

**OPERATIONS MANUAL
BANK POLICIES (BP)**

OM Section A2/BP
Issued on 21 February 2007
Page 1 of 5

These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.

COUNTRY PARTNERSHIP STRATEGY

A. Introduction

1. ADB aims to deliver its strategic agenda through selective, results-oriented, country-focused partnership strategies and related technically viable programs of assistance to its developing member countries (DMCs). The overall strategic approach of ADB is determined by its long-term strategic framework, medium-term strategy, and poverty reduction strategy. ADB's strategic priorities consider global and internationally accepted perspectives and goals.

2. ADB and its DMCs are partners in development. They work together to reduce poverty and ensure sustainable economic growth and development effectiveness. Through partnerships, ADB aims to:

- (i) collaborate with DMC development stakeholders, including governments, civil society, nongovernment organizations, and the private sector, to ensure broad commitment to, and ownership of, the country strategy and operations program;
- (ii) become more responsive to DMC development needs and issues; and
- (iii) build strong relationships with other development partners and strengthen donor cooperation.

B. The Policy

3. ADB implements its overarching goal, strategic objectives, and operational themes and priorities through individual DMC country partnership strategies (CPSs) and related indicative rolling country operations business plans, which are formulated within a planning and programming cycle.¹ ADB applies the following closely linked and mutually reinforcing elements:

- (i) country focus and country ownership based on the DMC's development priorities and strategies, including its national poverty reduction strategy and programs;
- (ii) participation of DMC stakeholders;
- (iii) coordination with development partners;

¹ To emphasize the principal nature of its relationship with DMCs and to further strengthen country ownership, ADB renamed the country strategies and programs, which were introduced in 2002, country partnership strategies (CPSs) in August 2006 (ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila).

**OPERATIONS MANUAL
BANK POLICIES (BP)**

OM Section A2/BP
Issued on 21 February 2007
Page 2 of 5

- (iv) a clear link between the CPS and ADB's strategic priorities and objectives, and alignment with the poverty reduction strategy, long-term strategic framework, and medium-term strategy;
- (v) consideration of the Millennium Development Goals in the country operations program;
- (vi) macroeconomic, poverty, and thematic analyses, and priority sector diagnostics of the DMC;
- (vii) evaluation of ADB's strategy and country portfolio performance, and an assessment of the DMC's development priorities;
- (viii) strategic, thematic, and sector focus, and selectivity for operations programs;
- (ix) consideration of the potential of regional cooperation and integration in the country operations program, where appropriate; and
- (x) matching of operations programs with loan, grant, budget, and human resources.

4. ADB recognizes the particular character and nature of the partnership it has with a DMC and tailors its strategy according to the country's development needs. The CPS is a customized document that:

- (i) clearly reflects major country-specific development issues and constraints;
- (ii) is based on an analysis of the DMC's development priorities and poverty reduction programs and is consistent with ADB's strategic priorities;
- (iii) assesses development partners' current country strategies, ADB's comparative advantage, and possible areas for joint activities and partnerships, including financial partnerships and program-based approaches;
- (iv) is grounded on a sound analytical basis justifying the strategy's sector and/or thematic focus areas;
- (v) specifies key approaches to remove constraints on country development, and explicitly states the strategy's objectives; and
- (vi) displays the strategy's results.

5. To ensure the efficacy of ADB's country operations and to help achieve the country's development and poverty reduction goals and improve development results, the CPS must be results-oriented. It must demonstrate a clear link between ADB's strategic approach to a DMC and the selection of specific interventions for that DMC in the country operations business plan, focus on ADB's strengths, and aim to maximize development effectiveness.

**OPERATIONS MANUAL
BANK POLICIES (BP)**

OM Section A2/BP
Issued on 21 February 2007
Page 3 of 5

C. Scope of the Policy

6. The CPS duration is normally aligned with a DMC's planning cycle, which is usually 5 years. A CPS midterm progress review, which focuses on the continued rationale and validity of the strategy, is normally conducted in the third year of the 5-year cycle and, if required, provides for a midcourse adjustment. The midterm review does not preclude changing a country strategy at any time if the DMC situation warrants it. Changes in ADB's policies may also need revision of the CPS before the 5-year cycle lapses. An indicative rolling country operations business plan is prepared annually, normally on a 3-year rolling basis, to allow for periodic adjustment of the proposed operations program consisting of individual ADB priority sector and theme interventions. Where the country situation is subject to considerable uncertainty, an interim CPS may be prepared and an indicative rolling country operations business plan may cover a shorter time horizon.

7. The CPS defines ADB's medium-term development strategy for the country, describes ADB's role, focuses on reducing poverty, is aligned with the DMC's national poverty reduction strategy and development priorities, and is agreed to by the government. The CPS enables constant monitoring of, and periodic reporting on, its performance through a monitoring and evaluation mechanism defined in a CPS results framework.

8. The CPS is based on (i) thorough macroeconomic, poverty, and thematic analyses, and priority sector diagnostics integrating thematic issues; (ii) an evaluation of ADB's strategy and portfolio performance; and (iii) an assessment of the DMC's development priorities. Recent analytical work and data of the government, and assessments of development partners, updated as required, can be used. Joint assessments with development partners are encouraged, where feasible.

9. The CPS incorporates (i) a risk assessment and risk management plan,² including issues such as public financial management, procurement, and corruption; and (ii) evaluation of cost sharing and expenditures eligibility criteria.³

10. The CPS is prepared through a participatory process involving DMC development stakeholders, including the government, nongovernment organizations, civil society, the private sector, and development partners. The CPS establishes priorities that will most effectively address country development constraints and reduce poverty, and these form the basis for ADB's lending and nonlending interventions in the DMC. For a DMC that is eligible for loans and/or grants from the Asian Development Fund (ADF), a performance-based allocation

² Risk assessment and risk management in relation to public financial management, procurement, corruption, and other relevant issues are guided by the second governance and anticorruption plan (ADB. 2006. *Second Governance and Anticorruption Action Plan [GACAP II]*. Manila), including its phased implementation. Debt sustainability is normally addressed as part of the macroeconomic analysis and considered in risk assessment as appropriate.

³ See OM Section H3 (Cost Sharing and Eligibility of Expenditures for ADB Financing).

OPERATIONS MANUAL BANK POLICIES (BP)

OM Section A2/BP
Issued on 21 February 2007
Page 4 of 5

exercise guides the overall ADF resource allocation, which will be reflected in the CPS and CPS midterm progress review paper.⁴

Basis: This OM section is based on:

ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

ADB. 2001. *The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

ADB. 2001. *Business Processes for the Reorganized ADB*. Manila.

ADB. 2004. *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of ADF Resources*. Manila.

ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila.

ADB. 2005. *The Public Communications Policy of the Asian Development Bank Disclosure and Exchange of Information*. Manila.

ADB. 2005. *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila.

ADB. 2006. *Medium-Term Strategy II (2006–2008)*. Manila.

ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

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

This OM section is to be read with OM Section A2/OP.

⁴ See OM Section A1 (Classification and Graduation of Developing Member Countries) and OM Section A3 (Performance-Based Allocation of ADF Resources).

**OPERATIONS MANUAL
BANK POLICIES (BP)**

OM Section A2/BP
Issued on 21 February 2007
Page 5 of 5

Compliance: This OM section is subject to compliance review.

For inquiries: Questions may be directed to the Director of the Management Support Division, Strategy and Policy Department.

**OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)**

OM Section A2/OP
Issued on 21 February 2007
Page 1 of 7

These procedures were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.

COUNTRY PARTNERSHIP STRATEGY

A. Introduction

1. ADB's strategy for a developing member country (DMC) is formulated through the country partnership strategy (CPS), the primary country-specific document in the planning and programming cycle.¹

B. Application of the Policy²

1. Processes of the Country Partnership Strategy

2. The following are the major steps in formulating a CPS: (i) initiation and stocktaking; (ii) analyses and assessments; (iii) preparation of a CPS initiating paper, initial consultation with the government and other stakeholders, and holding of an initiating meeting; (iv) a formulation mission; (v) a management review meeting (MRM) and subsequent confirmation of the CPS with the DMC's government; and (vi) the President's clearance, and ADB's Board of Directors' (the Board) consideration and endorsement, of the CPS.

a. Country Partnership Strategy Initiation and Stocktaking

3. The CPS process is initiated when any of the following occurs: (i) the usual 5-year time horizon for an existing CPS is due to expire in the following 12 months, (ii) the DMC's government initiates a new development planning cycle, or (iii) sufficient change has occurred in the DMC's economic conditions or in ADB's policies to warrant a revision of the CPS.

4. Before a CPS stocktaking meeting, a report on the status of the existing CPS is prepared that contains (i) the rationale for preparing a new or revised CPS, (ii) the status of analytical studies or assessments in the DMC, (iii) the proposed method for evaluating the current CPS and the activities of other development partners, (iv) the process of stakeholder participation in preparing the CPS, (v) the resources needed to prepare the CPS, and (vi) the proposed composition of the country team that will prepare the CPS. The stocktaking meeting chaired by the regional director general (RDG) is then convened to review the status report and guide the preparation of the CPS.

¹ To emphasize the principal nature of its relationship with DMCs and to further strengthen country ownership, ADB renamed country strategies and programs, which were introduced in 2002, country partnership strategies (CPSs) in August 2006 (ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila).

² The procedures described here apply to all DMCs. Some specific, more flexible approaches in preparing programming documents are permissible for (i) small Pacific DMCs, (ii) middle-income DMCs with limited ADB engagement, and (iii) developing countries joining ADB as new members (ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila).

OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)

OM Section A2/OP
Issued on 21 February 2007
Page 2 of 7

b. Country Partnership Strategy Analyses and Assessments

5. Thorough analyses and assessments are the key to preparing the CPS.³ They include macroeconomic and poverty analyses; thematic assessments such as gender, institutional capacity development, environment, and the private sector; key sector diagnostics; evaluation of ADB strategies and assistance; and assessment of ADB country portfolio performance, cofinancing, and resource mobilization. ADB ensures the quality at entry of CPSs by conducting rigorous country analyses and assessments and by involving thematic and sector specialists at the initial stages of CPS preparation. Recent analytical work and data of the government and assessments of development partners, updated as required, can be used. Joint assessments with development partners are encouraged, where feasible. Depending on the availability of the government's diagnostics and data and development partners' assessments, staff may determine how much time and resources are to be devoted to each area, with more spent on those considered most critical for country or sector development.

6. Evaluating the existing CPS is essential to preparing a new one. The relevance and implementation of the current CPS, the CPS's effectiveness, and the efficiency of resource use are assessed. The recent CPS is evaluated by the originating regional department in a brief CPS completion report. Past experience and lessons, particularly those relating to the findings of comprehensive independent country assistance program evaluations by the Operations Evaluation Department (OED), and recommendations of the development effectiveness committee of the Board, are incorporated into the new CPS.⁴

7. ADB enhances the country focus in operations by aligning the CPS with a national poverty reduction strategy to achieve the Millennium Development Goals (MDGs). The MDGs are a critical ingredient of the assistance program, and priorities need to be identified by assessing the DMC's status and plans for achieving the MDGs. Sector plans are important in determining the DMC's medium-term priorities by sector, and sector road maps incorporating priority sectors of proposed ADB assistance are needed to describe expected outcomes, targets, and plans for each sector, including planned policy reform, institutional development, and investment initiatives.

³ These analyses and assessments may support, where appropriate, DMC government's diagnostic and analytical work in preparing its development plan.

⁴ Since CPS preparation needs to be aligned with the DMC's own planning cycle, regional departments need to discuss with OED the timing of the country assistance program evaluation well in advance to ensure that OED's findings are considered in formulating the CPS. CPS completion reports focus on the most recent strategy period and relevant operations that are designed and under implementation during such period. Compared to these reports, country assistance program evaluations look at experience over a longer time (OM Section K1 on Operations Evaluations).

**OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)**

OM Section A2/OP
Issued on 21 February 2007
Page 3 of 7

8. A risk assessment and risk management plan,⁵ including issues such as public financial management, procurement, and corruption, is prepared, and cost sharing and expenditure eligibility criteria evaluated.⁶

c. Initiating Paper Preparation and Initial Consultation

9. The country team updates the DMC analysis, including changes in political and economic conditions, development priorities, changes in poverty trends, effectiveness of the current CPS, priorities of development partners, portfolio performance, and the process of stakeholder participation, as appropriate. A CPS initiating paper is prepared that identifies (i) constraints on development and poverty reduction, including issues related to economic growth, social development, and governance; (ii) key development issues and challenges; and (iii) the proposed strategic focus of ADB operations.⁷ The draft CPS initiating paper is discussed with the DMC government and stakeholders, revised as necessary, and confirmed by the government. It is then reviewed and discussed during the CPS initiating meeting chaired by a relevant operations vice-president (OVP).⁸ The conclusions of the CPS initiating meeting form the basis for the CPS formulation mission.

d. Country Partnership Strategy Formulation Mission

10. The CPS formulation mission examines the issues identified in the CPS initiating paper; consults with DMC stakeholders; agrees with the DMC government on the selection of priority sectors, thematic areas, geographical focus (if any), medium-term goals, targets, milestones, and indicative rolling country operations business plan (COBP) for the first 3 years of the CPS; discusses cofinancing arrangements; and concludes with a memorandum of understanding with the DMC. The mission also holds in-depth discussions with the DMC government and civil society, including nongovernment organizations and the private sector, as appropriate, on strategies to reduce poverty. These discussions are usually best held at a forum or a series of meetings with key stakeholders and may help finalize or refine the government's poverty reduction strategy. On this basis, ADB identifies aspects of the country's strategy that match ADB's priorities and comparative advantages.

11. The CPS formulation mission also coordinates with other development partners on the overall approach to external aid; development priorities; and policies at the country, sector, and

⁵ Risk assessment and risk management in relation to public financial management, procurement, corruption, and other relevant issues are guided by the second governance and anticorruption plan (ADB. 2006. *Second Governance and Anticorruption Action Plan [GACAP II]*. Manila), including its phased implementation. Debt sustainability is normally addressed as part of the macroeconomic analysis and considered in risk assessment as appropriate.

⁶ See OM Section H3 (Cost Sharing and Eligibility of Expenditures for ADB Financing).

⁷ At the CPS initiating paper preparation stage, developing a joint country strategy in partnership with key bilateral and/or multilateral donors may be considered if appropriate. This may permit greater harmonization with development partners, promote donor coordination, and ease the burden on DMCs, especially those with limited capacity.

⁸ The CPS initiating paper, including preliminary findings of analytical work, is normally discussed at an informal Board seminar after the CPS initiating meeting.

OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)

OM Section A2/OP
Issued on 21 February 2007
Page 4 of 7

thematic levels. In collaboration with development partners, a coordination matrix is prepared that (i) clearly identifies sector and/or theme selectivity and focus of development partners' assistance, including sectors where development partners provide complementary or joint assistance (e.g., in the form of program-based approaches), and focal development partners by sector and thematic area; and (ii) establishes ADB's involvement in the sectors. On this basis, the mission identifies possible projects in ADB's selected priority sectors and/or thematic areas, which leads to the formulation of an indicative rolling COBP for the first 3 years of the CPS, which is based on the national strategy and linked to ADB's strategic objectives for the DMC. The business plan is attached to the CPS as an appendix. To enhance results orientation, the draft CPS includes a results framework.⁹ DMC stakeholders are briefed on the issues and directions of the draft CPS, which is then reviewed interdepartmentally within ADB.

e. Management Review Meeting

12. After interdepartmental review of the draft CPS, guidance is sought from Management, through an MRM, on issues that require resolution, and the CPS is revised accordingly. After the revised draft has been cleared by the RDG, a copy is forwarded to the government. A mission may be conducted to discuss with the government any revisions that may have been made during ADB's internal review process, and to confirm the CPS with the government. Final revisions, if any, are made as a result of this confirmation mission.

f. Country Partnership Strategy Endorsement

13. After being endorsed internally in ADB, the final draft of the CPS is edited and submitted to the President for clearance and approval for circulation to the Board. Following Board consideration and endorsement of the CPS, a written statement that reflects the major issues during the Board discussion is prepared for approval by the President for circulation to the Board. Any major changes to the CPS that may result from Board consideration are discussed with the DMC.

2. Country Partnership Strategy Midterm Progress Review

14. A CPS midterm progress review is normally conducted in the third year of the usual CPS's 5-year cycle. In exceptional cases, when a CPS is prepared for 3 or 4 years because of justified reasons, reviewing it may not be practical unless a change in underlying CPS assumptions or the occurrence of risks triggers the need to adjust the strategy.

15. The midterm progress review focuses on the continued rationale and validity of the strategy, progress in achieving CPS outcomes, consistency of sector and/or thematic road maps with the strategy, and, if required, provides for midcourse adjustment.¹⁰ Annual CPS progress is monitored through country portfolio review missions, and their main findings are

⁹ The drafting of a preliminary CPS results framework may start at the initiating paper stage. The framework may be further developed through an iterative process of improvements as a result of consultations and refining.

¹⁰ The need to adjust the strategy is normally triggered by a change in underlying CPS assumptions or the occurrence of risks.

OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)

OM Section A2/OP
Issued on 21 February 2007
Page 5 of 7

reflected in discussions during country programming missions (CPMs). To facilitate the midterm review, results-based CPSs specify intermediate indicators to be monitored.

16. The CPS progress is reviewed, and major changes, or potential ones, are identified. Based on this, a brief paper, which includes key sector and country issues to be addressed during the CPS midterm review, is prepared and discussed at the regional management team (RMT) meeting. At the meeting, (i) indicative planning figure parameters that incorporate the results of the performance-based allocation exercise for countries eligible for Asian Development Fund support are defined in line with the President's planning directions,¹¹ and (ii) decisions are made on the schedule to complete the CPS midterm review and conduct the CPM. The CPM agrees with the DMC's government on an indicative rolling COBP for the next 3 years. The COBP is attached to the CPS midterm progress review paper as an appendix.

17. Following the CPM, the draft CPS midterm progress review paper is prepared, circulated for interdepartmental comments, and revised in light of comments received. This revised draft is forwarded to the government for clearance and, if necessary, revised again to incorporate comments by the government. The final draft is edited and forwarded to the President. The CPS midterm progress review paper is approved by the President and submitted to the Board for information if no midcourse adjustment to the strategy was made. Otherwise, the review paper is cleared by the President and submitted to the Board for endorsement on a no-objection basis. Submission to the Board for information or endorsement on a no-objection basis is normally completed by 31 August of the year of the review, well before Board consideration of the work program and budget framework.

3. Indicative Rolling Country Operations Business Plans

18. An indicative rolling COBP is prepared annually to update, normally on a 3-year rolling basis, the proposed individual ADB priority sector and theme interventions. It is attached as an appendix to the CPS and CPS midterm progress review paper or prepared as a stand-alone document between the CPS preparation and CPS review stages. During the CPS cycle, the current business plan is reviewed through the annual programming exercise that is guided by the President's planning directions.

19. When formulated as a stand-alone document, the indicative rolling COBPs are prepared by CPMs, approved by the President and normally submitted to the Board for information by 31 August each year, well before Board consideration of the work program and budget framework.¹²

¹¹ The President's planning directions are issued at the start of each year and provide key planning guidelines on operational priorities, the resource position of ADB, and the overall framework for the lending and nonlending operations program for the next 3 years.

¹² When substantial variations in an amount of overall indicative financing "envelopes", as specified in a CPS or a CPS midterm review paper, emerge in disaster and emergency situations (e.g., tsunami, earthquake), the changes in a country operations program are normally discussed with the Board.

OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)

OM Section A2/OP
Issued on 21 February 2007
Page 6 of 7

4. Disclosure

20. The CPS, CPS midterm progress review paper and relevant assessments, and indicative rolling COBPs are disclosed in conformity with the requirements of the public communications policy.¹³

5. Country Partnership Strategy Retrospective Reviews

21. ADB may undertake a biennial retrospective stocktaking of approved CPSs to see if they are progressively more results-based and show improvement in quality at entry.

6. Roles and Responsibilities

22. The status of CPS preparation and implementation may be included in the quarterly review of operations by Management Committee meetings that are attended by the President and vice-presidents. The OVPs provide strategic guidance and oversight to the preparation of the CPS and CPS midterm progress review. Primary responsibility for managing the process of CPS, CPS midterm progress review, and annual preparation of the COBP at the department level rests with the RMT, and at the country level with the country team.

23. The RMT comprises the RDG, the deputy RDG, adviser(s) to the RDG, directors of the sector divisions and operations coordination division within the regional department, and country directors. The country team is established for each DMC. It prepares the CPS, CPS midterm progress review, and indicative rolling COBPs, and supports their implementation. The team monitors and supports the preparation of country economic reports, thematic assessments, and sector diagnostics.

24. The RMT decides if and when a new CPS or a CPS review is required. The CPS and CPS review paper are prepared by the country team. An interdepartmental review is normally carried out by the Economics and Research Department (ERD), Central Operations Services Office (COSO), Office of Cofinancing Operations (OCO), Operations Evaluation Department (OED), Regional and Sustainable Development Department (RSDD), and others as appropriate. The MRM for the CPS is chaired by the President and attended by the OVPs, RMT, country team, ERD, COSO, OCO, OED, and RSDD. If discussions at the MRM involve internal resource requirements or ADB-wide strategic issues, the Budget, Personnel and Management Systems Department or Strategy and Policy Department may attend, as appropriate.

25. The government participates in and is consulted during the preparation of the CPS, CPS midterm progress review, and indicative rolling COBP. Stakeholders and development partners are consulted during formulation of the CPS and CPS midterm progress review. The Office of the Secretary is responsible for editing the final draft of the CPS, CPS midterm progress review paper, and indicative rolling COBP and for circulating them to the Board. The public is informed of the CPS, CPS midterm progress review paper and relevant assessments, and indicative

¹³ See OM Section L3 (Public Communications).

**OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)**

OM Section A2/OP
Issued on 21 February 2007
Page 7 of 7

rolling COBPs upon their completion through their uploading on ADB's website by the Department of the External Relations.

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For inquiries: Questions may be directed to the Director of the Management Support Division, Strategy and Policy Department.