Enhancing Operational Efficiency of the Asian Development Bank
ABBREVIATIONS

ADB – Asian Development Bank
ADF – Asian Development Fund
CFS – complementary financing scheme
CPS – country partnership strategy
DMC – developing member country
FAST – Faster Approach to Small Nonsovereign Transactions
FPF – financing partnership facility
GFI – global funding initiative
MFF – multitranche financing facility
OCO – Office of Cofinancing Operations
OCR – ordinary capital resources
OSEC – Office of The Secretary
PBL – policy-based loan
RRP – report and recommendation of the President
TA – technical assistance

NOTE
In this report, "$" refers to US dollars.

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<tr>
<th>Chairs</th>
<th>I. Bhushan, Director General, Strategy and Policy Department (SPD)</th>
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<td>R. Nagpal, Deputy General Counsel, Office of the General Counsel (OGC)</td>
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<td>Members</td>
<td>M. Barrow, Deputy Director General, Private Sector Operations Department</td>
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<td>K. Gerhauesser, Special Senior Advisor, Office of the President</td>
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<td>H. Kim, Director General, South Asia Department</td>
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<td>A. Konishi, Director General, East Asia Department</td>
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<td>N. Ogawa, Deputy Director General, Southeast Asia Department</td>
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<td>R. Stroem, Head, Office of Cofinancing Operations</td>
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<td>S. O’Sullivan, Director General, Central and West Asia Department</td>
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<td>W. Um, The Secretary, Office of The Secretary</td>
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<td>C. Wee, Head, Office of Anticorruption and Integrity</td>
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<tr>
<td>Secretariat</td>
<td>A. Djusupbekova, Assistant General Counsel, OGC</td>
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<td>H. Ikemoto, Principal Planning and Policy Economist, SPD</td>
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<td>D. Perkins, Senior Counsel, OGC</td>
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### CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>i</td>
</tr>
<tr>
<td>I.  INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>II. PREPARATION AND ADMINISTRATION OF LOANS</td>
<td>1</td>
</tr>
<tr>
<td>A. Shortening Time for Loan Delivery</td>
<td>1</td>
</tr>
<tr>
<td>B. Introducing Greater Responsiveness in Procurement Practices</td>
<td>4</td>
</tr>
<tr>
<td>C. Adopting Measures to Support Disbursement</td>
<td>8</td>
</tr>
<tr>
<td>III. STREAMLINING FINANCING PARTNERSHIP OPERATIONS</td>
<td>11</td>
</tr>
<tr>
<td>IV. STREAMLINING THE APPROACH FOR SEEKING APPROVALS OF THE BOARD</td>
<td>14</td>
</tr>
<tr>
<td>A. Enhancing the Effectiveness of Summary Procedure</td>
<td>14</td>
</tr>
<tr>
<td>B. Unifying Summary and No-Objection Procedures</td>
<td>18</td>
</tr>
<tr>
<td>V.  TECHNICAL ASSISTANCE</td>
<td>19</td>
</tr>
<tr>
<td>A. Clarifying Guiding Principles for Pilot Testing under Technical Assistance to Facilitate Innovation</td>
<td>19</td>
</tr>
<tr>
<td>B. Promoting Longer-Term Approach to Technical Assistance by Expanding Cluster Application</td>
<td>20</td>
</tr>
<tr>
<td>C. Enhancing Delegated Approval Ceiling</td>
<td>21</td>
</tr>
<tr>
<td>VI. EFFICIENCY GAINS</td>
<td>23</td>
</tr>
<tr>
<td>VII. CONCLUSIONS</td>
<td>24</td>
</tr>
<tr>
<td>VIII. RECOMMENDATION</td>
<td>26</td>
</tr>
<tr>
<td>APPENDIXES</td>
<td></td>
</tr>
<tr>
<td>1. Consistent Approach to Retroactive Financing</td>
<td>27</td>
</tr>
<tr>
<td>2. Evolution of No-Objection and Summary Procedures</td>
<td>30</td>
</tr>
<tr>
<td>3. Summary of Efficiency Gains</td>
<td>34</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Improving efficiency is a priority under the Midterm Review of Strategy 2020. With lending expected to increase following the combination of Asian Development Fund lending operations with the ordinary capital resources balance sheet in 2017, efficiency gains have become an even higher priority. Since 2000, the Asian Development Bank (ADB) has carried out a number of reforms to improve the delivery of loans and technical assistance (TA). While these reforms have allowed ADB to keep pace with greater operational demands, additional innovations are needed to meet ADB’s business imperatives.

Management has undertaken separate initiatives to improve the business processes for country partnership strategies and the delivery of loans and TA. This paper examines a number of issues in current ADB operations and proposes improvements in the following areas: (i) the delivery and administration of loans, (ii) financing partnerships operations, (iii) the approach for seeking approvals of the Board of Directors, and (iv) TA. These will complement the initiatives that Management is implementing under the action plan of the Midterm Review of Strategy 2020.

The discussion in the paper covers 22 proposed reforms. Some of these are groundbreaking, while others are more modest. 14 of the proposed reforms would entail approval of the Board; 8 would be approved by Management. Reforms that require consideration of the Board include:

(i) facilitating the use of advance contracting and retroactive financing as default approaches to procurement;
(ii) delegating authority to the President to waive procedural prescriptions as minor deviations of the procurement and consulting guidelines;
(iii) granting waivers of member country procurement eligibility restrictions for policy-based loans, recruitment of resource persons under TA operations, and cofinanced operations financed by ordinary capital resources;
(iv) accelerating disbursement under policy-based loans where tranche release conditions are fully met;
(v) resolving conflicting definitions of retroactive financing;
(vi) streamlining financing partnership operations by empowering the President to approve the establishment of trust funds and financing partnership facilities, ADB’s participation in global funding initiatives, administration of cofinancing, and a small amount of B loans;
(vii) unifying and enhancing the effectiveness of summary procedures and no-objection procedures for seeking Board approval, and clarifying process for requesting full Board discussion and withdrawing such request; and
(viii) enhancing the efficiency of the TA cluster approach by including any type of TA, and raising the ceiling of the President’s TA approval authority.

The proposed improvements provide the incentives and means needed to implement the reforms in the midterm review by addressing the constraints to preparing and administering loans and TA operations, improving project readiness, mobilizing greater financing partnerships, and optimizing ADB resources. The overall gains in savings of procedural and staff time from these reforms, while difficult to quantify precisely, would be significant.
I. INTRODUCTION

1. This paper describes reforms to the operational processes of loans and technical assistance (TA) of the Asian Development Bank (ADB) to improve its delivery of value for money—a strategic priority under the Midterm Review of Strategy 2020. This package complements the initiatives that Management is implementing under the action plan of the midterm review.

2. This paper examines a number of issues in ADB operations and opportunities for improvements in the following areas: (i) the preparation and administration of loans; (ii) financing partnership operations; (iii) the approach for seeking approvals of the Board of Directors; and (iv) TA. The improvements were developed with the objective of reducing the time and resources necessary for loan delivery, while ensuring effectiveness and accountability for Management and staff decisions. The discussion in this paper covers some reforms that would entail Board approval and others that Management would approve.

3. Since 2000, Management has carried out several key business process reforms governing the delivery of loans and TA. In 2001, ADB introduced business processes that interlinked project preparatory TA and the processing of the ensuing loan. In 2005, ADB revised the summary procedure to allow the Board to focus more on strategic and policy issues. In 2006, enhanced business processes were introduced that brought about some elements of a risk-based approach. The TA reform in 2008 and the streamlined business processes in 2009 instituted some key changes by fully integrating project preparatory TA with loan processing and adopting a more risk-based approach to the quality assurance process for both loan and TA delivery. While these reforms have allowed ADB to keep pace with the greater operational demands stemming from the growth in its operations, additional innovations are needed to meet ADB’s business imperatives.

4. Improving efficiency is a priority under the Midterm Review of Strategy 2020. With the expected increase in lending following the combination of Asian Development Fund (ADF) lending operations with the ordinary capital resources (OCR) balance sheet in 2017, efficiency gains have become an even higher priority.

II. PREPARATION AND ADMINISTRATION OF LOANS

A. Shortening Time for Loan Delivery

5. Background. Despite the streamlined business processes introduced in 2009, the preparation of the report and recommendation of the President (RRP) continues to be time-consuming. The preparation of the report and recommendation of the President (RRP) continues to be time-consuming.

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1 In this paper, references to “loans” include “grants.”
4 The proposed package of improvements is the product of a high-level interdepartmental working group that was tasked with reviewing, assessing, and developing recommendations on further efficiency improvements in ADB’s business processes.
5 Review of the country partnership strategy (CPS) and policy-based loans is being undertaken separately.
consuming because of the lack of clarity regarding the information and documentation requirements under the current RRP templates and the weakened effectiveness of interdepartmental reviews.\footnote{The reference to RRPs in this paragraph includes other forms of reports for seeking approval of financial assistance, such as periodic financing request reports, grant assistance reports, Faster Approach to Small Nonsovereign Transactions reports, and supporting documents presented with these reports.}

1. **Simplifying Templates**

6. **Issues.** The RRP template for sovereign operations was designed to help prepare structured and succinct financing proposals. However, the template’s one-size-fits-all approach has become inefficient and unhelpful. The templates are essentially based on the structure for project and sector loans. Staff processing other lending modalities—such as policy-based loans (PBLs), multitranche financing facilities (MFFs), additional financing, TA loans,\footnote{In 1988, there was an initiative to simplify the RRP for a TA loan by following the TA report format with necessary adjustments—some assessments were found impractical at the TA loan proposal stage because ADB would have the opportunity to carefully examine in the RRP the investment proposals, policy issues, and institution-building requirements in-depth based on the outputs from the TA loan, when proposing a loan for the ensuing project. However, such a simplified RRP has not been developed since 1988, and TA loan proposals have followed the RRP for a project loan. ADB. 1988. Streamlining of Technical Assistance Loan Operations. Manila (R169-88).} and financial intermediation loans—that possess different traits from project and sector loans need to spend unnecessary time determining what elements of the templates are relevant to the respective lending modalities. Consequently, opportunities for better and faster delivery are potentially missed. Staff could prepare financing proposals faster if the templates were designed to allow the inclusion of information and documentation unique to a financing modality, or the exclusion of information and documentation that add no value.

7. **Proposed improvement.** RRP templates for the different types of lending modalities are being developed to enable a more focused proposal and clearer storyline. Different templates will improve staff’s understanding of the informational and documentation requirements specific to a lending product. In addition to the current template for project and sector loans, six new templates will be introduced (additional financing, MFF, PBL, results-based lending, TA loans, and financial intermediation loans). Each template will provide guidance on how to comply with the information and documentation requirements for the respective financing modality. To minimize unnecessary documentation, the main text structure and each linked document will be reevaluated against the need for such information in decision making. For example, the RRP template for a TA loan will be significantly streamlined along the lines of the project design advance report.\footnote{ADB. 2014. Proposed Extension of Pilot Period for the Project Design Facility with Modifications. Manila (R7-14).} The streamlining of templates will also be extended to TA operations. Furthermore, before circulation for interdepartmental review, RRPs and TA reports will be reviewed by the relevant sector or country director (or equivalent) to ensure the quality of the storyline and overall readability of the document.

2. **Making Interdepartmental Review Process Useful and Meaningful**

8. **Issues.** The interdepartmental review process imposes unnecessary burdens on RRP preparation. The objective of interdepartmental reviews is to help ensure operations departments identify significant issues in the project design, adequately address compliance issues, and incorporate good practices and lessons learned. However, the implementation of this process has become cumbersome and inefficient, dramatically slowing down loan

processing. Between concept clearance and Board approval of the financing proposals, staff have to prepare two key documents (a project concept paper and an RRP) and go through an interdepartmental review for each. Operations departments spend significant time preparing the two papers along with various supporting documents. Reviewing departments and offices generate voluminous comments on the two reports. Some comments offered during the interdepartmental review are outside the mandate of the reviewing departments or reflect personal preferences for a particular project design. Although some departments and offices may not be able to make meaningful contributions at a particular stage of loan processing, they may feel compelled to comment. Comments are often unclear as to what improvements are being proposed or sought. Reviewing departments may present all of the comments as having the same weight, even though some may be of lesser importance. In turn, operations departments feel obliged to address all comments received, even when they are not clear or are not significant to the proposal. The same issues arise with TA reports.

9. The quality assurance meetings in connection with interdepartmental reviews are efficient tools for solving any issues that need to be addressed. However, when a quorum is required, the meetings may result in inefficiency. This is particularly true for nonsovereign operations where the Operations Manual requires the attendance of the heads of five departments and offices at the Investment Committee meetings. Attendance can be delegated to representatives at the director level or higher. However, managerial-level staff are still required to attend to satisfy the attendance requirements, even when they have expressed their support for the project and their comments have been taken into account by the operations department. Mandatory meeting attendance when staff attendance is not needed to make meaningful contributions is an unnecessary use of staff resources and time.

10. Proposed improvement. ADB will start moving away from excessive dependence on interdepartmental reviews, but encourage participation of staff from advisory and knowledge departments in project preparation. Where multidisciplinary subjective reviews are beneficial, interdepartmental reviews would adopt a risk-based approach to addressing comments. A standardized comment form would be introduced, and reviewers would categorize their comments into two categories based on the nature and gravity of the concerns raised, and the need for them to be addressed.

   (i) **Fundamental comments.** If these comments were not adequately addressed, the reviewing department would object to the proposal. This would ensure responsiveness to the relevant strategies and policies, the Operations Manual, and other institutional requirements.

   (ii) **Advisory comments.** These comments would not hold up proposal processing if they were not incorporated. They provide options to improve the project design and the appropriateness of the analysis and assessment results. The operations department would judge whether to address them at its reasonable discretion, but with full accountability for its decisions.

11. The introduction of these two categories would benefit reviewers and operations departments, and promote a more efficient and effective review process. Reviewers would need to be clear whether the comment must be addressed to ensure full compliance or the soundness of the proposal, or whether the comment represents the reviewers’ personal preference on how a particular activity should be undertaken. Operations departments would only be obligated to take into account the fundamental comments, while deciding which other advisory comments could help improve the design and presentation. Disagreements on
fundamental comments would be brought to the chair of the applicable quality assurance meeting or the Investment Committee meeting for resolution.

12. To make more efficient use of staff time and effective use of staff skills, the level and timing for each department’s involvement in interdepartmental reviews will be overhauled. Departments that can contribute to the conceptualization of project outcome and outputs would participate more at the concept stage, while those that can better guide loan administration and project implementation would contribute when the project details are firmed up, generally after fact-finding missions.

13. Similarly, the full participation requirement in any meeting would be removed from the Operations Manual. Following the practice of the Management review meetings for sovereign operations, representatives from the reviewing departments would no longer be required to attend meetings if they confirmed that all fundamental comments had been addressed before the meeting.

3. Streamlining Editing of Reports and Recommendations of the President

14. Issues. While the editing of Board documents is an indispensable step to ensure quality and consistency, the process typically takes 1 to 2 weeks for an RRP. RRPs for sovereign operations were originally edited before loan negotiations, but editing has been done after loan negotiations since 2003. This change was introduced to reduce the burden on editors who had to edit the same 20 pages of the main RRP text twice when loan negotiations resulted in substantive changes to the document. In 2009, the RRP became a succinct 10-page document with content less likely to incur significant changes during loan negotiations. Nonetheless, RRPs continue to be edited mostly after loan negotiations, resulting in additional 1 to 2 weeks before submission to the President and circulation to the Board.

15. Proposed improvement. The editing of RRPs would no longer be a sequential process but a parallel one. For a trial period, RRPs would be edited at a stage where concerned operations, advisory, and knowledge departments were all substantially satisfied with the draft, and the operations departments did not foresee substantive changes to the document. Unless an RRP is subject to disagreement on a fundamental comment, it may be edited before or in parallel with loan negotiations in the case of sovereign operations, and in parallel with or after the Investment Committee meeting in the case of nonsovereign operations.

B. Introducing Greater Responsiveness in Procurement Practices

1. Encouraging Use of Advance Contracting and Retroactive Financing

16. Issues. Advance contracting is one of the tools for improving project readiness. By allowing major contracts to be awarded soon after the approval of financing, advance contracting promotes efficient and faster utilization of loan proceeds. Although the Procurement Guidelines (2015, as amended from time to time) encourage advance contracting, it has required Management’s approval since 1983 because of possible risks to client country expectations and potential misprocurement. For similar reasons, the use of retroactive financing has also required Management’s in-principle approval. The Board approved these requirements

in 1991.\textsuperscript{15} Even when the head of a department chairs a quality assurance meeting, Management approval is still separately required for advance contracting and/or retroactive financing by virtue of the Board policy. Thus, despite the enhanced focus on project readiness under the midterm review, ADB continues to follow a risk-averse approach under which significant procurement activities start after the approval of financing. Consequently, loan proposals with low readiness encounter less administrative burden, while projects with higher readiness require additional administrative processes.

17. **Proposed improvement.** Advance contracting and retroactive financing would be allowed by default for all financing and TA proposals involving procurement and/or the recruitment of consultants. Operations departments would no longer be required to seek the relevant vice-president’s approval during loan processing. The loan proposal would describe achievements in advance contracting and retroactive financing to demonstrate the levels of project readiness. Operations departments would continue to ensure compliance with rules applicable to advance contracting and retroactive financing. Operations departments would advise the executing and implementing agencies that ADB approval of advance contracting and retroactive financing would not commit ADB to subsequently approve its financing. Furthermore, if retroactive financing was considered necessary after loan approval, even if not included in the loan proposal, it would be permissible to retroactively finance eligible expenditures with the approval of the relevant head of department. Consequently, Board approval would be necessary to modify the current practices flowing from the 1991 policy (footnote 15).

2. **Introducing Flexibility in the Application of Procurement and Consulting Guidelines**

18. **Issues.** ADB’s Procurement Guidelines and Guidelines on the Use of Consultants govern the procurement of goods, works, and consulting services in ADB-financed projects. Both guidelines define the applicable principles and policies, as well as the detailed procedures that need to be followed. Since these guidelines are Board-approved policy documents, any deviation from them must be approved through a Board waiver, no matter how small, reasonable, or procedural. The prescriptive procedures, which offer a one-size-fits-all approach, have limited the ability of operations departments to adapt and innovate, and have often led to suboptimal procurement outcomes.

19. **Proposed improvement.** To enable more procedural flexibility during procurement and consultant recruitment, Management would approve minor deviations from these guidelines. This is similar to the procedure of the World Bank, whose managing director has the authority to grant operational waivers to its procurement and consulting rules.

20. A “minor deviation” would mean a deviation from a procedural element in Section II (International Competitive Bidding) and Section III (Other Methods of Procurement) of the Procurement Guidelines, and Section II (Procedures) of the Consulting Guidelines, unless the deviation would be inconsistent with the policy principles set out in Section I of these guidelines. The waiver of minor deviations would be one-time deviations, granted on a case-by-case basis. A “major deviation” would mean a deviation requiring a waiver of the policy principles set out in Section I of the Procurement Guidelines and Section I of the Consulting Guidelines, and accordingly would require Board approval for the waiver.

21. To implement this reform, the Board would need to delegate its authority to approve minor deviations from these guidelines to the President, who could further delegate approval authority to the relevant vice-president. To ensure transparency of the waivers granted, the need for a waiver would be ascertained by the Office of the General Counsel and the Operations Services and Financial Management Department when the operations department proposes an activity as a minor deviation from the guidelines, and the record of approvals would be submitted to the Board for information annually.

3. Removing Member Country Procurement Restrictions in Cofinancing for Ordinary Capital Resources Operations

22. Issues. For ADB operations financed from OCR, the Agreement Establishing the Asian Development Bank (the Charter) requires that loan proceeds be used for procurement in member countries for goods and services produced in member countries, unless at least two-thirds of the voting power of the Board waives that requirement based on special circumstances.

23. In the case of cofinancing for operations financed from OCR, the member country procurement restrictions can create challenges in attracting cofinancing resources and obtaining operational efficiency for projects. Some cofinancers do not accept ADB’s member country procurement eligibility restrictions and require ADB to waive them as a condition for providing cofinancing. For cofinanced projects where the cofinancier allows for universal procurement, it is often difficult—or impossible—to segregate particular procurement packages; when segregating packages is possible, it likely results in less-than-optimal cost outcomes.

24. To address these issues in the context of the cofinancing of operations financed from the ADF, the Board approved in 2013 a blanket waiver of member country procurement eligibility restrictions in such cases. The flexibility afforded by this blanket waiver has been positively received, both by cofinanciers and developing member countries (DMCs).

25. Proposed improvement. Board approval would be required for a blanket waiver of member country procurement eligibility restrictions in the case of cofinancing for operations financed from OCR. The scope of such a waiver would be similar to that extended to cofinanced operations financed from the ADF under the 2013 blanket waiver. Such a waiver would apply in all cases where (i) ADB administers cofinancing resources for OCR-financed operations, or (ii) OCR resources and a cofinancier's resources are used to jointly finance individual procurement packages. The waiver would not apply (or apply only to a limited extent) if a cofinancier providing resources to an existing or future single-donor ADB-administered trust fund notifies ADB in writing that it has different requirements, including that ADB’s member country procurement eligibility restrictions will continue to apply or that only certain countries must be added as eligible sources of procurement. Adopting such a waiver would (i) attract contributions from cofinanciers by offering universal procurement eligibility; and (ii) achieve operational efficiency when the funds of ADB and cofinanciers are commingled to finance agreed upon expenditure items, and procurement is therefore conducted jointly under one set of rules.


26. **Issues.** To expand knowledge dialogue with its DMCs under the Midterm Review of Strategy 2020, ADB is committed to taking the lead in promoting knowledge sharing among developing countries. Such knowledge sharing is principally carried out through TA operations, which often involve organizing conferences to bring parties together to discuss common issues and approaches. Such conferences have frequently been hampered by ADB’s inability to recruit experts from countries that are not ADB members, denying the opportunity to share the expertise and experiences of some of the most knowledgeable individuals. ADB’s TA operations would benefit greatly if experts from outside ADB member countries could be recruited to act as resource persons at ADB-organized conferences.¹⁸

27. **Proposed improvement.** To enhance the effectiveness of ADB’s TA operations, particularly as they relate to cooperation among developing countries, Board approval would be required for a blanket waiver of member country procurement eligibility restrictions for the recruitment of resource persons and related expenditures. This would enable ADB’s TA operations to benefit from the expertise of individuals from outside ADB member countries, thereby improving the development impact of activities. The costs associated with recruiting resource persons are typically minor in relation to overall TA costs.

5. Removing Member Country Procurement Restrictions under Policy-Based Loans

28. **Issues.** Unlike project loans, PBL proceeds may be disbursed against economy-wide import requirements on the basis of a negative import list or, where necessary and appropriate, sector-specific import requirements on the basis of a positive import list.

29. **To ensure compliance with the Charter requirement that the proceeds of ADB financing be spent in ADB member countries, the 1998 policy on the simplification of disbursement procedures for PBLs allowed the disbursement of PBLs applying a negative list without supporting import documentation.**¹⁹ In such cases, the policy required the borrower to certify to ADB, as part of its loan withdrawal application, that during each year in which the proceeds of the PBL are expected to be disbursed, the value of the borrower’s total imports minus (i) imports from non-member countries, (ii) ineligible imports, and (iii) disbursements made under other official development assistance is greater than the amount expected to be disbursed during that year. Since many DMCs do not have ready access to the type of information required to provide ADB with the certification, they must go through the time-consuming process of compiling the data or make the certification based on incomplete data. Moreover, ADB’s insistence on such

¹⁸ Moreover, opportunities are increasing to collaborate on knowledge activities with other international organizations and academic institutions as part of ADB’s TA operations. However, it is often challenging for those institutions to be subject to the standard recruitment process and contract templates developed under ADB’s Consulting Guidelines that are more tailored for traditional fee-earning consulting firms. Consequently, considerable time and efforts are spent on adjusting the process and templates on an ad hoc basis to address the administrative arrangements or forego the opportunity. ADB will explore solutions to overcome these impediments and lower the transaction costs for such knowledge collaboration, while ensuring transparency, competition, and integrity. This may include developing a framework tailored to knowledge collaboration and identifying centers of excellence based on well-defined criteria for multiple collaborations.

an import-related certification is of limited value in the case of PBLs (based on a negative list), which essentially provide budgetary support.

30. **Proposed improvement.** Given the challenges associated with providing a certification in the case of PBLs that use a negative list, as well as the lack of usefulness of such a certification, the Board could approve a blanket waiver of member country procurement eligibility restrictions in such cases. This would eliminate the need for DMCs to submit a certification confirming the borrower's compliance with the formula. In addition to saving time for ADB and borrowers, the blanket waiver would recognize that the proceeds of PBLs are fungible, and therefore linking such disbursements to imports provides few benefits.

C. **Adopting Measures to Support Disbursement**

1. **Streamlining Tranche Release Approval Process for Policy-Based Loans**

31. **Issues.** Under PBLs, the release of the second (or subsequent) tranche has to occur 10 days after the President’s approval, even when the borrower has fully complied with the conditions required for tranche release. Under the current policy, a progress report on the tranche release is submitted to the Board for information. The report examines whether the intended objectives were substantively achieved based on the assessment of program implementation and compliance with the required conditions. Circulation of the report and a waiting period of 10 days were envisaged to enable Board members to express their views to Management and staff and, if they wished, to request a Board discussion. However, intervention by the Board at this stage is extremely rare. The question is whether a fully compliant tranche requires Board oversight.

32. **Proposed improvement.** To expedite the disbursement of the second and subsequent tranches under PBLs that meet all agreed policy actions, the requirement to submit a progress report to the Board and wait 10 days would be removed; Management would be authorized to release the tranche upon completion of the agreed policy actions. A progress report would be submitted to the Board for information thereafter. However, if the Board at the time of approving a PBL believes it merits additional Board scrutiny before the release of the second (or subsequent) tranche, then Management will circulate the progress report to the Board and wait for 10 days before releasing that tranche. If any of the policy actions have not been complied with, the Board would continue to approve any waiver of the policy action on a no-objection basis.

33. To implement the reform, the Board’s approval would be required to waive the 10-day waiting period (subject to the Board deciding otherwise in any specific case) and to authorize the President to delegate his authority to the relevant vice-president of operations to approve the tranche release.

2. **Removing Excessive Controls on Financing of Incidental Expenditures**

34. **Issues.** The 2005 policy on cost sharing and eligibility of expenditures significantly increased flexibility in ADB financing. One of the key changes was enabling ADB to finance

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incidental project expenditures, such as (i) local transport and insurance, (ii) late payment penalties, (iii) nutritional assistance, (iv) interest during construction on non-ADB loans, (v) bank charges, (vi) recurrent costs, and (vii) severance pay. To implement the 2005 policy, the Operations Manual sets out rigid controls and requires operations departments to justify the eligibility of these cost items in the RRP. These measures have proven to be impractical. The identification and projection of incidental project expenditures during project preparation is difficult as most are small and incurred during project implementation. When the borrower requests disbursement for such expenditures, the operations department is required to process a minor change in the project (with an interdepartmental review) to make these expenditures eligible. This results in staff spending significant time to justify the disbursement of negligible amounts for these incidental expenditures.

35. **Proposed improvement.** To expedite loan disbursement operations and save considerable staff time, ADB would make these incidental project expenditures eligible for financing—even if they are not included in the loan proposal—without the need for a change in scope of the project. A simple confirmation by the operations department to the Controller’s Department would suffice to facilitate disbursement. An equivalent approach would be taken for incidental expenditures (e.g., bank charges) under TA disbursement operations.

3. **Simplifying Process for Financing of Taxes and Duties**

36. **Issues.** ADB’s ability to finance taxes and duties is complicated and cumbersome for ADB and DMCs, causing delays in disbursement. While ADB’s financing of project-related taxes and duties is allowed under the 2005 policy (footnote 21) subject to several criteria, its application to a project is rare. A review of the 2005 policy implementation carried out in 2011 found that only 7% of all loan proposals approved from 2006 to 2009 incorporated project-related taxes and duties as eligible expenditures for ADB financing. Operations departments regularly report that the assessments and substantiation required in a loan proposal are excessively burdensome. Ensuring the appropriate treatment of taxes and duties during disbursement for each transaction and invoice is time consuming, which ties up significant staff resources for the borrower and ADB. This contributes to delayed disbursements and often delays in closing the loan account.

37. **Proposed improvement.** To expedite loan disbursements and simplify loan processing, ADB would finance project expenditures on eligible works, goods, and services, which include taxes and duties levied on eligible items. Such project-related taxes and duties could be financed out of ADB loans when the following two criteria are both met:

(i) ADB confirms in its periodic cost-sharing assessment for a DMC, generally provided as part of a country partnership strategy (CPS), that the taxes and duties in the DMC were based on reasonable systems and structures and were not specifically targeted at ADB-financed projects; and

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22 The criteria include (i) during the CPS preparation process, a reasonable threshold will be identified for the financing of taxes and duties related to project expenditures; (ii) the amount will not represent an excessive share of the project investment plan; (iii) the taxes and duties apply only to ADB-financed expenditures; and (iv) the financing of the taxes and duties is material and relevant to the success of the project.

(ii) Operations departments determines (whether before or after the approval of the financing proposal) that the estimated amount of taxes and duties to be incurred under the project do not represent an excessive share of the project cost.

38. For eligible loans, the Controller’s Department would no longer segregate taxes and duties when processing withdrawal applications, but rather apply the agreed disbursement percentage for the expenditure, in accordance with the loan agreement.24

4. Removing Inconsistencies in Definition of Retroactive Financing

39. Issues. The inconsistent definition of “retroactive financing” in different policies and regulations has resulted in staff spending more time to explore ad hoc solutions. Some policies define eligible expenditures as those “paid” before the loan effective date,25 while others define them as expenditures “incurred” before the signing of a loan agreement.26 In practice, “retroactive financing” is applied to the financing of project expenditures incurred by the borrower before a loan agreement becomes effective. Nevertheless, the inconsistencies in policies remain, which cause confusion and requires unnecessary staff time to resolve.

40. Proposed improvement. The revised definition of retroactive financing would be “the financing of project expenditures incurred by the borrower before a loan agreement becomes effective.” To adopt the revised definition across eight Board-approved policies and regulations (Procurement Guidelines, Consultant Guidelines, Ordinary Operations Loan Regulations, Special Operations Loan Regulations,27 Special Operations Grant Regulations,28 Externally Financed Grant Regulations,29 Regulations of the Asian Development Fund,30 and Disaster and Emergency Assistance Policy31), Board approval would be required for such amendments.32

Details are in Appendix 1.

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24 This may or may not result in ADB financing taxes and duties for a particular expenditure, depending on the tax and duty structure for an expenditure item and the disbursement percentage to be applied to such expenditure item. For example, when ADB’s disbursement percentage is 90% of an invoice, which contains 15% taxes and duties, this will result in ADB financing part of the taxes and duties. However, if ADB’s disbursement percentage is 60% of an invoice, which contains 15% taxes and duties, this does not result in ADB financing taxes and duties.


27 ADB. 2001. Ordinary Operations Loan Regulations. Manila (Section 6.01 [b]); and ADB. 2006. Special Operations Loan Regulations. Manila (Section 5.01 [b]).


29 ADB. 2009. Adoption of Externally Financed Grant Regulations. Manila (R46-09).


32 In case of a conflict between the definition of retroactive financing as provided in this paper and that included in any other ADB document (including, without limitation, any trust fund implementation guideline), unless the context otherwise requires, the definition in this paper will be applied.
III. STREAMLINING FINANCING PARTNERSHIP OPERATIONS

41. **Background.** ADB’s financing partnerships take place at two levels: operational and institutional. Operational financing partnerships concern cofinancing arrangements for specific projects, programs, and/or TA operations. Institutional financing partnerships are carried out through single or multi-donor trust funds, financing partnership facilities (FPFs), framework arrangements, and global funding initiatives (GFIs).

42. **Operational financing partnerships.** Various policies convey the authority to approve the administration of cofinancing. For example, for loan and TA proposals entirely sourced from cofinancing, the 1980 policy on streamlining processing work indicates that Board approval is required. For additional cofinancing, the 2010 additional financing policy gives the President the authority to approve cofinancing for up to 15% of loan amount. 

43. For nonsovereign operations, various policies provide the authority to approve B loans. Before the approval of the credit enhancement operations policy in 2006, the terms “complementary financing scheme” (CFS) and “B loans” were used synonymously. Under the 2001 summary procedure policy and its 2005 update (footnote 7), the provision of a CFS requires Board approval through a full Board discussion. The 2006 credit enhancement operations policy states that all the credit enhancement products require Board approval, and that approval for such arrangements can be sought from the Board when approving anchor financing or during the implementation period.

44. **Institutional financing partnerships.** The approval of trust funds, FPFs, framework arrangements, or GFIs is not currently governed by a clear policy, although established practices have been developed for each. A trust fund channels untied grants from financing partners to cofinance interventions for a sector, theme, or group of countries under ADB’s full administration of the funds. It has been customary to seek Board approval for the establishment of new single or multi-partner trust funds, and for the acceptance of contributions.

45. FPFs are operational mechanisms for strategic, long-term, multi-partner cooperation that link various forms of assistance in a coordinated manner for a well-defined purpose. They may include any or all types of financing partnerships: (i) trust funds for grants to be administered by ADB; (ii) project-specific cofinancing (i.e., grants, concessional loans, or guarantees) on a joint or parallel basis through cofinancing framework arrangements and letters of intent with development partners; (iii) cooperation arrangements for knowledge provision and exchange; and (iv) any other form of cooperation that development partners and ADB may agree upon for a defined program of activities. In line with the convention for establishing trust funds, Board approval was sought for the establishment of the FPF. Subsequent trust funds under an FPF have then been established by Management, and the Board has been informed about these through information papers.

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36 One of the criteria for the summary procedure excluded projects involving the use of the CFS.
37 The credit enhancement products comprise guarantees and syndications—B loans are defined as syndications with a fronting structure.
46. Framework arrangements are applied mainly to financing partners that are willing to support ADB projects through loan cofinancing. Framework arrangements aim to increase the predictability of cofinancing volumes, minimize detailed negotiations for each transaction, and streamline methods for reporting and exchanging information. The head of the Office of Cofinancing Operations (OCO) typically approves framework arrangements. On the other hand, GFIs are funding initiatives whose resources can be accessed by multiple partner agencies. The Board customarily approves ADB’s participation in GFIs.

47. **Issues.** Four key issues arise in financing partnership operations. First, quality assurance for proposals to establish new trust funds, FPFs, framework arrangements, and GFIs varies, creating operational ambiguities and inconsistencies during their formation and after their establishment. The principles and procedures for the establishment of trust funds, FPFs, and framework arrangements are not set out in any operational guidance document. Nor is there a guidance document for ADB’s participation in GFIs.

48. Second, Board approval is sought for ADB’s establishment of trust funds and FPFs, and ADB’s participation in GFIs, and for accepting and administering contributions without a clear policy basis. The question arises whether it is necessary or efficient for Management to seek the Board’s approval to establish trust funds and FPFs, or to participate in GFIs in cases where there is no direct risk to ADB’s financial resources, or where reputational risks or risks relating to the proper use of resources can be sufficiently mitigated. Similarly, it is questionable whether it is necessary or efficient for Management to seek Board approval to administer cofinancing for ADB-financed projects (including TA).

49. Third, Board approval is sought twice—firstly, for accepting a contribution from a financing partner, generally concurrently with the establishment of a financing partnership, and then again for the administration of cofinancing in connection with the project ADB is financing.

50. Fourth, B loans in nonsovereign operations (para. 43) require Board approval through a full Board discussion, which has resulted in administrative complexity under all circumstances. After B loan approval, for example, some commercial cofinanciers have offered to increase B loan amounts. However, ADB was unable to respond promptly because such an increase would require another Board approval. In addition, while the policy on the Faster Approach to Small Nonsovereign Transactions (FAST) authorized the President to approve ADB financial assistance up to $20 million for an eligible project, B loans complementing such assistance would still require Board approval, defeating the FAST’s purpose of expedited loan delivery.

51. **Proposed improvement.** The following reforms would substantially streamline financing partnership operations commensurate with the associated risks. First, the circumstances

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39 In 1980, the policy on loan and TA processes waived a requirement for Board approval for the administration of cofinancing when a project is exclusively financed by another organization under Board-approved general corporation arrangements. ADB. 1980. *Streamlining of Loan and Technical Assistance Processing Work of the Bank*. Manila (R84-80, para. 3[f]).


41 The proposed approach is similar to the delegated approach adopted by the World Bank, where Management approves all trust funds and cofinancing. The World Bank’s approval authority for trust funds includes their establishment as well as the administration of trust fund resources. Exceptions are that the executive directors approve trust funds that (i) include a transfer from the World Bank’s net income; (ii) would provide assistance to a nonmember country or to a member not in good standing with the World Bank; or (iii) present novel or significant policy issues, which, in Management’s judgment, warrant consideration by the executive directors. World Bank. 2010. *Trust Fund Handbook*. Washington, DC.
under which Board approval would be required for matters relating to financing partnerships would be refined. Under this approach, the Board would approve

(i) the establishment of a trust fund, FPF, framework arrangement, and/or participation in a GFI that
   (a) requires an exception to an existing ADB policy (unless the operation of any such policy has been waived by the Board);
   (b) presents a novel design or complexity, or requires ADB to assume a significant risk and/or an unusual legal obligation, 42 which in Management’s judgment warrants consideration by the Board; or
   (c) involves acceptance of contributions by ADB from financing partners exceeding $200 million in the aggregate; 43 and

(ii) the administration of cofinancing for any operation that
   (a) requires an exception to an existing ADB policy (unless the operation of any such policy has been waived by the Board);
   (b) involves an unusual legal obligation (footnote 42) on ADB under a cofinancing agreement;
   (c) involves an innovative financing modality for which a policy paper has not yet been prepared; or
   (d) involves the potential for significant adverse environmental, economic, and/or social impacts, particularly on vulnerable groups that may be unable to absorb such impacts, 44 unless such cofinancing is for a project whose loan has already been approved by ADB’s Board and no new significant adverse impacts are envisaged.

52. Except as provided in para. 51, the President would be authorized to approve the establishment of trust funds and FPFs, or participation in GFIs; acceptance of contributions from any financing partner; and administration of cofinancing for any operation. The President may further delegate his authority to the head of OCO to approve the establishment of trust funds and FPFs, and participation in GFIs, and acceptance of any contribution from a financing partner. The head of OCO will continue to approve framework arrangements. The Board will be informed of each new trust fund, FPF, framework arrangement, or GFI upon its approval. The Board will be informed semiannually of the acceptance of contributions and the administration of cofinancing.

53. Second, a new instructional document would be prepared to guide staff on trust funds, FPFs, framework arrangements, and GFIs to ensure a consistent, risk-based approach to quality assurance. The document would clarify the applicable policies and set out principles on due diligence and documentation requirements. All trust funds, FPFs, framework arrangements, and GFIs would adhere to prevailing ADB policies and practices. The guidance document would describe the following business processes: (i) preparation of a concept note by the proposing department; (ii) due diligence, interdepartmental review, and identification of risks; (iii) quality assurance meeting; (iv) submission of the paper to the head of OCO, President, or the Board,

42 For example, arrangements requiring ADB to accept a higher standard of liability than is customary or which undermine ADB’s privileges and immunities.

43 To the extent the original proposal does not envisage the size of the fund or contributions in aggregate to exceed $200 million, approval authority as provided in para. 52 would apply.

44 Management may apply a liberal interpretation of these criteria in determining whether to submit a project proposal to the Board for approval if such impacts can be sufficiently mitigated.
as appropriate, for approval; and (v) the negotiation and finalization of the agreement with the financing partner.

54. Third, the Board would approve the provision of B loans and subsequent increases in B loan amounts through summary procedure (para. 65[iv]). The President would be authorized to approve

(i) B loans up to $20 million when complementing ADB financial assistance under FAST (footnote 40), and

(ii) a subsequent increase in the B loan amount for any operation where such increase does not exceed 20% of the B loan amount originally approved by the Board.

55. The Board’s approval would be required to give the President the authorization to approve (i) the establishment by ADB of trust funds and FPFs, and participation in GFIs; (ii) the acceptance of contributions from any financing partner; (iii) the administration of cofinancing of the projects (including TA); (iv) B loans up to $20 million in connection with FAST; and (v) an increase in a B loan amount up to 20% subsequent to Board approval of the original B loan. The Board’s approval would also be required for President to delegate to the head of OCO the authority to approve establishment of trust funds and FPFs, and participation in GFIs, and acceptance of any contribution from a financing partner. The head of OCO will continue to approve framework arrangements.

IV. STREAMLINING THE APPROACH FOR SEEKING APPROVALS OF THE BOARD

A. Enhancing the Effectiveness of Summary Procedure

56. **Background.** The intention for introducing the summary procedure in 1980 was to reduce the Board’s workload considerably by not requiring Board meetings for routine types of loans involving relatively small amounts of ADB financing.\(^{45}\) The summary procedure was last revised in 2005 (Appendix 2). To enhance the effectiveness of these measures—and to prepare for the potential increase in the size and volume of ADB’s financial assistance as a result of combining ADF lending operations the OCR balance sheet—the need for further revisions of the summary procedure has been examined.

57. Under the revised 2005 summary procedure policy (footnote 7), proposals for financing from OCR and/or Special Funds are eligible for Board consideration through the summary procedure when quantitative thresholds and qualitative criteria are met. The quantitative thresholds are $200 million or less for sovereign operations and $50 million or less for nonsovereign operations. The qualitative criteria ensures full Board discussion for loan proposals involving (i) an exception to an existing ADB policy; (ii) a PBL and sector development program; (iii) an important new approach in the concerned DMC; (iv) the potential for significant adverse environmental, economic, and/or social impacts; or (v) a complementary financing scheme (or B loan) or novel financing arrangement.

58. **Issues.** From 2005 to 2014, the average size of ADB’s financial assistance increased by 66%. This was primarily because of an 87% increase in the average size of financial assistance for nonsovereign operations (Table 1). In addition, the number of nonsovereign loan proposals rose by 1.6 times in that period. Despite these increases, the quantitative thresholds for the

summary procedure have not changed. Consequently, the proportion of the financing proposals considered through the summary procedure for nonsovereign operations was only 19% of all proposals in 2005 and 31% in 2014; for sovereign operations, the proportion was about 60% in both 2005 and 2014 (Table 2). This indicates that the quantitative threshold for nonsovereign operations has not been as effective as that for sovereign operations in making use of the summary procedure. In addition, because the current summary procedure was developed before the Office of Risk Management was fully operational, Management’s resulting stronger oversight of nonsovereign operations has not been taken into account.

Table 1: Comparison of Average Size of Financial Assistance in 2005 and 2014

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2014</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sovereign operations</td>
<td>70.3</td>
<td>115.1</td>
<td>64</td>
</tr>
<tr>
<td>Nonsovereign operations</td>
<td>58.2</td>
<td>108.9</td>
<td>87</td>
</tr>
<tr>
<td>All operations</td>
<td>68.8</td>
<td>113.9</td>
<td>66</td>
</tr>
</tbody>
</table>

Note: The figures includes (i) ordinary capital resources and Asian Development Fund (ADF) loans; (ii) grants from ADF, other special funds, Japan Fund for Poverty Reduction, Japan Fund for Information and Communication Technology, and other sources; (iii) guarantees; (iv) equity investment; and (v) B loans. Multitranche financing facilities are excluded. These sums were divided by the annual project counts, which exclude the number of additional financing.

Source: Asian Development Bank estimates.

Table 2: Number of Financing Proposals Considered by the Board in 2005 and 2014

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2014</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>%</td>
<td>Number</td>
</tr>
<tr>
<td>Sovereign operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full Board discussion</td>
<td>38</td>
<td>41.8</td>
<td>32</td>
</tr>
<tr>
<td>Summary procedure</td>
<td>53</td>
<td>58.2</td>
<td>55</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>91</td>
<td>100.0</td>
<td>87</td>
</tr>
<tr>
<td>Nonsovereign operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full Board discussion</td>
<td>13</td>
<td>81.3</td>
<td>18</td>
</tr>
<tr>
<td>Summary procedure</td>
<td>3</td>
<td>18.8</td>
<td>8</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>16</td>
<td>100.0</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>107</td>
<td></td>
<td>113</td>
</tr>
</tbody>
</table>

( ) = negative.

Source: Asian Development Bank estimates.

59. The relevance of the five qualitative criteria for the current summary procedure (para. 57) has also been assessed. The first qualitative eligibility criterion requires that the project should not involve any exception to an existing ADB policy. Because of the rigidity of this criterion, even a minor exception to an existing ADB policy requires a Board meeting for a financing proposal. While this paper has proposed that the Board delegate to the President the authority to approve minor deviations to the procurement and consultant guidelines (paras. 19–21), a minor exception to other ADB policies would still result in Board meetings.

60. The second qualitative eligibility criterion states that PBLs and sector development programs do not qualify for summary procedure. However, such loans are less likely to face significant implementation risks when the loan amount is small. Further, most PBLs of $50

million or less are subsequent subprograms under programmatic budget support,\textsuperscript{47} for which the broad framework of each programmatic approach has already been considered by the Board together with the first subprogram.

61. The third qualitative eligibility criterion restricts the use of the current summary procedure if the project involves “an important new approach for ADB in the developing member country concerned.” Although “an important new approach” is not defined in the 2005 policy paper (footnote 7), the 2001 policy paper on summary procedure (footnote 35) provided some examples, such as subregional or cross-border cooperation, major use of information and communication technology, social protection, private sector development, and public–private partnerships. These areas are priorities under the Midterm Review of Strategy 2020 and have all been integrated into ADB operations (e.g., regional cooperation, and information and communication technology). In addition, CPSs (which are endorsed by the Board) and sector and thematic operational plans (which are based on consultations through informal Board seminars) highlight how ADB will operationalize sector and thematic priorities, including regional cooperation, public–private partnerships, and social protection. These reflect dialogue with the Board, provide sufficient guidance in the formulation of ADB’s sector and thematic assessments and road maps, and consequently influence the approaches to be used in projects and programs.

62. The fourth qualitative eligibility criterion makes proposals for loans with the potential for significant adverse environmental, economic, and/or social impacts (particularly on vulnerable groups that may be unable to absorb the impacts) ineligible for summary procedure (unless Management applies a liberal interpretation of this criterion). There is no issue with this criterion.

63. The fifth qualitative eligibility criterion restricts the use of summary procedure for projects that involve the use of a CFS or a novel financing arrangement. CFS was rebranded as a B loan by the 2006 credit enhancement operations policy. Seeking the Board’s views on the potential risks associated with novel financing arrangements\textsuperscript{48} through full Board discussion has merit, but doing so for B loans does not. B loans do not present any financial risk to ADB since they are funded by commercial lenders through a prearranged sale by ADB as lender of record to such commercial lenders of participations in the loans without recourse to ADB.

64. Furthermore, the quantitative criterion in terms of an absolute value helps to ensure a consistent approach to summary procedure. However, it does not necessarily account for the level of risk to the achievement of development results presented by the size of financing relative to the size of the borrowing DMC. Therefore, it is important that an approach to summary procedure allow for Board discussion of a proposed financing relative to the size of the borrowing DMC without focusing on the absolute size of the financing.

65. **Proposed improvement.** The criteria would be updated to enhance their effectiveness as follows:

   (i) The threshold for Board discussion for nonsovereign operations would be raised to $100 million of ADB financial assistance in light of the increase in the average

\textsuperscript{47} In 2014, there were 16 PBLs and grants, including sector development programs. Eight of them were $50 million or less, comprising four subprograms, two stand-alone PBLs and grants, and two sector development programs.

\textsuperscript{48} ADB. 2001. *Streamlining the Approval Process of the Board of Directors through More Efficient Use of the Summary Procedure for Loan Proposals.* Manila (R110-01). This paper implicitly defined that a novel financing scheme is an innovative approach in resource mobilization.
size of nonsovereign loan proposals since 2005 (Table 1). If this criterion had been applied in 2014, the number of proposals considered through full Board discussion would have been reduced from 18 to 10.

(ii) Loan proposals involving an exception to an existing policy (other than the Procurement Guidelines and the Guidelines on Use of Consultants) would be eligible for summary procedure, if Management determined it to be a minor exception.

(iii) PBLs and sector development programs would be eligible for summary procedure when ADB financial assistance does not exceed $50 million and all other criteria for summary procedure are met. If this criterion had been applied in 2014, the number of proposals on PBLs and sector development programs considered through full Board discussion would have been reduced from 16 to 8.

(iv) CFSs would be removed from the criterion. If this—and the new quantitative ceiling (para 65 [i]) and the changes in relation to financing partnerships operations (para. 54)—had been applied in 2014, the number of proposals considered through full Board discussion would have been reduced from 10 (para. 65 [i]) to 6. A novel financing arrangement will be interpreted as (a) an innovative approach in resource mobilization, or (b) an innovative financing modality for which a policy paper has not yet been prepared.

(v) A new criterion will be established to ensure full Board discussion for any financial assistance that, in Management’s judgment, is significant relative to the size of the DMC in question.

66. The revised criteria, all of which must be met for a loan proposal to be eligible for consideration under summary procedure, would read as follows:

   (i) The amount of ADB financial assistance does not exceed $200 million for sovereign operations and $100 million for nonsovereign operations,49 except that the amount of ADB financial assistance for a PBL or a sector development program does not exceed $50 million.

   (ii) The operation does not
   
   (a) require any major exception to an existing ADB policy, as determined by Management;
   
   (b) have the potential for significant adverse environmental, economic, and/or social impacts, particularly on vulnerable groups that may be unable to absorb such impacts;50
   
   (c) involve the use of a novel financing arrangement;51 and
   
   (d) involve significant financial assistance relative to the size of the DMC in question, as determined by Management.

67. In 2014, 50 financing proposals (32 for sovereign and 18 for nonsovereign operations) were considered through full Board discussions. If the proposed criteria, excluding item (ii)(d),

49 The amount of ADB financial assistance for any sovereign or nonsovereign operation will be determined exclusive of any cofinancing or B loans for such operation.

50 Management may apply a liberal interpretation of these criteria in determining whether to submit a project proposal to the Board for discussion.

51 A novel financing arrangement means (i) an innovative approach in resource mobilization, or (ii) an innovative financing modality for which a policy paper has not yet been prepared.
had been applied, 30 of the proposals (24 for sovereign and 6 for nonsovereign operations) would have been considered through full Board discussion (Table 3).52

Table 3: Financing Proposals Considered by the Board in 2014 under Current and Proposed Summary Procedure Criteria

<table>
<thead>
<tr>
<th></th>
<th>Current Criteria</th>
<th>Proposed Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>%</td>
</tr>
<tr>
<td>Sovereign operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full Board discussion</td>
<td>32</td>
<td>36.8</td>
</tr>
<tr>
<td>Summary procedure</td>
<td>55</td>
<td>63.2</td>
</tr>
<tr>
<td>Subtotal</td>
<td>87</td>
<td>100.0</td>
</tr>
<tr>
<td>Nonsovereign operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full Board discussion</td>
<td>18</td>
<td>69.2</td>
</tr>
<tr>
<td>Summary procedure</td>
<td>8</td>
<td>30.8</td>
</tr>
<tr>
<td>Management</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>26</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>113</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank estimates.

68. Since summary procedure is governed by a policy (footnote 7), implementing these reform measures would require Board approval.

B. Unifying Summary and No-Objection Procedures

69. Background. While summary procedure has been applied to financing proposals, the no-objection procedure has been used for proposals relating to administrative and procedural matters, matters that have limited policy implications, operational matters,53 and matters that are highly unlikely to generate contentious opinions among Board members (Appendix 2).

70. No other multilateral development bank has adopted two separate procedures for seeking Board approval without a formal meeting (i.e., summary and no-objection procedures). Most multilateral development banks use a “short procedure” to streamline the consideration of small project operations, TA, and administrative and procedural matters. The World Bank has adopted a principles-based procedure to seek the Board’s approval on project proposals without a formal meeting of the Board. Its procedure does not set a mechanical limit or instrument-based criteria.54

71. Issues. Under both ADB’s summary and no-objection procedures, Board approval is assumed by a specified date in the absence of a request for a discussion of the item and in the absence of a sufficient number of abstentions or oppositions. The approval is recorded in the minutes of a subsequent Board meeting. Therefore, there is no merit in ADB maintaining two separate procedures for seeking Board approval when a formal meeting of the Board is not envisaged.

52 ADB may further explore a financing facility similar to FAST (footnote 40) for sovereign operations, where a pipeline of small loans (particularly for a group of DMCs in a region that is small, eligible for ADF grants, and/or in fragile and conflict-affected situations) are consolidated as a strategic package for Board approval, and each loan under the facility will be approved by the President.

53 For example, proposals for TA, additional financing, a major change in a project, release of second or subsequent tranches under PBLs, loan restructuring proposals that involve additional ADB funding, the establishment of trust funds, and the administration of cofinancing.

54 World Bank. 2013. Engaging with the Board on Results. Washington, DC.
72. **Proposed improvements.** Concurrent with the summary procedure reform, as proposed in para. 66, no distinction would be made between consideration on a no-objection basis or summary procedure. Both would be referred to as “no-objection procedures” covering both financing and non-financing proposals. For non-financing proposals, Management would continue to decide whether to submit such proposals for full Board discussion or through no-objection procedure consistent with past practice (para. 69).

73. In addition, the process of the proposed no-objection procedure would be as follows:

(i) The President makes the final decision on whether the no-objection procedure should be adopted for Board consideration of a proposal.

(ii) In the absence of a request for discussion of the document and a sufficient number of abstentions or oppositions, a no-objection procedure item appears on the agenda of a subsequent Board meeting only to record approval.

(iii) Any Board member may formally request full Board discussion of a document submitted under the no-objection procedure. The Board meeting will be scheduled on or after the deadline for no-objection to provide time for Board members and staff to prepare for the meeting.

(iv) If a request for full Board discussion is subsequently withdrawn by the Board member who requested it, additional 2 working days will be given following such request during which time any Board member may request a full Board discussion.

74. To implement these reform measures, Board approval would be required to rename the summary procedure as the no-objection procedure and to clarify the process for requesting a full Board discussion.

V. **TECHNICAL ASSISTANCE**

A. Clarifying Guiding Principles for Pilot Testing under Technical Assistance to Facilitate Innovation

75. **Background.** The 1997 TA policy allows pilot testing innovative project designs, implementation approaches, and measures as a component of TA operations.\(^{55}\) Pilot testing can be considered as a related facility of consulting services when the experts need to test the validity of their recommendations and make necessary adjustments to project designs. The size of pilot testing is currently limited to an amount equal to 30% of the ADB-funded TA amount.\(^{56}\) Such limit was considered necessary to minimize the risk that TA would be used as an alternative approach for implementing activities that should have been designed as a loan-financed project.

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\(^{56}\) The policy paper assumes that consultants under the TA will procure necessary works, equipment, and services for implementation of the pilot project. Therefore, the 30% ceiling was determined based on the maximum amount of the provisional sum to be included under a consultant contract.
76. **Issues.** The recent corporate evaluation study on the use of TA identified the low usage of pilot testing.\(^{57}\) While the TA policy allows ADB to pilot test innovations, the lack of clarity on the permissible scope of pilot testing and the implementation arrangements has made staff reluctant to pursue pilot activities.

77. **Proposed improvements.** The Midterm Review of Strategy 2020 promotes innovation and piloting new concepts. Management would ensure the appropriateness of pilot testing TA operations by applying the following guiding principles for the scope and implementation arrangements of such pilot testing:

(i) pilot testing is implemented (a) by consultants and funded from the consultant contract; or (b) by entities other than consultants (e.g., international organizations and civil society organizations) selected through a transparent and fair merit-based selection process;

(ii) pilot testing does not result in safeguard categorization of either A or B for the environment, resettlement, or indigenous people;

(iii) sufficient financial management arrangements are in place for such entities, and such entities are not on the sanctions list;

(iv) arrangements for procurement of works, goods, and services by the consultants are defined before TA approval;

(v) legal instruments\(^{58}\) for engaging entities other than consultants are prepared before TA approval; and

(vi) arrangements on the treatment of assets created under pilot testing are made between ADB, consultants, other approved entities, and executing agencies.

B. **Promoting Longer-Term Approach to Technical Assistance by Expanding Cluster Application**

78. **Background.** The 1997 TA policy (footnote 55) introduced the cluster approach for TA operations. A TA cluster is a package of TA subprojects designed to address related constraints in a sector and/or subsector in a DMC through a comprehensive and holistic approach with a medium- to longer-term perspective. The Board (or Management, if within the delegated approval authority) approves a TA cluster with an overall maximum cluster amount, subject to the availability of resources during the implementation period. The head of the concerned department or office approves each TA subproject. A TA cluster allows the Board and Management to review and provide guidance on the overall strategic approach to interventions addressing the related constraints, while allowing flexibility in each individual TA subproject's detailed scope, terms of reference, and budget.

79. **Issues.** The 1997 TA policy excluded project preparatory TA from the cluster approach. This was based on the understanding that project preparatory TA required Management's scrutiny to ensure appropriate design of ensuing projects. Since the adoption of the policy, whenever financing partners have offered to cofinance project preparatory TA operations in a DMC through a cluster approach, Board approval has been sought to permit a cluster approach

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\(^{58}\) Such legal instruments generally clarify a detailed implementation arrangement, such as fund flows, deliverables, defect liabilities and intellectual property rights.
for the project preparatory TA.\footnote{ADB. 2006. \textit{Technical Assistance to India for Project Processing and Capacity Development}. Manila (TA cluster financed by the Government of the United Kingdom); and ADB. 2009. \textit{Technical Assistance to India for Advanced Project Preparedness for Poverty Reduction}. Manila (TA cluster financed by the Government of the United Kingdom).} Under the current business process, a project preparatory TA proposal is generally prepared with a project concept paper. Management is informed of the expected design and risks of an ensuing project by the project concept paper. The project preparatory TA proposal only provides input requirements for project preparation: consultants and related expenses. In other words, the project concept paper has supplanted the project preparatory TA proposal as means to ensure adequate Management oversight at the initial stage of project design. Therefore, the basis for excluding project preparatory TA from the cluster approach in 1997 is no longer valid. Furthermore, the relevant head of department or office is the best judge of the resource requirements since each project preparatory TA conforms to the directional and implementation framework of the TA cluster.

80. **Proposed improvement.** To enhance efficiency of the TA cluster approach, any type of TA would be eligible under this approach. This would enable Board (and Management) oversight on a medium- to longer-term strategic approach to interventions through all types of TA (e.g., advisory, capacity development, project preparatory, research and development). To implement this reform, Board approval would be required to allow the cluster approach to be applied to any type of TA.

C. **Enhancing Delegated Approval Ceiling**

81. **Background.** The President has been authorized to approve TA under a certain ceiling amount since 1969. This approach has enabled the Board to focus on more substantial and substantive operational issues.\footnote{ADB. 1969. \textit{Draft Guidelines on Technical Assistance Operations of ADB}. Manila (R58-68).} Table 4 shows that the ceiling has been increased six times since it was adopted. The last increase was in 2008, which raised the ceiling to $1.5 million for each funding source (footnote 9). The key justifications for the past increases were to (i) update the ceiling to meet the increasing TA sizes as a result of higher consultant unit cost and longer duration of TA operations; and (ii) maintain the effectiveness of the delegation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Ceiling amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>$50,000</td>
</tr>
<tr>
<td>1977</td>
<td>$100,000</td>
</tr>
<tr>
<td>1980</td>
<td>$250,000</td>
</tr>
<tr>
<td>1984</td>
<td>$350,000</td>
</tr>
<tr>
<td>1988</td>
<td>$600,000</td>
</tr>
<tr>
<td>1997</td>
<td>$1 million</td>
</tr>
<tr>
<td>2008</td>
<td>$1.5 million</td>
</tr>
</tbody>
</table>


82. During the first year of the new ceiling in 2009, the Board approved 24 of 313 TA proposals (7.7\%) through the no-objection procedure. This increased to 32 of 327 TA proposals (9.8\%) in 2011, but declined to 24 of 344 proposals (7.0\%) in 2014 (Table 5). Thus, Management and heads of departments approved a significant majority of TA.

\footnote{ADB. 2006. \textit{Technical Assistance to India for Project Processing and Capacity Development}. Manila (TA cluster financed by the Government of the United Kingdom); and ADB. 2009. \textit{Technical Assistance to India for Advanced Project Preparedness for Poverty Reduction}. Manila (TA cluster financed by the Government of the United Kingdom).}
Table 5: Number of Approved Technical Assistance

<table>
<thead>
<tr>
<th>Items</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board approved TA</td>
<td>24</td>
<td>27</td>
<td>32</td>
<td>22</td>
<td>27</td>
<td>24</td>
</tr>
<tr>
<td>All approved TA</td>
<td>313</td>
<td>333</td>
<td>327</td>
<td>343</td>
<td>370</td>
<td>344</td>
</tr>
<tr>
<td>Percentage</td>
<td>7.7%</td>
<td>8.1%</td>
<td>9.8%</td>
<td>6.4%</td>
<td>7.3%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Average size of TA (in $000)</td>
<td>854</td>
<td>981</td>
<td>1,099</td>
<td>868</td>
<td>1,172</td>
<td>882</td>
</tr>
</tbody>
</table>

TA = technical assistance.  
\(^a\) Based on the number of Board-approved TA divided by the total number of TA approved in each year.

Note: Figures exclude TA loans.
Source: Asian Development Bank estimates.

83. The average size of TA operations has been increasing since 2009, mainly because of a rise in the number of TA operations exceeding $1.5 million. These include TA solely funded by ADB’s Special Funds and TA wholly or partly cofinanced by other financing partners or GFIs. As Table 5 shows, the average size reached a high of $1.2 million in 2013 (a 37.4% increase from 2009), but declined to about $882,000 in 2014 (3.4% increase from 2009). While the number of TA operations exceeding $1.5 million has not significantly changed from 2009 to 2014, the composition has changed. The number of TA exceeding $5 million (high-value TA) increased from one in 2009 to seven in 2013, and decreased to four in 2014 (Table 6).

Table 6: Number of Technical Assistance Approved Exceeding $1.5 million

<table>
<thead>
<tr>
<th>Items</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeding $5 million</td>
<td>1</td>
<td>2</td>
<td>7</td>
<td>6</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Exceeding $4 million, $5 million, or less</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Exceeding $3 million, $4 million, or less</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Exceeding $2 million, $3 million, or less</td>
<td>8</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Exceeding $1.5 million, $2 million, or less</td>
<td>10</td>
<td>16</td>
<td>15</td>
<td>7</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24</strong></td>
<td><strong>27</strong></td>
<td><strong>32</strong></td>
<td><strong>22</strong></td>
<td><strong>27</strong></td>
<td><strong>24</strong></td>
</tr>
</tbody>
</table>

TA = technical assistance.  
Note: Figures exclude TA loans.
Source: Asian Development Bank estimates.

84. This paper proposes the delegation of the approval authority for the administration of cofinancing to the President (para. 55). If approved, this would significantly reduce the number of Board-approved TA operations. The Board would consider TA for which ADB finances more than $1.5 million from its Special Funds. If this had been applied in the past, the number of Board-approved TA operations would have been reduced by about 60% from 2011 to 2014. This is because of the increasing dependence on cofinancing sources for higher-value TA.

85. **Issues.** The simulation data regarding the impact on TA operations of the proposed delegation of approval authority for the administration of cofinancing to the President (para. 84) do not call for an immediate need to raise the ceiling of the President’s TA approval authority. However, other factors suggest a potential need, such as ADB’s plan to promote the use of TA clusters (para 80). Expanding the use of TA clusters will increase the size of TA for which ADB finances more than $1.5 million from its Special Funds, which will, in turn, reduce the number of TA operations. The potential increase in higher-value TA will raise the number of TA for Board consideration and reduce the relevance of the current delegated TA approval ceiling.

86. **Proposed improvement.** To maintain the effectiveness of delegating TA approval authority the ceiling for the delegation of TA approval authority to the President would be raised to $5 million. The President would be authorized to further delegate approval authority to vice-presidents, as well as heads of departments and offices. The Board would continue to approve
ADB’s administration of TA cofinanced by other financing partners or GFIs that require an exception to an existing ADB policy or involve an unusual obligation under a cofinancing agreement, in line with the criteria listed in para. 51.

87. ADB will also strengthen Management’s oversight on TA operations, while increasing efficiency. The increasing volume and importance of TA operations calls for a more streamlined and strengthened assessment of TA proposals, particularly with respect to strategic relevance, value addition of reviews, and cross-sharing of knowledge and good practices. In a separate paper on TA reform, Management will identify a series of measures planned across the TA cycle on resource allocation, processing, approval, implementation, and completion assessment. This will ensure that TA is designed with sufficient oversight for attaining outputs and envisaged outcomes, and avoiding duplicated outputs. It will also support the streamlining of the review processes and documentation requirements, thereby adding value and removing redundant steps. For example, key initiatives include

(i) **Resource management.** Greater flexibility will be provided in deploying TA resources, introducing transparent formula-based TA resource allocation, and reducing the number of active TA projects through a more rigorous TA portfolio monitoring system under Management’s oversight.

(ii) **Design and processing.** All TA projects will be fully aligned with a country knowledge plan for each DMC, emphasizing the identification of outputs and focusing on the design and monitoring framework to initiate TA processing, and strengthening quality control through the systematic engagement of sector and thematic practice groups.

(iii) **Delivery and completion assessment.** A systematic flow and stock of information on TA implementation will be instituted, delegating a larger share of TA projects to resident missions, promoting greater use of output-based contracts for consultant engagement, enhancing client orientation in requesting feedback from executing agencies and consultants, and strengthening the TA completion report by focusing on lessons learned in collaboration with the Independent Evaluation Department.

### VI. EFFICIENCY GAINS

88. It is difficult to quantify precisely the time and resource savings that would be generated by these reforms, which simplify processes, remove redundancies, and reduce processes and tasks emanating from outdated or overly prescriptive policies. The proposed improvements provide the incentives and means to implement the reforms under the Midterm Review of Strategy 2020 by addressing constraints that affect the preparation and administration of projects. These will also assist in improving project readiness, seeking greater financing partnerships, and optimizing ADB’s resources. Appendix 3 summarizes the overall expected gains from this package of reforms.

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61 A country knowledge plan was introduced by the action plan of the Midterm Review of Strategy 2020. It is prepared for each DMC and provides the scope of knowledge operations to be undertaken by any ADB department, office, and sector and thematic group through the TA, which involves activities in the territory of that DMC.
VII. CONCLUSIONS

89. The proposed reforms are grouped into two categories: Management initiatives and Board approvals. Management initiatives to mitigate constraints to achieving higher efficiency involve

(i) introducing new RRP templates for additional financing, MFF, PBL, results-based lending, TA loans, and financial intermediation loans to streamline and clarify the documentation requirements for different loan modalities;
(ii) adopting a risk-based approach to interdepartmental reviews;
(iii) removing full participation requirements in any meeting to make efficient use of staff resources;
(iv) rearranging processing steps from linear to parallel (e.g., editing of RRPs) under the current business processes;
(v) permitting the financing of incidental eligible project expenditures without requiring justification in the loan proposal to streamline disbursement;
(vi) simplifying the process for ADB financing of taxes and duties on eligible project expenditures with the streamlined eligibility criteria to accelerate disbursement;
(vii) developing a new guidance document on trust funds, FPFs, framework arrangements, and GFIs to ensure clarity and a consistent approach to their establishment; and
(viii) establishing general guiding principles for proposing TA pilot testing to ensure flexibility and appropriateness.

90. The proposed reforms that require approval of the Board are

(i) promoting higher project readiness by encouraging the use of advance contracting and retroactive financing, where appropriate, as a default approach to procurement (as set out in para. 17);\(^{62}\)
(ii) enabling the flexible application of the guidelines on procurement and the use of consultants by authorizing the President to approve minor deviations, and to further delegate such approval authority to the relevant vice-president (as set out in paras. 19–21);
(iii) encouraging mobilization of cofinancing by granting a blanket waiver of member country procurement eligibility restrictions in case of cofinancing of operations financed from OCR (as set out in para. 25);
(iv) allowing a wider pool of experts for knowledge sharing among developing countries under TA operations by granting a blanket waiver of member country procurement eligibility restrictions for the engagement of resource persons and their related expenditures from non-ADB member countries (as set out in para. 27);
(v) improving the efficiency of PBL operations by granting a blanket waiver of member country procurement eligibility restrictions in case of PBLs for which a negative list of ineligible items is applied (as set out in para. 30);
(vi) accelerating disbursement operations under PBLs, in cases where tranche release conditionalities have been met, by (a) authorizing the President to delegate his authority for tranche release to the relevant vice-president, and (b)

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\(^{62}\) This will supersede para. 7 (a) of ADB. 1991. Streamlining of Loan Administration Procedures and Reporting Requirements. Manila (R34-91).
disbursing the tranche and submitting a progress report immediately after tranche release under PBLs that meet all agreed policy actions 63 unless the Board requires a 10-day waiting period at time of PBL approval (as set out in paras. 32–33);

(vii) clarifying the definition of retroactive financing by amending the relevant sections of the Procurement Guidelines, Guidelines on Use of Consultants, Ordinary Operations Loan Regulations, Special Operations Loan Regulations, Special Operations Grant Regulations, Externally Financed Grant Regulations, Regulations of the Asian Development Fund, and Disaster and Emergency Assistance Policy (as set out in para. 40 and Appendix 1);

(viii) streamlining the financing partnership operations and authorizing the President to (a) approve the establishment of trust funds and FPFs, and participation in GFIs, and acceptance of contributions from any financing partner; and (b) delegate approval authority to the head of OCO (as set out in paras. 51, 52, and 55);

(ix) streamlining the financing partnership operations by authorizing the President to approve the administration of cofinancing64 (as set out in paras. 51, 52, and 55);

(x) streamlining the financing partnerships under nonsovereign operations by authorizing the President to approve (a) B loans up to $20,000,000 complementing ADB financial assistance under FAST, and (b) subsequent increase in the B loan amount for any operation where such an increase does not exceed 20% of the B loan amount originally approved by the Board65 (as set out in paras. 54–55);

(xi) streamlining approaches for seeking approval of the Board by enhancing the summary procedure criteria66 (as set out in para. 66);

(xii) in seeking Board approval, unifying the summary procedure and the no-objection procedure, and term both as “no-objection” procedure; and clarifying the process of submitting and withdrawing a request for a Board discussion (as set out in paras. 72–74);

(xiii) Enhancing the efficiency of the TA cluster approach by allowing the application of this approach to any type of TA67 (as set out in para. 80); and

(xiv) increasing the ceiling for the delegation of TA approval authority to the President to $5,000,000, and authorizing the President to further delegate this authority to the vice-presidents and heads of departments and offices68 (as set out in para. 86).

91. Management initiatives will become effective upon revisions of the relevant Operations Manual sections or issuance of related instructional documents. All items in para. 90 will

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63 This will supersede para. 8 (i) of ADB. 1992. Procedure for Release of Second or Subsequent Tranches under Program. Manila (R127-92).

64 This will supersede para. 64 (as referred to in para. 79) of ADB. 2010. Additional Financing Enhancing Development Effectiveness. Manila (R225-10). Additional financing sourced from B loans in any amount are subject to Board consideration through the no-objection procedure in accordance with para. 90(x).

65 This will supersede applicable paragraphs in Section III and IV (as referred to in para. 104) of ADB. 2006. Review of ADB’s Credit Enhancement Operations. Manila (R168-06), and clarifies the treatment of B loans under FAST in ADB. 2015. Faster Approach to Small Nonsovereign Transactions (R18-15). Manila.

66 This will supersede Section IV (as referred to in para. 19) of ADB. 2005. Revision of the Summary Procedure. Manila (R249-05).

67 This will modify the key principle of the TA cluster concept described in ADB. 1997. Review of the Bank’s Technical Assistance Operations. Manila (R119-97).

68 This will supersede para. 85 of ADB. 2008. Increasing the Impact of the Asian Development Bank’s Technical Assistance Program. Manila (R87-08).
become effective on 1 February 2016 upon approval by the Board of Directors, except items (xi) and (xii), which will become effective immediately.

VIII. RECOMMENDATION

92. It is recommended that the Board approve the proposed reforms listed in items (i) to (xiv) of para. 90, each of which will be considered to be approved separately.
**CONSISTENT APPROACH TO RETROACTIVE FINANCING**

### I. ORDINARY OPERATIONS LOAN REGULATIONS (2001)

<table>
<thead>
<tr>
<th>Current Section 6.01 (b)</th>
<th>Proposed Section 6.01 (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Except as ADB and the Borrower shall otherwise agree, no withdrawals shall be made on account of (i) payments made prior to the Effective Date or (ii) expenditures in the territory of any country which is not a member or for goods or services supplied from, such territory.</td>
<td>Except as ADB and the Borrower shall otherwise agree, no withdrawals shall be made on account of (i) payments made expenditures incurred prior to the Effective Date or (ii) expenditures in the territory of any country which is not a member or for goods or services supplied from, such territory.</td>
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</table>

### II. SPECIAL OPERATIONS LOAN REGULATIONS (2006)

<table>
<thead>
<tr>
<th>Current Section 5.01 (b)</th>
<th>Proposed Section 5.01 (b)</th>
</tr>
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<tbody>
<tr>
<td>Except as ADB and the Recipient shall otherwise agree, no withdrawals shall be made on account of (i) payments made prior to the Effective Date; and (ii) expenditures in the territory of any country which is not a member or for goods produced or services supplied from, such territory. ADB may refuse to finance a contract where goods and services have not been procured in accordance with procedures substantially in accordance with those agreed between the Recipient and ADB or where the terms and conditions of the contract are not satisfactory to ADB.</td>
<td>Except as ADB and the Recipient shall otherwise agree, no withdrawals shall be made on account of (i) payments made expenditures incurred prior to the Effective Date; and (ii) expenditures in the territory of any country which is not a member or for goods produced in, or services supplied from, such territory. ADB may refuse to finance a contract where goods and services have not been procured in accordance with procedures substantially in accordance with those agreed between the Recipient and ADB or the terms and conditions of the contract are not satisfactory to ADB.</td>
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</tbody>
</table>

### III. SPECIAL OPERATIONS GRANT REGULATIONS (2005)

<table>
<thead>
<tr>
<th>Current Section 5.01 (b)</th>
<th>Proposed Section 5.01 (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Except as ADB and the Borrower shall otherwise agree, no withdrawals shall be made on account of (i) payments made prior to the Effective Date; and (ii) expenditures in the territory of any country which is not a member or for goods produced in, or services supplied from, such territory. ADB may refuse to finance a contract where goods and services have not been procured in accordance with procedures substantially in accordance with those agreed between the Borrower and ADB or the terms and conditions of the contract are not satisfactory to ADB.</td>
<td>Except as ADB and the Borrower shall otherwise agree, no withdrawals shall be made on account of (i) payments made expenditures incurred prior to the Effective Date; and (ii) expenditures in the territory of any country which is not a member or for goods produced in, or services supplied from, such territory. ADB may refuse to finance a contract where goods and services have not been procured in accordance with procedures substantially in accordance with those agreed between the Borrower and ADB or the terms and conditions of the contract are not satisfactory to ADB.</td>
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</tbody>
</table>

### IV. EXTERNALLY FINANCED GRANT REGULATIONS (2009)

<table>
<thead>
<tr>
<th>Current Section 5.01 (b)</th>
<th>Proposed Section 5.01 (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Except as ADB and the Recipient shall otherwise agree, no withdrawals shall be made on account of (i) payments made prior to the Effective Date; and (ii) expenditures in the territory of any country which is not a member or for goods produced in, or services supplied from, such territory. ADB may refuse to finance a contract where goods and services have not been procured in accordance with procedures substantially in accordance with those agreed between the Recipient and ADB or the terms and conditions of the contract are not satisfactory to ADB.</td>
<td>Except as ADB and the Recipient shall otherwise agree, no withdrawals shall be made on account of (i) payments made expenditures incurred prior to the Effective Date; and (ii) expenditures in the territory of any country which is not a member or for goods produced in, or services supplied from, such territory. ADB may refuse to finance a contract where goods and services have not been procured in accordance with procedures substantially in accordance with those agreed between the Recipient and ADB or the terms and conditions of the contract are not satisfactory to ADB.</td>
</tr>
</tbody>
</table>
with procedures substantially in accordance with those agreed between the Recipient and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

in accordance with procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

V. REGULATIONS OF THE ASIAN DEVELOPMENT FUND

<table>
<thead>
<tr>
<th>Current Section 3.05 (a)</th>
<th>Proposed Section 3.05 (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The proceeds of a loan or grant financed from the Fund shall be drawn upon by the recipient only to meet expenditures in connection with the project as such expenditures are actually incurred; provided that the Board of Directors may decide, in special circumstances, that some reasonable portion of such proceeds may be drawn upon to reimburse past expenditures.</td>
<td>The proceeds of a loan or grant financed from the Fund shall be drawn upon by the recipient only to meet expenditures in connection with the project as such expenditures are actually incurred; provided that the Board of Directors may decide, in special circumstances, that some reasonable portion of such proceeds may be drawn upon to reimburse past expenditures.</td>
</tr>
</tbody>
</table>

VI. PROCUREMENT GUIDELINES (2015)

<table>
<thead>
<tr>
<th>Current Section 1.9</th>
<th>Revised Section 1.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB encourages borrowers to proceed with the initial steps of procurement before signing the related financing agreement. In such cases, the procurement procedures, including advertising, shall be in accordance with the Guidelines in order for the eventual contracts to be eligible for ADB financing, and ADB shall review the process used by the borrower. A borrower undertakes such advance contracting at its own risk, and any concurrence by ADB with the procedures, documentation, or proposal for award does not commit ADB to finance the project in question. If the contract is signed, reimbursement by ADB of any payments made by the borrower under the contract prior to signing the financing agreement is referred to as retroactive financing and is only permitted within the limits specified in the financing agreement.</td>
<td>ADB encourages borrowers to proceed with the initial steps of procurement before signing the related financing agreement. In such cases, the procurement procedures, including advertising, shall be in accordance with the Guidelines in order for the eventual contracts to be eligible for ADB financing, and ADB shall review the process used by the borrower. A borrower undertakes such advance contracting at its own risk, and any concurrence by ADB with the procedures, documentation, or proposal for award does not commit ADB to finance the project in question. If the contract is signed, reimbursement financing by ADB of any payments made expenditures incurred by the borrower under the contract prior to the effective date of the financing agreement is referred to as retroactive financing and is only permitted within the limits specified in the financing agreement.</td>
</tr>
</tbody>
</table>

VII. GUIDELINES ON THE USE OF CONSULTANTS (2013)

<table>
<thead>
<tr>
<th>Current Section 1.15</th>
<th>Revised Section 1.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB encourages advance contracting and retroactive financing, where appropriate, to accelerate project implementation. The borrower may wish to proceed, with ADB’s approval, with the selection (though not contracting) of consultants before the loan agreement is signed. In such cases, the selection procedures shall be in accordance with these Guidelines, and ADB shall review the process used by the borrower. A borrower undertakes such advance contracting at its own risk, and any “no objection” issued by ADB with regard to the procedures, documentation, or proposal for award does not commit ADB to make a loan for the project in question. If the contract is</td>
<td>ADB encourages advance contracting and retroactive financing, where appropriate, to accelerate project implementation. The borrower may wish to proceed, with ADB’s approval, with the selection (though not contracting) of consultants before the loan agreement is signed. In such cases, the selection procedures shall be in accordance with these Guidelines, and ADB shall review the process used by the borrower. A borrower undertakes such advance contracting at its own risk, and any “no objection” issued by ADB with regard to the procedures, documentation, or proposal for award does not commit ADB to make a loan for the project in question. If the contract is</td>
</tr>
</tbody>
</table>
signed, reimbursement by ADB of any payments made by the borrower under the contract prior to loan signing is referred to as retroactive financing and is only permitted within the limits specified in the loan agreement. In particular circumstances, advance recruitment action may be applied to recruitment of consultants for ADB TA or delegated TA.

VIII. Disaster and Emergency Assistance Policy (2004)

<table>
<thead>
<tr>
<th>Current paragraph 113</th>
<th>Current paragraph 113</th>
</tr>
</thead>
<tbody>
<tr>
<td>… Expenditures must have been incurred and paid for after the emergency occurred. …</td>
<td>… Expenditures must have been incurred and paid for after the emergency occurred. …</td>
</tr>
</tbody>
</table>
EVOLUTION OF NO-OBJECTION AND SUMMARY PROCEDURES

I. HISTORY

1. The Asian Development Bank (ADB) introduced the no-objection procedure in 1971 when Management sought the approval of the Board of Directors for the extension of the loan effectiveness date. Management patterned the circulation of documents following the World Bank practice. On two subsequent occasions in 1972, Management used the no-objection procedure to seek Board approval for the extension of loan effective dates. A formal discussion was not held and a record was not made on the adoption of the no-objection procedure.

2. In June 1973, Management used the no-objection procedure to seek Board approval for a policy paper and a loan proposal. The term “no-objection” was used for the first time during a Board meeting that month. The minutes recorded that the revised procurement guidelines would be prepared and circulated to the Board for approval on a no-objection basis.

3. The no-objection procedure has become a regular practice for Board consideration of papers. Based on consultation between the Board and Management, the Office of the Secretary (OSEC) introduced the Secretary’s cover memorandum in 1974. Attached to the front of each Board paper, the memo contains a paragraph informing the Board of the use of the no-objection procedure and provides a timeline for Board members to request a full Board discussion, if desired. The wording of the cover memorandum has changed several times. The current wording indicates that (i) a Board member, in addition to his or her right to request a full Board discussion, also has the right to oppose or abstain on the President’s recommendation without requesting a full Board discussion; and (ii) any abstention or opposition will be recorded in the minutes of a subsequent Board meeting.

4. The time frame between circulation and consideration of a proposal under the no-objection procedure has also changed over the years. In 1973, the time frame was set at 3 weeks. In 1975, shorter time frames were introduced for Board papers under emergency cases and for those pertaining to routine or administrative issues. In 1987, a general time frame of 10 to 14 days was established in consultation with the Board for procedural and administrative matters, and the conventional 21 calendar day time frame was established for operational matters, such as a proposed major change in the scope of a project.

5. The summary procedure was introduced in 1980. It aimed to expedite Board consideration of routine types of loans involving small amounts of ADB financing without a full Board discussion. A quantitative ceiling and qualitative criteria were adopted. In 2001, a policy

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6 For example, annual reports of Board committees; appointment and extensions of the appointment of vice-presidents, members of the Administrative Tribunal, and the Compliance Review Panel; documents relating to the Annual Meeting of the Board of Governors; election of directors; and the establishment of resident missions.
8 The quantitative ceiling for the summary procedure eligibility was set for the loan amount per loan proposal. The qualitative criterion required that at least one loan for the same developing member country be discussed in the
paper clarified the three key objectives of the summary procedure:

(i) enlarging the Board’s role in country operational planning and programming, and Management’s role in the implementation of country plans and programs;
(ii) focusing the Board’s oversight role on policy-related questions in projects and programs, instead of technical project details; and
(iii) enabling the Board to exercise greater discretion in selecting the projects it wants to discuss in depth.

6. The policy papers in 2001 and 2003 increased the quantitative ceiling and enhanced the qualitative criteria. In 2005, further revisions made proposals for Asian Development Fund (ADF) grants and loans without a government guarantee eligible for summary procedure.

II. EXISTING POLICIES AND PRACTICES

7. **No-objection procedure.** The no-objection procedure has been used for proposals relating to
   (i) administrative and procedural matters,
   (ii) matters that have limited policy implications,
   (iii) operational matters, and
   (iv) matters that are unlikely to generate contentious opinions among Board members.

8. The following are examples of Board papers that are considered through the no-objection procedure:
   (i) **Board-related matters.**
      (a) Annual Meeting documents for the Board of Governors;
      (b) ADB membership;
      (c) adoption of the special procedure for Board of Governors’ voting;
      (d) draft resolutions of the Board of Governors;
      (e) reports of the Remuneration Committee;
      (f) Board committees’ annual reports;
      (g) Compliance Review Panel’s terms of reference;
      (h) Independent Evaluation Department’s work plan; and
      (i) appointments—Administrative Tribunal judges, Compliance Review Panel members, Independent Appeals Panel members.

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10 For example, proposals for (i) policy-based loans; (ii) loans for important new approaches; (iii) loans unlisted in country strategies; (iv) loans for projects with (a) an exceptionally large-scale adverse impact on the environment; (b) adverse economic and social impacts of an exceptional nature, and/or (c) a major and significant new approach to gender and development; (v) loans for private sector operations; (vi) ADB’s guarantees; (vii) complementary financing schemes; and (viii) emergency loans.


12 For example, proposals for technical assistance, additional financing, a major change in a project, release of second or subsequent tranches under policy-based loans, loan restructuring proposals that involve additional ADB funding, the establishment of trust funds, and the administration of cofinancing.
(ii) **Management.** Appointments, extensions, and reviews of salaries of the vice-presidents.

(iii) **Operations.**
- (a) grant technical assistance with ADB financing more than $1.5 million;
- (b) Japan Fund for Poverty Reduction project grants;
- (c) progress reports on policy-based loan tranche releases;
- (d) major change in project;
- (e) lapses of the validity of loan approvals;
- (f) additional financing—B loans;
- (g) additional cofinancing;
- (h) extension of the multitranche financing facility approval validity;
- (i) cofinancing—administration of cofinancing and the establishment of trust funds and special funds or facilities; and
- (j) country classifications and graduation policies.

(iv) **Other matters.**
- (a) establishment of resident missions;
- (b) policy updates (e.g., results framework update, extension of the project design facility pilot period with modifications);
- (c) Technical Assistance Special Fund contributions;
- (d) Staff Retirement Plan contributions; and
- (e) additional contributions to the Asian Development Fund.

9. **Summary procedure.** As approved by the Board in September 2005, a proposal for loans, ADF grants, guarantees, and/or equity investments must meet all of the following six conditions to be eligible for the summary procedure:

- (i) the amount of ADB financial assistance should not exceed $200 million for public sector operations; for operations without a government guarantee, ADB’s total financial assistance should not exceed $50 million;
- (ii) the project should not involve any exception to an existing ADB policy;
- (iii) the financial assistance should not be for a program, a sector development program, or a project with a major policy reform component;
- (iv) the project should not involve an important new approach for ADB in the developing member country concerned;
- (v) the project should not have the potential for significant adverse environmental, economic, and/or social impact, particularly on vulnerable groups that may be unable to absorb such impact; and
- (vi) the project should not involve the use of the complementary financing scheme or a novel financing arrangement.

10. **Application of no-objection or summary procedures.** The no-objection and summary procedures consist of the following steps:

- (i) the originating department requests the President’s approval to circulate the Board paper on a no-objection or summary procedure basis, as applicable;
- (ii) OSEC circulates the paper to the Board with the Secretary’s cover memorandum indicating the paragraph number of the recommendation together with a note explaining the Board member’s rights;

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14 Management may choose to apply a more liberal interpretation of these criteria than in the past in determining whether to submit a project proposal to the Board for discussion.
(iii) Board members inform the Secretary in writing if they wish to oppose, abstain, or request a full Board discussion within the time frame stated in the cover memorandum;

(iv) after expiration of the deadline, the Secretary either (a) issues a memorandum stating the document has been approved and indicates any opposition or abstention, or (b) informs Board members that a request for a full Board discussion has been received and schedules a Board meeting; and

(v) for approved proposals, OSEC includes the item on the agenda of a subsequent Board meeting to ensure that the approval is reflected in the minutes.
## SUMMARY OF EFFICIENCY GAINS

### I. PREPARATION AND ADMINISTRATION OF LOANS

<table>
<thead>
<tr>
<th>Issues</th>
<th>Proposed Improvement</th>
<th>Impact</th>
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<tbody>
<tr>
<td><strong>A. Shortening Time for Loan Delivery</strong></td>
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</table>
| 1. Current RRP template designed for project and sector loans           | New RRP templates prepared for each type of lending modality (e.g., MFF, RBL)          | (i) Impacts processing of all sovereign loans  
(ii) Reduces loan processing time by at least 3 working days                      |
|                                                                         | Requires Management action                                                             |                                                                                                                                                                                                       |
| 2. Interdepartmental review process complex and burdensome             | Reviewing departments indicate if comments are “fundamental” or “advisory.” Only relevant departments involved at different review stages of project processing | (i) Impacts processing of all sovereign and nonsovereign loans  
(ii) Reduces loan processing time by at least 8 working days                      |
|                                                                         | Requires Management action                                                             |                                                                                                                                                                                                       |
| 3. Quorum requirements at Investment Committee meetings lead to inefficient use of staff resources | Mandatory participation of staff at Investment Committee meetings no longer required if comments already adequately addressed | (i) Impacts processing of all nonsovereign loans  
(ii) Does not change processing time but relieves staff time                      |
|                                                                         | Requires Management action                                                             |                                                                                                                                                                                                       |
| 4. Editing of RRP(s) not undertaken in parallel with other activities, adding to the processing time | RRP(s) edited before or in parallel with loan negotiations for sovereign operations, and in parallel with or after the Investment Committee meeting for nonsovereign operations | (i) Impacts processing of all sovereign and nonsovereign loans  
(ii) Reduces loan processing time by at least 5 working days                      |
|                                                                         | Requires Management action                                                             |                                                                                                                                                                                                       |
| **B. Introducing Greater Responsiveness in Procurement Practices**      |                                                                                       |                                                                                                                                                                                                       |
| 5. Time-consuming process of applying for advance contracting and retroactive financing | Advance contracting and retroactive financing allowed by default for all financing and TA proposals | (i) Impacts processing of some sovereign loans  
(ii) Reduces loan processing time by at least 2 working days  
(iii) Promotes higher project readiness                                      |
|                                                                         | Requires Board approval                                                                |                                                                                                                                                                                                       |
| 6. Any deviation from the procurement and consulting guidelines requires a Board waiver | Minor deviations from guidelines approved by the President. President further delegates to relevant vice-president | (i) Impacts administration of some sovereign loans  
(ii) Frees up time spent on loan administration by at least 26 days  
(iii) Encourages new and innovative procurement arrangements                  |
<p>|                                                                         | Requires Board approval                                                                |                                                                                                                                                                                                       |</p>
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<th>Issues</th>
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| 7. The ability to attract cofinancing for OCR-financed projects hindered because of member country procurement eligibility restrictions                                                                 | Subject to certain exceptions, universal procurement permitted in cases where (i) ADB administers cofinancing resources for OCR-funded operations, or (ii) OCR and cofinancing resources used to jointly finance individual procurement packages                                                                                                                                                                                                                                            | (i) Impacts processing of sovereign and nonsovereign loans  
(ii) Minimizes protracted negotiations with the cofinanciers and encourages mobilization of cofinancing  
(iii) Relieves staff time (when handled at the stage of project preparation, it also reduces processing time)                                                                                                      |
| 8. Resource persons from non-ADB member countries ineligible without Board waiver, potentially hindering TA effectiveness (particularly for developing country knowledge sharing TA) | Resource persons from non-member countries may be recruited under TA operations                                                                                                                                                                                                                                                                                                                                                                                            | (i) Impacts processing and administration of TA operations  
(ii) Reduces TA processing time by at least 26 days  
(iii) Allows wider pool of experts for knowledge sharing among developing countries       |
| 9. PBL borrowers required to compile import data to certify that ADB member country procurement eligibility requirements are satisfied   | With the waiver of the member country procurement eligibility restriction, borrowers not required to submit certification confirming compliance with procurement eligibility                                                                                                                                                                                                                                           | (i) Impacts administration of all policy-based loans  
(ii) Frees up time spent on loan administration by at least 5 days                                                                 |
| C. Adopting Measures to Support Disbursement                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 10. Release of second (or subsequent) PBL tranches subject to 10-day waiting period after the President’s approval, even when all tranche release conditions fully complied with | Relevant vice-president of operations departments may approve tranche release with no waiting period when tranche release conditions fully complied with, unless Management commits to 10-day waiting period upon approval of each PBL                                                                                                                                                                                                                                          | (i) Impacts administration of all policy-based loans  
(ii) Expedites loan disbursement processing time by at least 10 days                                                                 |
| 11. Incidental project expenditures eligible for ADB financing only if justified in RRP, even if negligible and/or unknown at time of project preparation                                                                 | Incidental project expenditures eligible for ADB financing without the need for separate justification in the RRP                                                                                                                                                                                                                                                                                                                                                                     | (i) Impacts administration of some sovereign loans  
(ii) Frees up time spent on loan administration by at least 40 days                                                                 |
| 12. Financing of taxes and duties on eligible project expenditures is complicated and cumbersome for both ADB and DMCs, impairing project disbursement arrangements                                                                                                       | Subject to meeting eligibility criteria, taxes and duties on eligible project expenditures may be financed without the need for separate justification                                                                                                                                                                                                                                                                                                         | (i) Impacts processing and administration of sovereign loans  
(ii) Frees up time spent on loan administration by at least 30 days                                                                 |
<table>
<thead>
<tr>
<th>Issues</th>
<th>Proposed Improvement</th>
<th>Impact</th>
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</thead>
<tbody>
<tr>
<td>13. The definition of retroactive financing is inconsistent among different policies and regulations</td>
<td>Common definition for retroactive financing adopted</td>
<td>(i) Impacts administration of some sovereign loans</td>
</tr>
<tr>
<td></td>
<td>Requires Board approval</td>
<td>(ii) Avoids unnecessary staff discussion during loan administration</td>
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<tr>
<td>II. STREAMLINING FINANCING PARTNERSHIP OPERATIONS</td>
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<tr>
<td>14. No guidance document setting out the principles and procedures for establishment of trust funds, FPFs, framework arrangements, and GFI</td>
<td>New instructional document issued to ensure a consistent risk-based approach to quality assurance</td>
<td>(i) Impacts all financing partnership operations</td>
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<td></td>
<td>Requires Management action</td>
<td>(ii) Reduces processing time by at least 10 days</td>
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<td>(iii) Frees up time spent on administration as a result of clarity and certainty in implementation arrangements</td>
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<tr>
<td>15. Board approval required for establishment of trust funds, FPFs, and GFI, and acceptance of contributions from financing partners, without a clear policy basis</td>
<td>Subject to certain exceptions, the President to approve the establishment of trust funds and FPFs, and participation in GFI, and acceptance of contributions. President to further delegate to the head of the Office of Cofinancing Operations</td>
<td>(i) Impacts all financial partnership operations</td>
</tr>
<tr>
<td></td>
<td>Requires Board approval</td>
<td>(ii) Reduces processing time of contributions by at least 26 days</td>
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<td>(iii) Encourages more cofinancing</td>
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<tr>
<td>16. Board approval required again for administration of cofinancing</td>
<td>Subject to certain exceptions, the President to approve administration of cofinancing for projects and TA operations</td>
<td>(i) Streamlines financial partnership operations, and sovereign and nonsovereign loan and TA projects</td>
</tr>
<tr>
<td></td>
<td>Requires Board approval</td>
<td>(ii) Reduces processing time for stand-alone cofinancing of projects by at least 26 days</td>
</tr>
<tr>
<td>17. Board approval for B loans required even though they do not entail financial or unmanageable reputational risks</td>
<td>Subject to certain exceptions, the President to approve (i) the provision of B loans complementing A loans under the Faster Approach to Small Nonsovereign Transactions, and (ii) increases in B loan amount under any operation up to 20% of the originally approved B loan amount</td>
<td>(i) Impacts processing and administration of some nonsovereign loans</td>
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<tr>
<td></td>
<td>Requires Board approval</td>
<td>(ii) Reduces stand-alone B loan processing or administration time by at least 26 days</td>
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<td>(iii) Encourages mobilization of B loans</td>
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### III. STREAMLINING APPROACH FOR SEEKING APPROVALS OF THE BOARD

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<tr>
<th>Issues</th>
<th>Proposed Improvement</th>
<th>Impact</th>
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<tbody>
<tr>
<td><strong>A. Enhancing Effectiveness of Summary Procedure</strong></td>
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| 18. Full Board discussion required for routine types of loans involving small amounts of ADB financing | Quantitative (increased threshold for nonsovereign loans up to $100 million; PBL and SDP up to $50 million) and qualitative criteria (introduced major policy exception and operations involving high risks, and dropped important new approach and B loan) to be revised | (i) Impacts processing of sovereign and nonsovereign loans  
(ii) Does not change processing time, but relieves staff time  
(iii) Optimizes Board time, and reduces full Board discussion by 40% (2014 data) |

**Requires Board approval**

| **B. Unifying Summary and No-Objection Procedures** | | |
| 19. Summary and no-objection procedures are the same (although summary is used for financing proposals and no-objection for others) | No distinction made between Board consideration on a no-objection basis or through summary procedure—both to be termed “no-objection” procedure | Avoids unnecessary staff discussion |

**Requires Board approval**

### IV. TECHNICAL ASSISTANCE

<table>
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<th>Issues</th>
<th>Proposed Improvement</th>
<th>Impact</th>
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<tr>
<td><strong>A. Clarifying Guiding Principles for Pilot Testing under Technical Assistance to Facilitate Innovation</strong></td>
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</table>
| 20. Pilot testing under TA underutilized because of lack of clarity on permissible scope of pilot testing | Permissible scope of pilot testing and implementation arrangements clarified | (i) Impacts processing of some TA projects  
(ii) Avoids unnecessary staff discussion  
(iii) Encourages piloting innovative projects |

**Requires Management action**

| **B. Promoting Longer-Term Approach to Technical Assistance by Expanding Cluster Application** | | |
| 21. Board waiver required for use of TA cluster approach for project preparatory TA | TA cluster approach available for any type of TA, including project preparatory TA | (i) Impacts processing of some project preparatory TA projects  
(ii) Reduces TA processing time by 2–26 days |

**Requires Board approval**

| **C. Enhancing Delegated Approval Ceiling** | | |
| 22. Anticipated future increase in higher-value TA will increase the number of TA for Board consideration, thereby reducing the relevance of the current delegated TA approval ceiling | Ceiling for TA approval authority of the President raised to $5 million. President to further delegate approval authority to vice-presidents, and heads of departments and offices | (i) Impacts processing of some TA projects  
(ii) Reduces TA processing time by at least 26 days |

**Requires Board approval**

ADB = Asian Development Bank, DMC = developing member country, FPF = financing partnership facility, GFI = global funding initiative, OCR = ordinary capital resources, PBL = policy-based loan, RBL = results-based loan, RRP = report and recommendation of the President, SDP = sector development program, TA = technical assistance.