¹⁰

¹⁰ The figures use total availabilities as the bases for calculations.



15. Staff instructions on the use of the MFF were issued on 12 October 2006. Before that, IEI worked directly with the project teams to provide policy-based guidance. The staff instructions, thus, are based on ongoing experience relating to the processing and implementation of several MFFs. In addition, the instructions are subject to continuous refinement as lessons are learned during the pilot period. An MFF management information system is being set up to help IEI monitor the use of MFFs, as well as the suitability of the modality for specific transactions. The disclosure management system is going to be updated to enable it to support the disclosure needs of the MFF modality.

16. The use of the MFF will be reviewed early in 2007 due to the higher-than-expected demand for the modality. Given the pilot nature of the MFF and the concerns expressed by the

Board of Directors regarding its application, the object of the review is to take stock of lessons generated, and to recommend the criteria and conditions for its use and application.

2. Nonsovereign Public Sector Financing Facility

17. The NSP financing facility allows for direct lending to state-owned enterprises and local governments, without central government guarantees. In the first year since the NSP financing facility was adopted as a pilot instrument, the Private Sector Operations Department has processed two such facilities. In both cases, the clients were state-owned enterprises (Table 4).

Table 4: Nonsovereign Public Sector Financing Facilities Approved
(as of 31 December 2006)

Program	(\$ million)		Approval Date
	Direct	CFS	
IND: NTPC Capacity Expansion Financing Facility	75	225	27 Jul 2006
INO: South Sumatra to West Java Phase II - Gas Pipeline Project	75	125	10 Aug 2006
Total	150	350	

CFS = complementary financing scheme, IND = India, and INO = Indonesia.

Source: ADB. Reports and Recommendations of the President. Manila.

18. These were not the only requests to process NSP facilities. However, fewer nonsovereign transactions than sovereign-backed operations are completely processed and brought to the Board for approval. Since all NSP facilities need to meet basic financial and reform criteria, and the repayment capacity is a function of the cash flow and quality of the balance sheet, few proposals submitted for consideration by ADB made the final cut. In 2007, five to 10 of these transactions are expected.

19. Staff instructions and guidance notes for NSP facilities were issued on 15 December 2006. They reiterate the policy directive that NSP facilities should be processed in accordance with private sector operations procedures.

3. Refinancing Facility

20. The refinancing facility allows ADB to restructure existing debt of public, private, and public-private clients who are burdened by a legacy of inappropriate or onerous financing plans. A refinancing facility transaction has not yet been processed, nor has a concept paper for a refinancing transaction been cleared. Despite the potential demand for this type of facility, two factors continue to affect its uptake: (i) the skill mix and ability to restructure financing plans, and (ii) tight conditions and criteria for its utilization. IEI and one regional department have been in contact with a leading investment bank for the purposes of assessing a proposal in this area. In 2007, ADB is expected to process one such transaction.

21. As with NSP facilities, refinancing facilities are to be processed in accordance with private sector operations procedures.

4. Local Currency Loan Product

22. Until recently, ADB only offered LIBOR-based loans in US dollars, yen, and euro. ADB can now offer loans denominated in a local currency. This should help borrowers mitigate the potential mismatch between borrowing in a foreign currency and having domestic currency income streams to repay the liabilities.

23. ADB can only offer local currency loans in selected developing member countries where it has secured all relevant approvals to access the local capital market. At present, the product has been made available in the People's Republic of China, India, and the Philippines. It is expected to be available shortly in other countries.

Table 5: Approved Local Currency Loan
(August 2005 - December 2006)

Program	Amount (in million)		Approval Date
	Local Currency	\$ Equivalent*	
IND: Dahej Liquefied Natural Gas Terminal	6,750.00	150	30 Aug 2006
PRC: Municipal Natural Gas	199.06	25	30 Aug 2006
IND: SREI Infrastructure Finance Limited	2,299.13	50	27 Jul 2006
Total		225	

* Per RRP

5. Information Dissemination and Training

24. IEI, in coordination with ADB's Human Resources Division and various resident missions, conducted many training courses and workshops for staff on the IEI pilot instruments and modalities. Presentations also were made to key agencies in several DMCs. Meetings with mission teams and groups of missions are held at strategic intervals to record lessons learned in practice and in the field. This information is being used to refine and update the staff instructions, as well as to inform future reports to the Board on the IEI pilot instruments and modalities. A recently published brochure on the IEI pilot instruments and modalities is being disseminated.

C. Procurement and Consulting Services

25. In October 2004, the President approved the first set of streamlined procedures for the procurement of goods and services, as well as the engagement of consultants. Pursuant to those changes, the following became effective on 1 January 2005:

- (i) increased maximum thresholds of international competitive bidding of goods and works in larger DMCs;

- (ii) elimination of prior review of procurement documents for national competitive bidding;
- (iii) increased threshold amount for Procurement Committee review;
- (iv) increased threshold for technical assistance (TA) user divisions to select consulting firms;
- (v) shorter period for short-listed consulting firms to prepare proposals;
- (vi) negotiation of contracts below a certain threshold by fax, e-mail, videoconference, or other remote methods; and
- (vii) short-term individual TA and staff consultants for less complicated assignments may be selected from a short list of one candidate.

26. In February 2006, the Board approved additional amendments to ADB policies. This further streamlined the procedures, improved project implementation performance, and responded to borrowers' demands for more flexibility and modernization in procurement and consultant engagement. The revised policies became effective on 1 April 2006.¹¹ Highlights of the revised policies include:

- (i) substantial harmonization with other multilateral development banks, specifically the World Bank, to reduce transaction costs of borrowers;
- (ii) mandatory requirement for procurement plans;
- (iii) upfront assessments of procurement capacity of executing agencies;
- (iv) additional selection and contracting methods to increase flexibility;
- (v) increased accountability, transparency, and ownership required from borrowers and executing agencies; and
- (vi) increased focus on capacity building, training, and transfer of knowledge to borrowers and executing agencies, as well as national consulting industries.

27. While the principles of economy, efficiency, transparency, and fairness remain paramount, ADB will devolve responsibility and accountability for procurement and engagement decisions to those directly responsible for project execution. This is consistent with the reform agenda, the strongly expressed preferences of ADB's borrowers, and the changes taking place in other international financial institutions. The shift, which will be undertaken gradually, will be related directly to associated capacity and accountability of user divisions and executing agencies.

28. ADB's Central Operations Services Office (COSO) will continue to support regional departments, borrowers, and executing agencies to ensure continuity, efficiency, and consistent application of ADB's procurement and consulting services guidelines and procedures. COSO also will continue to support capacity building through further dissemination of information to and training of staff and executing agencies. COSO will be coordinating with other multilateral development banks on harmonized standard documents for procurement and consulting services.

D. Country Partnership Strategies and Business Processes

29. After informal Board seminars in March and July 2006, Management approved, in August 2006, recommendations contained in a paper entitled *Further Enhancing Country Strategy and Program and Business Processes*.¹² The revised business processes focus on

¹¹ Operations Manual sections J2 (Consultants) and J3 (Procurement) were issued on the same date.

¹² ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila.

sovereign operations.¹³ The Strategy and Policy Department (SPD), in close consultation with operations and non-operations departments, prepared the draft operations manual section on country partnership strategy and the detailed draft country partnership strategy guidelines. These were finalized and submitted to Management for approval in January 2007. SPD and the Office of the Secretary jointly are preparing the draft templates on the CPS, CPS midterm review report, and country operations business plan. The entire set of documents was discussed at a workshop on 6–7 November 2006 with staff concerned, including those from resident missions.

30. The proposed improvements aim to make ADB programming and operations processing more responsive, relevant, and results-oriented by ensuring:

- (i) strategic clarity at the country level and selectivity in operations pipelines;
- (ii) results orientation and operational quality at entry; and
- (iii) overall efficiency improvement.

31. The major proposals of the paper entitled *Further Enhancing Country Strategy and Program and Business Processes* (footnote 10) cover several key areas, including:

- (i) renaming country strategy and program (or CSP) to country partnership strategy (or CPS) to emphasize the need to build partnerships for the medium- and long-term development needs of DMCs;
- (ii) formulating each CPS as a customized document to address specific country development needs and to ensure strategic clarity;
- (iii) reflecting major country-specific development issues and constraints that are based on an analysis of the DMC's development priorities and poverty reduction programs, which are consistent with ADB's strategic priorities;
- (iv) assessing development partners' current country strategies, ADB's comparative advantage, and possible areas for joint activities and partnerships, including financial partnerships and program-based approaches;
- (v) justifying the CPS's sector and thematic focus areas on sound analytical bases;
- (vi) specifying key approaches to removing constraints on country development, and explicitly stating the CPS's objectives; and
- (vii) emphasizing the CPS's results orientation.

32. To strengthen strategic focus and provide flexibility to business pipeline development, the CPS is to be prepared as a concept document consisting of a country strategy and an attached country operations program with specific interventions. To enable synchronization and flexibility with respect to DMC's planning and budget processes and preferences, the country operations program is to be formulated as an indicative rolling country operations business plan that is consistent with the strategy. CSP updates are replaced with a CPS midterm review report and the indicative rolling country operations business plans. The midterm review is intended to focus on the continued rationale and validity of the strategy, progress in achieving CPS outcomes, and consistency of sector and/or theme road maps with the strategy. If required, it should provide for a midcourse adjustment.

33. The CPS will cover public sector operations and private sector development matters. ADB's assistance for private sector development in a DMC is to be defined clearly, and

¹³ In this context, sovereign operations are those extended to sovereign borrowers (i.e., DMCs' governments) and to public sector entities when fully secured by a sovereign (government) guarantee.

discussions on such matters are to be included in sector analyses and road maps. However, the inclusion of private sector operations in the road maps will be on a broad sector basis, rather than on a project-specific basis.

34. ADB piloted its first results-based CSP in Nepal in 2004. Since then, all CSPs prepared during 2005–2006 were results-based. SPD, with the support of ADB's Human Resources Division, conducted workshops and training on the preparation of results-based frameworks and sector road maps, and assisted operational staff in preparing those for CSPs endorsed in 2005–2006. CPSs will follow the same approach. They will be designed to enhance development effectiveness in DMCs over the long run, and to strengthen the impact of ADB operations by applying a results orientation to planning, monitoring, and evaluation. CPSs will include a results framework and reflect a results chain from the strategy to sector and thematic road maps to individual interventions.

35. Project concept papers are now subjected to review by Management, instead of being bundled into CSP and/or CPS and CSP and/or CPS updates, as was recently practiced. As part of this process, they also will be assigned a category of project complexity or risk level. This is to ensure better concept paper scrutiny and quality assurance, in addition to the appropriate level of upstream support in project preparation from non-operational departments. In 2006, country operations business plans were approved for Bangladesh, Bhutan, Cambodia, India, Maldives, Nepal, and Sri Lanka.

E. Safeguard Policies

36. The safeguard policies¹⁴ were originally a priority area for IEI attention. Work on the policies was to focus on making the procedures more efficient and relevant to clients, thereby improving the efficiency and quality of project processing and implementation. The safeguard policy update (SPU) is now an ongoing exercise with the Environmental and Safeguards Division (RSES) of the Regional Sustainable Development Department taking the lead.

37. The SPU is being undertaken to make ADB's safeguard policies more effective. They also will be made more relevant to the changing needs of clients, as well as the challenges of ADB's new lending instruments and modalities. Under the SPU:

- (i) requirements of each safeguard policy will be articulated more clearly;
- (ii) procedures for each policy will be integrated and aligned with the others to improve procedural coherence and consistency;
- (iii) mechanisms will be identified and recommended to shift the process from one that is front-loaded to one that is more focused on results during implementation;
- (iv) new procedures will be devised that are aligned with and supportive of the new lending instruments and modalities, as well as the capacities of DMCs; and
- (v) improvements in internal resource allocation will be identified and recommended.

38. The SPU is expected to produce a lean, simple recommendation to the Board containing three sets of safeguard policy principles (involuntary resettlement, indigenous peoples, and environment). The paper is scheduled for Board consideration at the end of 2007. The update also will (i) revise operational procedures, Bank Policies, and Operations Manuals; (ii) revise handbooks and guidelines; and (iii) optimize staffing and resource allocation, including capacity

¹⁴ The safeguard policies are ADB's *Environment Policy* (2002), ADB's policy on *Involuntary Resettlement* (1995), and ADB's *Policy on Indigenous Peoples* (1998).

building needs of ADB and country safeguard systems. Once approved by the Board, the new policy will replace the current three policy documents and the three Bank Policies in the Operations Manuals.

39. The SPU is being conducted in a manner that ensures broad stakeholder participation; transparent proceedings and reporting; and wide dissemination of the policies, working papers, and assessments produced to inform the update process. A Web site on the SPU has been created, and includes up-to-date information, including a discussion note for comment. The major components of the consultation process are (i) subregional and country-level stakeholder consultations; (ii) discussions with global development partners; (iii) internal consultations with ADB staff; (iv) expert reviews; and (v) cyber consultation (videoconferencing, online survey, Web-based discussion forum, e-mail).

III. THE NEXT 12 MONTHS

40. Over the next 12–24 months, work will continue to establish the initial set of financing parameters for each DMC. Close monitoring of the use of the IEI pilot instruments and modalities will be undertaken, and a midterm report on the use of MFFs will be prepared for submission to the Board early in 2007. In addition, new activities will be undertaken to realize the objective of improving internal efficiencies for development effectiveness. These include the definition of additional financing instruments or modalities, as well as the improvement of ways to deliver assistance for basic social services. The objective is to come up with new ideas and concepts to help ADB deliver on the objective of inclusiveness contained in the Medium-Term Strategy II (2006-2008).