



ASIAN DEVELOPMENT BANK

OFFICE OF THE PRESIDENT

25 August 2004

All ADB Staff

From:

President

A handwritten signature in black ink, appearing to read 'T. Chino'.

Subject:

ADB's Reform Agenda Today: Achieving Results Together

1. At the Special Assembly on 14 June 2004, Management introduced the key features of a reform agenda to improve ADB's development effectiveness. Enhancing our development effectiveness is of the highest priority to Management. We strongly believe that, as the world around us changes, ADB must also change if it is to remain relevant and effective for our clients in Asia and the Pacific.

2. The attached note describes the emerging challenges to and opportunities for internal reforms, summarizes the key results we hope to achieve through reform, and the next steps for its implementation. It reflects extensive feedback received directly from staff since the Special Assembly. Some of these initiatives are ongoing and others are planned or still under development. More specific, concrete elements of the reform agenda will be forthcoming in the near future. Management is committed to implementing these initiatives effectively and to addressing any associated resource implications.

3. I encourage all staff to read this note carefully, discuss it with colleagues, and reflect on how the agenda can improve the impact of our work. Management team will continue to work on the agenda with you, and I ask that you keep an open mind to these efforts. This is a crucial undertaking, and one that I believe will determine the future of ADB. Therefore, I seek your full cooperation, support, and commitment to ensure the successful implementation of the reform agenda.

Thank you.

Attachment: Reform Agenda Note

Board Members

At the Special Assembly on 14 June 2004, ADB Management reiterated its commitment to development effectiveness through a broad-ranging reform effort. This note sets out ADB's reform agenda and the underlying institutional challenges. It provides a framework for addressing these challenges through several initiatives, both ongoing and new.

ADB has a long-standing commitment to development effectiveness (see box, page 2). Today's reform agenda is guided by the 1999 Poverty Reduction Strategy (PRS), which adopted poverty reduction as ADB's overarching goal and laid out the framework for achieving it. Building on the PRS and moving it forward, the Long-Term Strategic Framework (LTSF) (2001–2015) outlined ADB's key strategic agenda, that is, its long-term goals and fundamental operating principles.¹

In the ensuing years, ADB began a process of internal reform, which included reorganizing its structure and adopting new business processes, delegating more authority and providing more resources to resident missions, realigning human and financial resources, and introducing more competitive and varied financial resources.

Negotiations for the eighth replenishment of the Asian Development Fund (ADF) provided timely impetus for ADB Management to consolidate ongoing and planned reform initiatives into an institution-wide reform agenda. Management takes full responsibility for steering the agenda.

In pursuing poverty reduction, ADB's relevance will be determined by how effectively and creatively it confronts the challenges and seizes the opportunities

Emerging Challenges and Opportunities: The Case for Accelerating Internal Reforms

The rapid change that has been the hallmark of Asia and the Pacific has also produced major new challenges, as well as a rich array of new opportunities. In pursuing poverty reduction, ADB's relevance will be determined by how effectively and creatively it confronts the challenges and seizes the opportunities.

Needs of developing member countries (DMCs) are rapidly changing. Long the world's most dynamic region, the Asia and Pacific region is rapidly diversifying and DMC needs are changing fast. Today, ADB borrowers range from large countries with significant internal resources and access to finance, to small, very poor countries with pressing devel-

opment needs but limited options for development finance. DMCs have an unprecedented choice of development partners and access to competitive sources and instruments of finance. For its continued relevance, it is critical that ADB develop its full potential and demonstrate the attractiveness of its products.

Common global development goals and frameworks have emerged. The global development community has collectively launched wide-ranging initiatives, which if effectively implemented, hold a promising future for the world—including the Asia and Pacific region.

The Millennium Development Goals (MDGs) were adopted in 2002 as the benchmark for monitoring progress in global poverty reduction. This was followed by an agreement on common principles for achieving the MDGs, characterized by a commitment to sharper country focus and more effective and harmonized assistance centered on each country's national poverty reduction strategy.

A review of the PRS highlighted the urgency of ADB's reform process. Responding to the changing global and regional development context, ADB conducted a review of the PRS.

Completed in 2004, the review underlined the need to sharpen ADB's country focus through a more quality- and results-oriented approach to operations, supported by a better monitoring and evaluation system. It also called for more flexible financing modalities, a better skills mix among staff, and a new system of

staff incentives. The review laid out urgent actions needed for internal changes and realignment to enhance ADB's organizational capabilities. These actions form the core of ADB's reform agenda today.

ADB's Reform Agenda Today

Objectives

The long-term goal of the reform agenda is to achieve demonstrable improvements in the impact of ADB operations. The reform agenda aims to significantly enhance ADB's organizational effectiveness or capabilities to manage inputs

¹ The key strategic operating principles under the LTSF are ensuring country ownership, enhancing strategic alliances and partnerships, and measuring development impact.

Development Effectiveness and Reform Agenda

ADB's Development Effectiveness

Achieving demonstrable development results (**outcomes** and **impacts**), within resource constraints, through well-focused and high-quality products and services that reflect client priorities.



Organizational Effectiveness of ADB

depends on
Actively managing **inputs** (resources) and **activities** to ensure efficient delivery of specific **outputs** contributing to desired **outcomes**.

Reform Agenda

Key requirements for enhancing ADB's organizational effectiveness:

- Reinforce knowledge management
- Improve operational policies and strategies
- Refine organizational processes and structure
- Improve human resources and staff incentives

(financial and human resources) and activities to efficiently deliver specific products and services to DMCs. The results framework for the agenda is in the appendix (see page 4).

Specific Outputs and Activities

To achieve these objectives, the agenda commits ADB to deliver specific outputs related to internal changes and realignment. These include reinforcing knowledge management, improving operational policies and strategies, refining organizational processes and structure, and improving human resources (HR) management and staff incentive systems. As the linchpin that aligns our organizational effectiveness with results on the ground, the reform agenda commits ADB to mainstreaming the Managing for Development Results (MfDR) framework. The agenda's key outputs and related initiatives are discussed in the following sections.

Mainstreaming MfDR. MfDR is a management technique that enables an organization to proactively manage inputs (human and financial resources) and activities to ensure efficient delivery of specific outputs (products and services) contributing to development results. The basis for management decisions is the measured contribution of the organization's outputs to development results.

In 2003, ADB committed itself to a MfDR framework, and in 2004, it drew up the MfDR action plan and created a Results Management Unit (SPRU) in the Strategy and Policy Department (SPD).

Implementation of the MfDR action plan is one of ADB's key reform initiatives, aimed at enhancing results orientation at all levels—institutional, country, sector, and project.² It includes pilot testing of results-based country strategy and programs (CSPs), a key building block for enhancing ADB's institutional performance. The MfDR action plan includes activities for raising staff awareness and improving knowledge sharing with other development partners. While the action plan is coordinated by SPRU, for MfDR to work, each department and division in ADB has to own and implement MfDR.

Reinforcing Knowledge Management. Knowledge is one of ADB's key assets for enhancing the value and relevance of services to DMCs. ADB recently adopted a knowledge management (KM) framework to enhance knowledge sharing with and among clients, and to become a better learning organization.

Implementation of the KM action plan (2004–2007), coordinated by the KM Center at the Regional and Sustainable Development Department (RSDD), will create staff incentives supportive of KM, improve management of knowledge services and products, update business processes and information technology solutions for KM, improve the function of "communities of practice," and expand knowledge sharing with external stakeholders. Integral to the latter is a new Public Communications Policy, being prepared by the

² Management recently adopted an action plan to improve project performance management (PPM) to sharpen results orientation at the project level. Coordinated by the Central Operations Service Office, the PPM action plan aims to reinforce quality assurance systems for project frameworks and project performance reports, and develop adequate staff skills base required for improving PPM.

Office of External Relations (OER), to promote more proactive information sharing outside ADB. The recently adopted Information System and Technology Strategy II (ISTS II, 2004–2009) will also improve the way ADB shares and uses knowledge.

Improving Operational Policies and Strategies. Achieving ADB's poverty reduction goals requires that operational policies and strategies all work toward a key strategic agenda. ADB has, therefore, begun reviewing its policies and strategies, and their implementation.³

ADB is also formulating better approaches to support DMC capacity development as recommended by the review of the PRS. This initiative is led by an interdepartmental working group, and is expected to result in an ADB-wide plan to improve the quality of ADB's capacity development work.

The ADF IX negotiations deepened ADB's understanding of how best to respond to the needs of ADF borrowing countries. But the goal of reducing poverty in the region also requires concerted attention to countries borrowing from ordinary capital resources; more than 90% of the region's poor population are in these countries.

An initiative to improve partnership with middle-income countries (MICs) has, therefore, been launched with SPD as the focal point. The initiative aims to update ADB's partnerships—approaches, modalities, and instruments—to better respond to evolving and diversifying opportunities and challenges in MICs.

Refining Organizational Processes and Structure.⁴ Efficient implementation of operational policies, strategies, and approaches must be supported by continuously improving ADB's business processes. ADB's continuing initiatives to update business processes will enable greater operational efficiency by streamlining and establishing clearer accountability for delivering results. An ongoing study on infrastructure and utility finance, led by an interdepartmental working group, will identify possible procedural improvements based on pilot testing.

ADB is committed to harmonizing and aligning procedures and practices with other development partners to reduce transaction costs for DMCs and improve the efficiency and

effectiveness of development assistance. ADB is also committed to solving bunching problems through, among others, better alignment of CSP and project processing cycles with those of individual DMCs.

Based on extensive analyses carried out during the internal review of the reorganization, new business processes, Resident Mission Policy, and review of the PRS, ADB has begun an independent assessment of the reorganization of 2002. This exercise, to be completed in 2004, will evaluate the impact of the reorganization on ADB's development effectiveness. The assessment is being coordinated by the Budget, Personnel, and Management Systems Department (BPMSD) and SPD.

Improving HR Management and Staff Incentives. Ensuring the high quality of ADB's human resources and improving staff incentives are key elements of the reform agenda. In fact, they are fundamental to the success of the reform agenda.

A new HR Strategy seeks to establish an improved merit-based, transparent, and effective HR management system in support of ADB's strategic

agenda through three mutually reinforcing goals: ensure that staff members possess the required skills and experience, establish a more effective performance management and incentives systems that better identify and reward good performance, and strengthen leadership and managerial accountability. Formulation of the new HR Strategy is being coordinated by BPMSD, and will be completed this year.

The Way Forward

The reform agenda is a comprehensive program that affects all aspects of ADB's work and will impact the way it does business at the country level. To succeed, ADB must engage every part of the organization—embracing both operational and nonoperational units—and ensure the highest standard of quality in all its work. ADB must also commit to mobilizing and managing financial resources more efficiently. ADB will ensure that adequate financial and human resources are available for implementation as well as for continued refinement of its reform agenda through close collaboration with internal and external stakeholders.

Ultimate accountability for carrying out this reform agenda lies with ADB's Management. Under the overall guidance of the President, Vice-Presidents will play a key role in steering the agenda and communicating—internally and externally—ADB's commitment to the agenda. Responsibility for implementing the reforms lies with line management throughout the organization. A Reform Coordination Committee, headed by the Managing Director General, has been established to coordinate implementation of the reform agenda, monitor its progress, and communicate with staff and stakeholders. Implementation will be guided by detailed action plans for individual initiatives. ■

Ultimate accountability for carrying out this reform agenda lies with ADB's Management

³ Sector and thematic policies and strategies under review include implementation review of the private sector development strategy; implementation review of governance and anticorruption policies; and review of the performance-based allocation policy.

⁴ Completed outputs in this category include the establishment of an independent Operations Evaluation Department (OED) reporting directly to the Board, and a new Accountability Mechanism with the appointment of a Special Project Facilitator responsible for the consultation phase and the creation of a Compliance Review Panel.

Appendix

ADB'S REFORM AGENDA: RESULTS FRAMEWORK

Design Summary/Objectives	Results Areas/Targets ^a	Reporting Mechanism	Focal Points ^b
Impact (long-term objective—by 2015)			
<ul style="list-style-type: none"> Demonstrable improvements in the development impact of ADB operations in reducing poverty in DMCs 	<ul style="list-style-type: none"> Improved client and partner satisfaction levels Continued improvements in CSP postevaluation ratings 	<ul style="list-style-type: none"> Client and partnership surveys Postevaluation reports on CSPs 	<ul style="list-style-type: none"> OED SPD
Outcomes (medium-term objective—by 2008)			
<ul style="list-style-type: none"> Enhanced organizational effectiveness of ADB, i.e., improved ADB's capability to manage its inputs (resources) and activities to ensure efficient delivery of specific outputs (products and services) contributing to desired development outcomes at the country level 	<ul style="list-style-type: none"> Improved client and partner satisfaction levels Improved quality-at-entry and supervision of CSPs, and lending and nonlending products Continued improvements in postevaluation ratings of lending and nonlending products ADB rated among top 20 by MAKE by 2007 Improved operational productivity Improved financial management of ADB 	<ul style="list-style-type: none"> Client and partnership surveys CSP retrospective assessments Annual review of evaluation activities OED reports on project frameworks MAKE survey TD reports 	<ul style="list-style-type: none"> SPD OED KM Center TD
Outputs (by 2006 at latest)			
1. MfDR mainstreamed ADB-wide	<ul style="list-style-type: none"> Desired outcomes of the MfDR action plan achieved 	<ul style="list-style-type: none"> MfDR action plan progress reports ADF IX mid-term review 	<ul style="list-style-type: none"> SPRU
2. Improved framework and systems for managing knowledge and information in place	<ul style="list-style-type: none"> Increased accessibility to information within ADB according to KM statistics System for ensuring quality of knowledge products in place [by end 2004] Increased demand for ADB documents [2003 as baseline] Increased publication of articles by ADB staff [2003 as baseline] 	<ul style="list-style-type: none"> KM progress reports OER reports ADF IX mid-term review 	<ul style="list-style-type: none"> KM Center OER
3. ADB's operational policies, strategies, and approaches aligned with ADB's key strategic agenda and operating principles (i.e., LTSF, MTS and enhanced PRS ^c)	<ul style="list-style-type: none"> Key operational policies and strategies reviewed and updated [by 2006] System for ensuring quality of capacity development support in place [by 2005] Updated assistance approaches and modalities responding to the middle-income countries' needs in place [by end 2005] 	<ul style="list-style-type: none"> SPD progress reports ADF IX mid-term review 	<ul style="list-style-type: none"> SPD RSDD TD
4. ADB's business processes and organizational structure aligned with updated operational policies/strategies and modalities ^d	<ul style="list-style-type: none"> Business processes updated and streamlined to ensure efficiency and clearer accountability for results [by 2005] Harmonization and procedural alignment expanded beyond the six initial partner DMCs [by 2006] Bunching of projects for Board consideration in the fourth quarter reduced Follow-up actions as appropriate subsequent to the independent assessment of the reorganization implemented [by Q1 2005] 	<ul style="list-style-type: none"> SPD progress reports ADF IX mid-term review Report to High-Level Forum on Aid Effectiveness 	<ul style="list-style-type: none"> SPD COSO CTL RSDD BPMSD
5. Improved HR management systems and processes, and improved staff engagement in place	<ul style="list-style-type: none"> Improved staff perception about HR management, and staff morale and engagement levels [2003 engagement survey as baseline] 	<ul style="list-style-type: none"> Staff engagement survey 2006 (every 3 years) Annual report to Management by BPMSD 	<ul style="list-style-type: none"> BPMSD

^a Specific indicators will be identified by SPRU by October 2004.

^b A consolidated report on the progress and performance of the reform agenda will be made available periodically to staff.

^c ADB's PRS was enhanced through its review, completed in July 2004.

^d Completed outputs in this category include the establishment of an independent OED reporting directly to the Board, and a new Accountability Mechanism with the appointment of a Special Project Facilitator responsible for the Consultation Phase and the creation of a Compliance Review Panel.

ADB'S REFORM AGENDA: RESULTS FRAMEWORK

Design Summary/Objectives	Results Areas/Targets ^a	Reporting Mechanism	Focal Points ^b
Activities/Initiatives (numbering corresponding to that of outputs)			
1.1 Establish a results management unit	<ul style="list-style-type: none"> • SPRU fully staffed and functional in 2004 	<ul style="list-style-type: none"> • MfDR action plan progress reports 	<ul style="list-style-type: none"> • SPD
1.2 Design and implement MfDR action plan	<ul style="list-style-type: none"> • Implement 1st phase action plan: 2004–2005 	<ul style="list-style-type: none"> • MfDR action plan progress reports 	<ul style="list-style-type: none"> • SPRU
2.1 Implement the action plan under the KM framework	<ul style="list-style-type: none"> • Implement 1st phase action plan: 2004–2007 	<ul style="list-style-type: none"> • KM framework progress reports 	<ul style="list-style-type: none"> • KM Center
2.2 Implement ISTS II	<ul style="list-style-type: none"> • Implement the strategy: 2004–2009 	<ul style="list-style-type: none"> • ISTS II progress reports 	<ul style="list-style-type: none"> • OIST
2.3 Formulate a new Public Communications Policy, and update related business processes	<ul style="list-style-type: none"> • Start: 2003 • Final report and staff instructions: QI 2005 • Begin implementation: QI 2005 	<ul style="list-style-type: none"> • OER progress reports • SPD quarterly status reports on policy/strategy development 	<ul style="list-style-type: none"> • OER • SPD
3.1 Review implementation of key operational policies and strategies, identify the need for refinements ^e	<ul style="list-style-type: none"> • Start: 2004 • Final reports: 2005–2006 • Begin implementations: 2005–2006 	<ul style="list-style-type: none"> • Progress reports by responsible units • SPD quarterly status reports on policy/strategy development 	<ul style="list-style-type: none"> • RSDD • SPD
3.2 Review and recommend ways to improve ADB's approaches to supporting capacity development of DMCs; and update related business processes	<ul style="list-style-type: none"> • Start: QI 2004 • Final report and staff instructions: QII 2005 • Begin implementation: QIII 2005 	<ul style="list-style-type: none"> • Capacity development working group progress reports 	<ul style="list-style-type: none"> • RSDD (CD working group)
3.3 Review and recommend ways to improve ADB modalities and approaches to meet MICs' needs	<ul style="list-style-type: none"> • Start: QII 2004 • Final report and staff instructions: QIII 2005 • Begin implementation: QIII 2005 	<ul style="list-style-type: none"> • SPD progress reports 	<ul style="list-style-type: none"> • SPD/TD
4.1 Review and recommend ways to streamline and enhance results orientation in business processes	<ul style="list-style-type: none"> • Start: QI 2004 • Reports and staff instructions: 2005 • Begin implementation: 2005 	<ul style="list-style-type: none"> • SPD progress reports • Infrastructure and utilities (IU) finance working group progress reports 	<ul style="list-style-type: none"> • SPD • COSO • CTL • RSDD (IU finance working group)
4.2 Harmonize and align practices and procedures in DMCs in agreed areas	<ul style="list-style-type: none"> • Expand ongoing harmonization to other DMCs starting 2004 	<ul style="list-style-type: none"> • SPD progress reports 	<ul style="list-style-type: none"> • SPD
4.3 Implement measures to solve bunching problems	<ul style="list-style-type: none"> • Begin implementation: QII 2004 • Proposal on medium-term measures: QI 2005 	<ul style="list-style-type: none"> • Monthly reports by SPD • A report to the Board 	<ul style="list-style-type: none"> • SPD • MD/SPD
4.4 Conduct independent assessment of the reorganization ^f	<ul style="list-style-type: none"> • Start: QIII 2004 • Panel's final report: QIV 2004 • Decisions as a result of the IA final report: QIV 2004 	<ul style="list-style-type: none"> • IA reports • Board paper 	<ul style="list-style-type: none"> • SPD • BPMSD
5.1 Formulate and implement a new HR Strategy	<ul style="list-style-type: none"> • Approval of the strategy: QIII–QIV 2004 • Implementation of HR action plan detailed in the strategy: 2005–2007 	<ul style="list-style-type: none"> • Board paper • Annual report to Management 	<ul style="list-style-type: none"> • BPMSD

^e ADB is currently reviewing the implementation of the Private Sector Development Strategy, and the governance and anticorruption policies, and revising the performance-based allocation policy. More operational policies and strategies will be reviewed in 2004–2006.

^f The assessment will consider the analyses conducted during the internal reviews of the implementation of the reorganization, the Resident Mission Policy, and the new business processes.

ADF: Asian Development Fund; BPMSD: Budget, Personnel, and Management Systems Department; CD: capacity development; CSP: country strategy and program; CTL: Controller's Department; DMC: developing member country; HR: human resources; IA: independent assessment; ISTS: Information System and Technology Strategy; IU: Infrastructure and utilities; KM: knowledge management; LTSF: Long-Term Strategic Framework; MAKE: Most Admired Knowledge Enterprises; MD: Managing Director General; MfDR: managing for development results; MIC: middle-income country; MTS: Medium-Term Strategy; OED: Operations Evaluation Department; OER: Office of External Relations; PRS: Poverty Reduction Strategy; Q: quarter; RSDD: Regional and Sustainable Development Department; SPD: Strategy and Policy Department; SPRU: Results Management Unit of SPD; TD: Treasury Department

About ADB

The Asian Development Bank (ADB) is a multilateral development finance institution owned by 63 members, 45 from Asia and the Pacific and 18 from other parts of the globe. ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve their living conditions and quality of life.

ADB helps its developing member countries through policy advice, loans, technical assistance, grants, guarantees, and equity investments. In 2003, ADB's lending volume totaled US\$6.1 billion. Technical assistance grants, which are used to prepare and implement projects, support advisory activities, and undertake regional activities, amounted to US\$176.5 million. Other grants totaling US\$483.5 million were also provided.

ADB headquarters is in Manila. It has more than 25 offices around the world and over 2,000 employees from more than 50 countries.

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