

Progress Report on the Asian Development Bank's Reform Agenda

January 2005

Asian Development Bank

EXECUTIVE SUMMARY

Over the last decade, the Asian Development Bank (ADB) has given its developing member countries (DMCs) significant assistance to reduce poverty. However, poverty reduction remains a major challenge in the Asia and Pacific region, and its needs are changing rapidly. To remain relevant, ADB must have a greater development impact. ADB thus adopted a reform agenda on 14 June 2004, guided by its key strategic documents, including the Long-Term Strategic Framework 2001–2015 and the Enhanced Poverty Reduction Strategy (July 2004).

The reforms will improve organizational effectiveness as well as development effectiveness at the country level through internal changes. The agenda focus on (i) improving operational policies, strategies, and approaches; (ii) mainstreaming management for development results; (iii) refining business processes and organizational structures; (iv) improving systems for managing knowledge; and (v) improving human resource (HR) management systems and processes.

ADB is implementing 19 interrelated initiatives under the agenda. These can create a synergy that will enhance ADB's capability to manage its resources and activities to ensure that its products and services contribute to desired development outcomes at the country level. The Reform Coordination Committee (RCC), established on 23 July 2004, is (i) coordinating reform initiatives, (ii) monitoring progress, and (iii) communicating with staff and stakeholders.

Progress in 2004 was encouraging: the performance-based allocation policy was strengthened, the Results Management Unit established, and the independent assessment of ADB's 2002 reorganization conducted. The remaining 16 initiatives are on track and will be completed largely over the next 3 years; 12 are expected to be completed in 2005. This will require allocation of appropriate financial resources and staff to implement the initiatives effectively within the specified timeframe. Further, the new HR strategy was formulated and is being implemented, which is crucial for the reform agenda's success.

The agenda's success will also require (i) continuous training and awareness in ADB and the DMCs, (ii) Management's continuous leadership in directing and monitoring initiatives at the department level, and (iii) learning lessons from the first year of experience and adapting them appropriately. In the coming months, Management will continue to guide staff in implementing the ongoing initiatives. Management and the RCC will continue to support, facilitate, and monitor implementation of the initiatives. Communication with staff and external stakeholders will be continuous to build their understanding of and support for the reform agenda.

I. ASIAN DEVELOPMENT BANK REFORM AGENDA: OVERVIEW

1. The Asian Development Bank (ADB) has given its developing member countries (DMCs) significant assistance to reduce poverty. However, while poverty in the Asia and Pacific region has decreased in the last decade, it remains a major challenge and the region's needs are changing rapidly. To remain relevant, ADB must further orient its work toward results to create a greater development impact on the ground. In keeping with its long-standing commitment to development effectiveness, ADB adopted an ambitious and essential reform agenda on 14 June 2004. The agenda is guided by the key strategic documents of ADB, particularly the **Long-Term Strategic Framework (LTSF)** (2001–2015) and the **Enhanced Poverty Reduction Strategy (PRS)**. ADB completed a review of its 1999 PRS in July 2004 to obtain feedback and to examine the strategy's relevance to major regional and global changes. The review recommended internal changes to enhance ADB's organizational capabilities. The proposed actions formed the core of the reform agenda.

2. The agenda's overall theme is **Development Effectiveness: Achieving Results Together**. The aim is to make the organization more effective and thus help achieve country-level development outcomes in the medium term, and to increase the impact of ADB operations in reducing poverty in the DMCs in the long term. The reforms will increase organizational effectiveness as well as development effectiveness at country level through the following changes: (i) ADB's operational policies, strategies, and approaches will focus more sharply on reducing poverty and be better aligned with its key strategic agenda and operating principles; (ii) management for development results (MfDR) will be mainstreamed throughout ADB; (iii) ADB's business processes and organizational structure will be aligned with updated operational policies, strategies, and modalities; (iv) systems for managing knowledge and information will be improved; and (v) HR management systems and processes will be improved.

3. Under the agenda, 19 interrelated initiatives¹ are being implemented in phases during the next 3 years.² These initiatives can create a synergy to enhance ADB's capability to manage its resources and activities and ensure that efficient delivery of its products and services contribute to the desired development outcome. A summary of the major initiatives and achievements is in Appendix 1. ADB is also enhancing its efficiency through a number of additional initiatives, for example, strengthening administrative services.

4. The Reform Coordination Committee (RCC),³ established on 23 July 2004, is facilitating the reform process by (i) coordinating the reform initiatives, (ii) monitoring progress, and (iii) communicating with staff and stakeholders. A website on the ADB reform agenda was launched on 24 September 2004 to facilitate communication with stakeholders (<http://www.adb.org/ReformAgenda>).

¹ As stipulated in the agenda's Results Framework, circulated internally in August 2004.

² The second information systems and technology strategy will be implemented over the next 5 years.

³ Consisting of 10 senior staff members, headed by the managing director general, and assisted by a principal reform coordination specialist.

II. PROGRESS AND STATUS OF INITIATIVES

5. ADB's progress is encouraging. All ongoing agenda initiatives are generally being implemented on schedule.

A. Improving Operational Policies, Strategies, and Approaches

6. Reducing poverty requires that ADB's operational policies, strategies, and approaches support the LTSF and **Medium-Term Strategy (MTS)** (2001–2005). Since 2004, ADB has been reviewing (i) the implementation of six key operational policies and strategies, and determining the need to refine them; (ii) ADB's approach to DMC capacity development, and recommending ways to improve it and updating pertinent business processes; and (iii) ADB's modalities and approaches to meet the needs of countries borrowing from ordinary capital resources (OCR), and recommending ways to improve them. These initiatives will be done in phases until 2006.

7. In keeping with an LTSF core strategy and two core crosscutting strategic themes, the implementation of **governance and anticorruption policies** and the **private sector development strategy** are under review, and the preparation of a **regional cooperation strategic approach** is under way.

8. ADB is critically evaluating and improving the implementation of the **governance and anticorruption policies**. Background documents were prepared in July 2004 and internal and external consultations are ongoing. The review will be completed by the second quarter of 2005.

9. Although ADB's commitment to private sector development has been strengthened, the challenge remains to transform it into more effective private sector projects and programs that benefit people in member countries. The review of the implementation of the **private sector development strategy** is focused on critically evaluating and improving the quality of private sector development in ADB programs and projects. A draft review report has been prepared and revised, based on comments received during an informal Board presentation in May 2004. Internal and external consultations are ongoing. The review will be completed by the second quarter of 2005.

10. ADB is examining an ADB-wide approach for regional cooperation, building on regional Country Strategy and Programs (CSPs). A draft initiating paper has been prepared and a **regional cooperation strategic approach** will be finalized in 2005.

11. To enhance development effectiveness in the Asian Development Fund (ADF) IX, the link between performance and allocations of ADF loans and grants must be improved. Therefore, the **performance-based allocation (PBA) policy** was reviewed. The Board approved the revised policy in December 2004. The policy, which emphasizes governance in the allocation system, will improve the link between performance and allocations for ADF loans and grants and make development assistance more effective.

12. The review of the **MTS**, which responds to the medium-term development challenges of the region, will be completed in the first quarter of 2005 and provide inputs to prepare the second MTS (2006–2010).

13. The review of the **graduation policy** is examining ADB's experience and will consider revisions to enhance policy implementation. The second interdepartmental review of the draft

policy paper is ongoing. The final revision is expected to be approved by the Board in the second quarter of 2005.

14. Following the recommendation of the Enhanced PRS, **capacity development** has been added to the thematic priorities of the PRS framework. ADB is formulating approaches to strengthen capacity development of DMCs. In November 2004, ADB developed a classification system for capacity development that was introduced in January 2005. The final report, including a medium-term action plan for 2005–2010, is expected to be approved by Management in the first quarter of 2005. Staff guidelines, operational support, and knowledge management activities will be conducted in 2005.

15. Reducing poverty requires concerted attention to countries borrowing from OCR. More than 90% of Asia's poor are in these countries. An **OCR partnership framework** to improve partnership with countries eligible for OCR has been launched. It supports the development and poverty reduction objectives of OCR-eligible countries and will update and improve ADB's approaches to and modalities of meeting their needs. This initiative analyzes ADB's role, relevance, responsiveness, and effectiveness. It includes a detailed evaluation of ADB's instruments and financing, as well as its processes, procedures, and practices. Informal country consultations and initial analytic work have been completed. An issue paper has been prepared and discussed with Management. An action plan will be prepared and implemented in 2005.

B. Mainstreaming Management for Development Results

16. MfDR enables an organization to proactively manage its human and financial resources and activities to ensure efficient delivery of specific products and services that contribute to development results. ADB formulated an **MfDR framework** and an action plan in 2004 in keeping with the recommendation in the PRS review for a more results-oriented approach. The MfDR action plan is a key reform that will enhance results orientation at all levels—institutional, country, sector, and project.

17. ADB has undertaken steps to implement the MfDR action plan: (i) participation in the second international roundtable on MfDR in February 2004, (ii) initiation of pilot results-oriented CSPs, (iii) training in and awareness raising on MfDR in ADB and the DMCs, (iv) regional workshops canvassing MfDR issues, and (v) engagement of ADB in the global MfDR partnership arising from the Marrakech Core Principles and Action Plan. ADB chairs the Multilateral Development Bank (MDB) Working Group on MfDR and co-chairs the Development Assistance Committee Joint Venture on MfDR—Organisation for Economic Co-operation and Development (OECD). More steps will be taken.

18. Mainstreaming MfDR has achieved several things. First, the Results Management Unit was established and became functional in February 2004. It is implementing the first phase of the action plan. Second, the first pilot results-oriented CSP for Nepal and CSP update for the People's Republic of China were approved by the Board in the last quarter of 2004, and work on pilot results-based CSPs on Bangladesh, Philippines, and Viet Nam was initiated. Third, a status report on Management for Development Results in ADB, highlighting 2004 activities and setting out an enhanced framework and action plan to implement MfDR initiatives in ADB in 2005–2006, is expected to be completed in the first quarter of 2005.

19. To sharpen the results orientation at the project level, ADB adopted an action plan to enhance the project performance management system (PPMS). The PPMS action plan will (i) reinforce the quality assurance system of project frameworks and project performance reports

(PPRs), (ii) improve the quality control of project frameworks, (iii) institutionalize the responsibility for PPMS, and (iv) build staff competence in PPMS. Regional departments have prepared their PPMS action plans and an outline of their quality assurance systems for design and monitoring frameworks and PPRs. PPMS has been institutionalized and ADB is preparing guidelines for it. A series of in-house briefing sessions on project frameworks was conducted. These will be followed by intensive training programs commencing in January 2005.

C. Refining Organizational Process and Structure

20. The enhanced PRS underscored the need for a more quality- and results-oriented approach to operations, supported by flexible financing modalities. ADB's business processes and organizational structure must, therefore, be improved continuously to support the effective implementation of operational policies, strategies, and approaches. Continuing initiatives to update and align business process and organizational structure will enable greater operational efficiency and establish clear accountability for delivering results.

21. ADB has already made significant progress in this area. First, it established the **Operations Evaluation Department (OED)**. Now the reporting structure and organizational arrangements ensure OED's independence, effectiveness, and greater internal and external credibility in its assessments of ADB operations. Second, ADB implemented a two-phase **accountability mechanism** with the appointment of a special project facilitator responsible for the consultation phase and the creation of the Compliance Review Panel for the compliance review phase.

22. The **innovation and efficiency initiative (IEI)** aims to improve the efficiency, quality, relevance, and responsiveness of ADB to borrowing member countries' needs and requests. IEI targets changes in all key parts of the ADB's operational cycle, from the development of its business pipeline (CSP) to the processing and approval of its financial and nonfinancial transactions, and ultimately to their implementation. Major areas of activity include (i) procurement—consultancy, goods, and works; (ii) cost sharing and eligibility; (iii) safeguards; (iv) improvement of business processes; and (v) introduction of new financial products and enhancement of credit and financial risk management. Some changes in the procurement policy were made in October 2004, while others are ongoing. The safeguard policy will be updated in 2005. Most strategy and policy papers covering these activities will be submitted to Management and/or the Board in the first quarter of 2005. Second-stage changes in the procurement policy will be submitted to the Board by June 2005.

23. ADB is committed to **harmonizing and aligning procedures and practices** with other development partners to reduce the transaction costs for DMCs and to improve the efficiency and effectiveness of its development assistance. The President approved ADB's action plan on Harmonization and Alignment for Aid Effectiveness on 23 September 2004, and its implementation is on schedule. In collaboration with other MDBs, ADB is harmonizing standards and practices on evaluation and monitoring, environmental assessment and social safeguards, anticorruption investigation, disbursement, procurement, and consultant recruitment. This will continue through 2006.

24. ADB recognizes that bunching of projects for Management and/or Board approval at the end of the year can reduce its operations' effectiveness and is, therefore, committed to solving **bunching problems**. In the short run, ADB is looking for tighter planning and monitoring of Board schedules. Monthly monitoring is in effect for Management reporting. In the medium term, ADB is examining the feasibility of aligning its operational cycles more closely with the fiscal

years of individual borrowers, and of multiyear resource planning and commitment cycles. Medium-term measures will be implemented in 2005.

25. Based on the extensive analyses undertaken during the internal review of the **2002 reorganization**, the **new business processes**, and the **resident mission policy**, ADB has initiated an **independent assessment of the 2002 reorganization** to evaluate its impact on ADB's development effectiveness. Extensive consultations with DMCs, the Board, MDBs, Management, and staff were conducted. A diagnostic report was submitted to Management in October 2004. The final report was submitted in November 2004. Follow-up actions on the independent assessment recommendations are being pursued.

D. Reinforcing Knowledge management

26. ADB recognizes the need to maximize its knowledge resources. The LTSF commits ADB to becoming a learning institution and a primary source of development knowledge in the region. ADB adopted a **knowledge management framework** to enhance knowledge sharing among clients and to become a better learning organization. The value and relevance of services to DMCs will be increased by improving the system for managing knowledge and information. The following are being implemented in phases: (i) the **knowledge management framework** action plan, (ii) the second **information systems and technology strategy (ISTS II)**, and (iii) the formulation of a new **public communications policy (PCP)**.

27. The Board information paper on the knowledge management framework, including its action plan, was endorsed in June 2004. The implementation of the first phase of the action plan is generally on schedule and will be completed in 2007. This initiative will encourage staff to support knowledge management, improve management of knowledge services and products, update business processes and information technology solutions for knowledge management, improve the functions of communities of practices (committees and networks), and expand knowledge sharing with external shareholders.

28. To expand knowledge sharing with external stakeholders, the PCP is being prepared. Through this unified policy, ADB will more actively explain its work and solicit stakeholders' feedback, demonstrate development results, promote awareness of ADB activities, and support participatory development. The first consultation draft of the PCP was circulated in late February 2004. Following extensive consultations with various stakeholders in 14 member countries and an interdepartmental review, a second consultation draft of the PCP was posted on ADB's website on 26 October 2004. The PCP Working Paper is scheduled to be considered by the Board in February 2005. The policy paper will be finalized in the second quarter of 2005.

29. In June 2004, ADB adopted **ISTS II**, which is expected to greatly improve operational effectiveness, internal efficiency, and services for DMCs and other external stakeholders. It will provide collaborative tools to help create, cultivate, and disseminate knowledge across ADB. This initiative will be implemented during the next 5 years. It will improve the way ADB shares and uses knowledge. An action plan was developed and discussed with the Information Technology (IT) Steering Committee in September 2004. The establishment of the Program Management Office was delayed until early 2005. As a result, the development and implementation activities planned for the second half of 2004 were delayed. The overall program will, however, be implemented on time.

E. Improving Human Resource Management and Staff Incentives

30. The enhanced PRS calls for a better skills mix among staff and a new system of staff incentives. Therefore, ensuring the high quality of human resources and improving staff incentives are key elements of the agenda. ADB initiated the development of a comprehensive HR strategy to provide a framework for establishing a merit-based, transparent, and effective HR management system that supports ADB's vision and strategies. Following extensive consultations with staff and the Board, the HR strategy was approved in October 2004.

31. The HR strategy and other major reform agenda initiatives are linked. The strategy's effective implementation is crucial to the success of major initiatives and to the achievement of the reform agenda's outputs and outcomes. Therefore, the strategy takes full account of the HR and organizational requirements of each major initiative to ensure its success.

32. The major objectives of the HR strategy are to (i) enhance organizational capability, (ii) establish an effective performance management system, (iii) strengthen leadership and accountability, and (iv) reorient the HR function. The actions to be undertaken under the new strategy will be carried out in 2005–2007, and a number of these are already under way. The major areas of immediate focus include (i) developing competency in major business functions (to take effect in 2005), and (ii) rolling out a new performance management system (2005).

III. CONCLUSION

33. ADB has made progress in 2004 based on the strong support from Management and staff. It completed three initiatives—strengthening a performance-based allocation policy, establishing a results management unit, and independent assessment of 2002 reorganization of ADB—besides formulating the HR strategy. Implementation of the remaining initiatives is generally on track and will be completed largely in the next 3 years. The success of the ongoing initiatives during 2005–2007 is crucial to ADB's future.

34. Twelve of the remaining 16 ongoing initiatives are expected to be completed in 2005. This will require additional workload and appropriate financial resources and staff must be allocated to implement these initiatives effectively within the specified timeframe. Early implementation of the HR strategy is crucial to the reform agenda's success.

35. The effective implementation of the reform agenda will require (i) continuous training and awareness raising in ADB and the DMCs, (ii) Management's continuous leadership in directing and monitoring initiatives at the department level, and (iii) learning lessons from the first year of experience and adapting them appropriately. In the coming months, Management will continue to guide staff in implementing the ongoing initiatives. Management and the RCC will continue to support, facilitate, and monitor the reform initiatives. They will continuously communicate with staff and external stakeholders to deepen understanding of and support for the reform agenda.

**ASIAN DEVELOPMENT BANK REFORM AGENDA: MAJOR INITIATIVES
AND ACHIEVEMENTS**
(as of December 2004)

Results Area /Initiatives	Target Date of Completion	Status/Achievements
<p>A. Improving Operational Policies, Strategies, and Approaches</p> <p>1. Review implementation of ADB's private sector development strategy.</p> <p>2. Review implementation of ADB's governance and anticorruption policies.</p> <p>3. Prepare a regional cooperation strategic approach.</p> <p>4. Strengthen performance-based allocation policy.</p> <p>5. Review the graduation policy.</p> <p>6. Review the Medium-Term Strategy (MTS) (2001–2005).</p> <p>7. Review, and recommend ways to improve, ADB modalities and approaches to meet the needs of countries eligible for funding from ordinary capital resources (OCR).</p>	<ul style="list-style-type: none"> • Second quarter 2005 • Second quarter 2005 • 2005 • Completed in December 2004 • Second quarter 2005 • Second quarter 2005 • Third quarter 2005 	<ul style="list-style-type: none"> • A draft review report prepared in April 2004. • Draft report revised based on conclusions of an informal Board presentation held in May 2004. • External and internal consultations on the draft report initiated through the website. • Desk-based assessments and limited internal consultation completed in June 2004. • Background documents prepared in July 2004. • Ongoing internal and external consultations. • Draft initiating paper completed. • New policy approved by the Board in early December 2004. • Draft working paper completed. • First departmental review of the draft paper completed. • Second interdepartmental review of the revised paper ongoing. • Departmental inputs on the status of the MTS action plan being consolidated. • Informal country consultations to identify initial areas of focus for the initiative completed. • Initial analytical work on macroeconomic performance and trends of OCR countries completed.

Results Area /Initiatives	Target Date of Completion	Status/Achievements
<p>8. Review, and recommend ways to improve ADB's approaches to supporting capacity development of DMCs.</p>	<ul style="list-style-type: none"> • Third quarter 2005 	<ul style="list-style-type: none"> • Initial analytical work on aligning country programs, with developing member country (DMC) planning and fiscal cycles and multiyear resource allocation cycles completed and options identified. • Issue paper prepared and discussed with Management. • Monthly meetings of the Capacity Development Working Group conducted since April 2004. • The capacity development classification system developed in November 2004 and introduced in January 2005. • Active participation in Multilateral Development Bank (MDB) Working Group on Capacity Development, Governance, and Anticorruption.
<p>B. Mainstreaming Management for Development Results (MfDR)</p> <p>9. Establish a Results Management Unit.</p> <p>10. Design and implement action plan for MfDR.</p> <ul style="list-style-type: none"> • Improve results orientation in DMCs . • Improve results orientation at the institutional level in ADB. • Improve results through partnerships with other institutions. <p>11. Implementation of the action plan for project performance management systems (PPMSs).</p>	<ul style="list-style-type: none"> • Completed in February 2004 • 2006 • July 2006 	<ul style="list-style-type: none"> • Established and functional since February 2004. • First-phase action plan ongoing. • Preparing a detailed status report on MfDR in ADB with improvement of initial action plan and framework set out during Asian Development Fund IX negotiation. • Pilot results-based country strategy and program (CSP) for Nepal completed and approved by the Board in October 2004. • Work initiated on further pilot results-based CSPs (Bangladesh, Philippines, and Viet Nam). • Two regional workshops organized on harmonization and alignment and MfDR at DMC level (Bangkok, Bishkek) jointly with development partners. • Workshops and seminars conducted with ADB staff and managers. • PPMS action plans established specific to regional departments. • Department-specific outline quality assurance system completed.

Results Area /Initiatives	Target Date of Completion	Status/Achievements
		<ul style="list-style-type: none"> • PPMS institutionalized. • Preparation of PPMS guidelines started. • Improvement of staff competencies started.
<p>C. Refining Organizational Process and Structure</p> <p>12. Independent assessment of ADB's 2002 reorganization.</p> <p>13. Innovation and efficiency initiative to increase efficiencies and innovativeness of ADB products.</p> <p>14. Harmonize and align practice and procedures in DMCs in agreed-on areas.</p> <p>15. Solve yearend bunching problem (projects for Management and/or Board approval).</p>	<ul style="list-style-type: none"> • Review completed in November 2004 • 2005 • 2005 • 2005 	<ul style="list-style-type: none"> • Consultations conducted with DMCs, Management, Board, and staff. • Diagnostic reports submitted in October 2004. • Final report submitted to Management in November 2004. • Follow-up actions being developed. • Shortlist of key constraints in the business model identified and presented to Management. • Informal discussion with Board members held during 10–14 December 2004. • Some changes in the procurement policy made in October 2004. • Strategy papers being developed (to be submitted to Management and/or Board in 2005). • ADB action plan on harmonization and alignment for aid effectiveness prepared and approved by the President in September 2004. • ADB collaborated with other MDBs to harmonize standards and practices on agreed-on areas. • Regional workshop in Bangkok in October 2004 organized and supported. • Joint country portfolio review missions fielded to Kazakhstan, the Kyrgyz Republic, and Tajikistan jointly with the World Bank. • Short- and medium-term measures on bunching formulated discussed with Management during the first quarter of 2004. • Established monthly monitoring mechanism. • Medium-term measures being developed under the OCR partnership framework (to be implemented in the first quarter of 2005).

Results Area /Initiatives	Target Date of Completion	Status/Achievements
<p>D. Reinforcing Knowledge Management</p> <p>16. Implement the action plan under the knowledge management framework.</p> <p>17. Prepare and implement a unified public communications policy (PCP).</p> <p>18. Implement the second information systems and technology strategy (ISTS II).</p>	<ul style="list-style-type: none"> • 2007 • First quarter 2005 • 2009 (major work to be completed by 2007) 	<ul style="list-style-type: none"> • The knowledge management framework endorsed by the Board in June 2004. • Knowledge management center established. • First-phase action plan ongoing. • Knowledge management paper of staff competencies drafted (to be implemented in January 2005). • First consultation draft of PCP circulated for public comment in February 2004. • Around 400 representatives of the public, private, and nonprofit sectors consulted from March to July 2004. • Following consultations with 14 DMCs, a second draft paper posted on the ADB website for further external consultation. • Working paper circulated in December 2004. • ISTS II approved by the Board in June 2004. • Information system, technology infrastructure, and information technology governance initiatives developed. • Program management office to be established in the Office of Information Systems and Technology in early 2005.
<p>E. Improving HR Management and Staff Incentives</p> <p>19. Formulate and implement a new Human Resources Strategy.</p>	<ul style="list-style-type: none"> • 2007 	<ul style="list-style-type: none"> • Following extensive consultations with staff, Management, and the Board, the HR strategy approved by the Board in October 2004. • HR action plan being implemented. • ADB-wide competencies developed for ADB's major business functions. • A performance management system being developed (to be effective starting 2005).