

ASIAN DEVELOPMENT BANK

WORK PROGRAM AND BUDGET FRAMEWORK (2006–2008)

September 2005

ABBREVIATIONS

ADF	Asian Development Fund
ADTA	advisory technical assistance
ATF	Asian Tsunami Fund
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSP	country strategy and program
DMC	developing member country
EA	executing agency
ESP	enhanced separation package
HRS	human resource strategy
IEI	innovation and efficiency initiative
MfDR	managing for development results
OCR	ordinary capital resource
PBAs	program-based approaches
PCP	public communications policy
PDP	performance development plan
PIU	project implementation unit
PPTA	project preparatory technical assistance
PSD	private sector development
RCI	regional cooperation and integration
RM	resident mission
TA	technical assistance
WPBF	Work Program and Budget Framework

NOTE

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

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I. PURPOSE AND FOCUS

1. **Strategic Content and Focus.** The Work Program and Budget Framework for 2006–2008 (WPBF) is a business plan that focuses on Asian Development Bank (ADB)-wide deliverables, operational strategy, and initiatives for improving development effectiveness. It reflects recent international discussions such as the call to scale up financing for development, and the Paris Declaration on Aid Effectiveness. The WPBF responds to issues raised in recent reviews of the effectiveness of the reorganization, loans and technical assistance (TA) portfolio performance, and development results.

2. The WPBF's primary goal is to scale up ADB's development effectiveness. An overview of ADB's work program follows, including indicative resource requirements, and reporting and monitoring arrangements to ensure achievement of WPBF objectives.

II. FOCUSING ON RESULTS

3. **Managing for Development Results (MfDR).** MfDR will be the core principle behind WPBF implementation and is a crucial performance objective at every management level. Priorities include:

- (i) *Extending Results-based Planning.* Country strategy and programs¹ (CSP), lending and nonlending projects² will have clearly specified and selective performance indicators to track results, including fully resourced monitoring plans.
- (ii) *Matching Resources with Development Effectiveness Priorities.* Systems for matching human and budget resources to areas of leading priority under the WPBF will be developed further.

4. Systematic bank-wide implementation of the MfDR agenda will be of critical importance in the WPBF period. The agenda will focus on (i) building developing member countries' (DMC) capacity to plan and manage for development results; (ii) strengthening ADB's own results-orientation, including planning and budgeting at all levels, management approaches, and business processes; and, (iii) harmonizing further with development partners to ensure consistent approaches to MfDR that reflect best practice, both in DMC-level operations and within ADB itself.

5. ADB will focus on the strategic orientation of its country and regional assistance by mainstreaming results-based CSPs, and on the quality of project operations by enhancing the project performance management system. An MfDR community of practice for the benefit of DMC practitioners will be set up and the MfDR Cooperation Fund will support pilot and innovative TA country projects designed for replication or scaling-up.

¹ For the purpose of this document, the term "Country Strategy and Program", also includes the Regional Cooperation Strategy and Program, unless specifically stated.

² For the purpose of this document, the term "project" refers to all manner of ADB operations, including program and sector lending as well as TA operations.

Box 1: Aligning ADB and DMC Strategies and Plans

ADB has been working closely with development partners in the Mekong subregion to implement the Paris Declaration by harmonizing procedures among international financing institutions with those of the governments, and has been moving to adopt country systems.

In Viet Nam, ADB significantly contributed to preparing the Hanoi Statement and the Viet Nam Harmonization Action Plan. An important development has been ADB's decision to align its country strategy and program (CSP) 2006–2010 for Viet Nam with the Government's Socioeconomic Development Plan (SEDP) 2006–2010, the country's new national strategy for poverty reduction. The CSP will be jointly processed and monitored with the World Bank and other partner agencies. ADB has been helping the Government develop a results framework for the SEDP, with common national results indicators under a technical assistance grant.

In the Lao People's Democratic Republic (Lao PDR), ADB is undertaking similar initiatives. Given its focus on the Northern Region and East–West Economic Corridor, ADB has helped the Government prepare the Northern Region Development Strategy. This strategy incorporates the strategies and policies recommended under the National Growth and Poverty Eradication Strategy, which will eventually be integrated into the National Socioeconomic Development Plan (NSEDP) for 2006–2010, under preparation. The Lao PDR CSP will be aligned with the NSEDP.

III. SCALING UP FOR MORE EFFECTIVE AID

A. Scaling Up Resource Flows

6. **Critical Role of the CSP for Defining Priority Needs.** The combination of increased DMC access to financial resources and more effective aid will boost prospects for achieving the Millennium Development Goals. In this regard, the CSP will be the principal instrument for ADB to systematically and thoroughly work with DMCs to identify developmental needs, define the appropriate priorities and financial scope for ADB intervention. Based on the needs defined by current CSPs, there is a clear need and demand for ADB to scale-up the scope of operations, especially for ordinary capital resources' (OCR) projects. Maximizing the impact from concessional and grant resources will also be a leading priority in the WPBF period as will be ADB's role in leveraging and catalyzing additional financing for DMCs.

7. **Public Sector Lending and Asian Development Fund (ADF) Grant Program—Current Pipelines.** Based on current CSPs, the volume of new public sector OCR and ADF approvals combined is expected to grow from an average of \$5.5 billion in 2002–2004 to at least \$6.0 billion in 2006–2008. Highlights, disaggregated by ADF and OCR, are presented below.

8. **OCR Program.** OCR loans are expected to increase in volume and number, driven by potential growth in Viet Nam and regional interventions (Table 1).

Table 1: Actual and Projected Public Sector OCR Lending Commitments, 2002–2008

	2002–2004 Average		2006		2007		2008	
	No.	\$ million	No.	\$ million	No.	\$ million	No.	\$ million
Operations Group 1	14	2,195	14	2,015	18	2,685	19	3,185
Mekong	0	40	1	20	1	180	2	500
South Asia	14	2,155	13	1,995	13	2,025	13	2,025
Regional					4	480	4	660
Operations Group 2	16	1,852	25	2,955	28	3,245	34	2,730
East and Central Asia	10	1,319	13	1,615	14	1,675	15	1,680
Pacific	1	23	1	40	2	80	4	80
Southeast Asia	5	487	10	1,250	11	1,450	12	730
Regional	0	23	1	50	1	40	3	240
Total	31	4,047	39	4,970	46	5,930	53	5,915

9. The above projection, however, involves uncertainty about the lending program's viability in some DMCs³ as well as internal capacity issues. If less lending to Indonesia and the Philippines is assumed, and only limited increase in lending to Viet Nam and regional projects, OCR lending would total \$13,452 million over the WPBF period, compared with the reference case of \$16,815 million. These figures compare with \$12,141 million for 2002–2004.

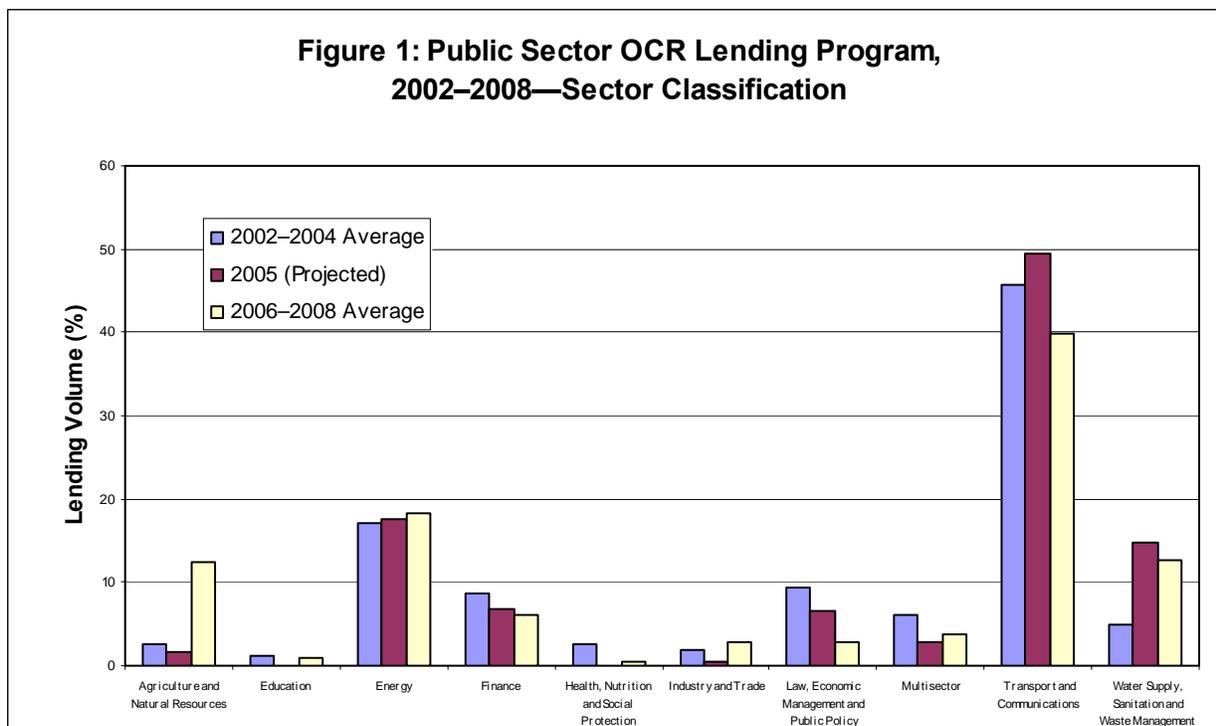
**Table 2: Public Sector OCR Lending Projections, 2006–2008
By Reference and Lower Cases**

	2006 (\$ million)	2007 (\$ million)	2008 (\$ million)	Total (\$ million)
Reference Case	4,970	5,930	5,915	16,815
Lower Case	3,976	4,744	4,732	13,452

10. **Sectoral Breakdown of OCR Program.** By sector and lending volume, the OCR program focuses on transport and communications (40%); energy (18%); and water supply, sanitation, and waste management (13%) (Figure 1; Appendix 1 for detailed data). Agriculture and natural resources grew substantially, while health, nutrition, and social protection as well as law and public sector management declined steeply.

11. By number of projects the weighting of transport and communications and energy is somewhat less (30% and 13% respectively), and higher for agriculture and natural resources (19%) and water supply, sanitation, and waste management (16%). The differences are due largely to the very high weighting of the India and PRC programs when measured by volume.

³ Particularly in the Philippines, where growth will depend on progress in achieving the "triggers" in the new country strategy and program (CSP), and where the minimum lending could be zero. Recent lending to Indonesia has also been limited, and OCR lending to Viet Nam has just recently started.



12. **Thematic Breakdown of OCR Program.** The OCR program is heavily weighted toward economic growth, which is the leading theme in 64% of programmed operations. As Table 3 shows, social development is the leading theme in 11% of new operations but for just 5% of lending volume, given the relatively small size of such projects. Governance—the third poverty reduction strategy pillar—accounts for 6% of new operations.

13. These figures reflect the priority that most OCR borrowers have placed on projects that are revenue-generating in nature, and which can directly cover the borrowing, or which have clear economic rates of return. With diversification of the program in PRC, however, the thematic composition of the OCR program is expected to change significantly. In addition, through partnerships with other agencies and associated division of labor—for example under “joint” CSPs—one can reflect all 3 pillars of the poverty reduction strategy at DMC level, based on the DMCs’ respective needs for support in these areas.

Table 3: Public Sector OCR Lending Program, 2004–2008: Thematic Classification

Theme	% Number of OCR Loans			% Volume of OCR Loans		
	2004	2005 ^a	2006–2008 Average	2004	2005 ^a	2006–2008 Average
Sustainable Economic Growth	48	75	64	67	84	67
Governance	18	9	6	13	10	8
Inclusive Social Development	13	3	11	6	1	5
Environmental Sustainability	10	13	8	6	5	6
Gender and Development	5			3		
Private Sector Development	3		2	3		2
Regional Cooperation	2		3	3		5
Capacity Development			5			7
Total	100	100	100	100	100	100

^a Projected figures only.

14. **ADF Program.** The indicative program for ADF operations is shown in Table 4. The actual program for 2007–2008 will be determined by the performance-based allocations that will apply for this period; the figures below are only illustrative.⁴

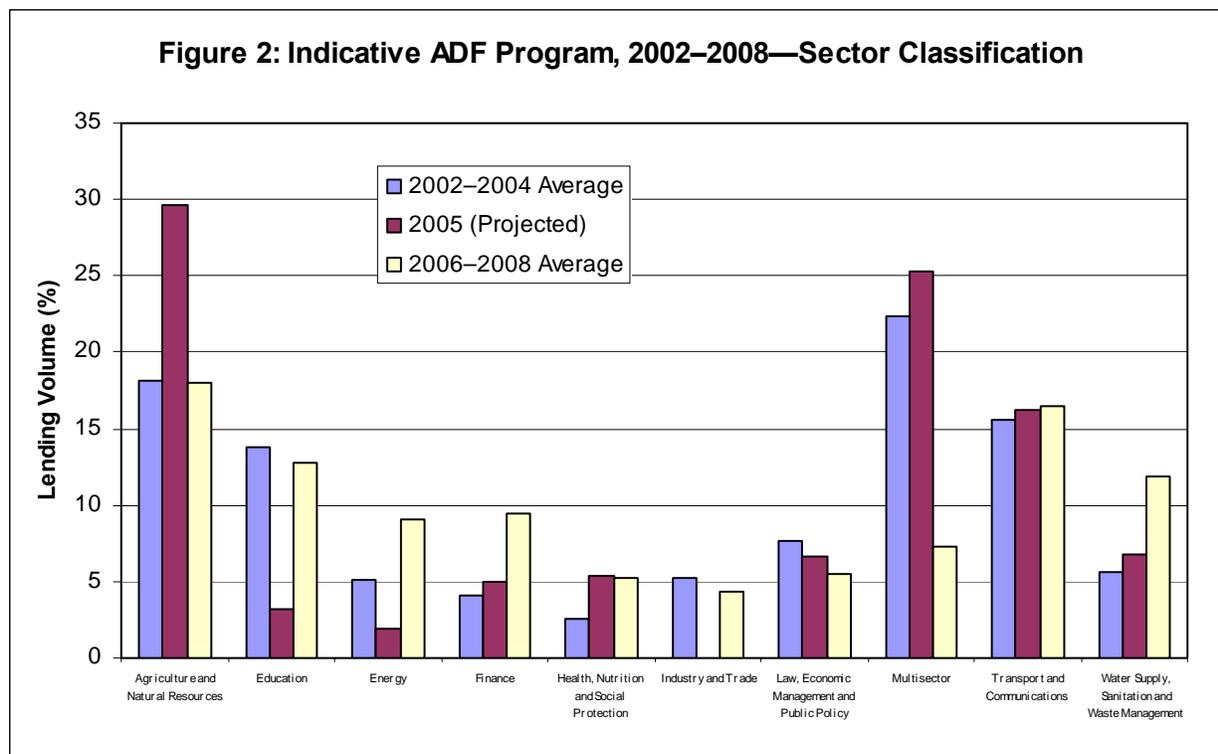
Table 4: Actual and Indicative ADF Lending/Grants Commitments, 2002–2008

	2002–2004 Average		2006		2007		2008	
	Loans		Loans/Grants		Loans/Grants		Loans/Grants	
	No.	\$ million	No.	\$ million	No.	\$ million	No.	\$ million
Operations Group 1	36	1,200	32	1,017	38	1,160	30	1,064
Mekong	13	343	12	273	11	302	8	269
South Asia	23	857	18	664	19	675	18	675
Regional			2	80	8	183	4	120
Operations Group 2	12	212	24	414	16	368	20	526
East and Central Asia	7	106	13	234	9	203	9	211
Pacific	3	23	4	35	4	55	2	55
Southeast Asia	2	77	5	115	2	80	7	170
Regional	0	7	2	30	1	30	2	90
Total	48	1,412	56	1,432	54	1,528	50	1,590

15. **Sectoral Breakdown of ADF Program.** The indicative ADF program shows a more even sector distribution than OCR, with the largest shares going to agriculture and natural resources (18% of lending volume), transport and communications (17%), and education (13%),

⁴ The combined amount of these illustrative data will be less than the total estimated ADF IX commitment authority available for 2006–2008. This is because CSPs have adopted a prudent and "minimalist" approach as country and regional allocations for 2007–2008 are not yet known. When the performance-based allocations are finalized, the pipelines will be adjusted.

(see Appendix 2 for detailed data). Substantial growth is apparent in water supply, sanitation, and waste management; energy; finance; and health, nutrition, and social protection. Multisector operations have declined steeply, reflecting moves to limit complex projects.



16. **Sectoral Classification of the ADF Grant Program.** Under ADF IX, an average of \$315 million per year of grant operations is expected. By volume, the ADF grant program is heavily focused on social sectors, with health, nutrition, and social protection (32% of the total); water supply, sanitation, and waste management (26%); and education (19%) as the main priorities. This is partly attributable to the amount set aside for HIV/AIDS and communicable diseases, for which there is heavy demand and for which commitment authority is expected to be exhausted in 2006. The social sector focus reflects the reluctance of many DMCs to borrow OCR for social sectors, given the absence of revenue-generating opportunities. A visual breakdown by sector is in Appendix 3.

17. **Thematic Breakdown of ADF Program.** The ADF program has economic growth as the leading theme in 53% of programmed operations. Social development figures more prominently than in OCR and is the leading theme in 22% of new operations, and 26% by lending volume. As with OCR, governance accounts for close to 9% of operations.

Table 5: ADF Program, 2004–2008: Thematic Classification

Theme	% Number of ADF Loans			% Volume of ADF Loans		
	2004	2005	2006–2008 Average	2004	2005	2006–2008 Average
Sustainable Economic Growth	36	60	53	37	72	53
Governance	15	11	9	11	9	8
Inclusive Social Development	18	17	22	19	11	26
Environmental Sustainability	3	2	3	4	0	3
Gender and Development	12	2	1	14	6	0
Private Sector Development	10	6	3	10	1	2
Regional Cooperation	5	2	6	4	0	4
Capacity Development			5			4
Total	100	100	100	100	100	100

18. **Comparative Analysis of Combined ADF and OCR Programs.** The OCR and ADF programs are markedly different. The OCR program focuses heavily on transport and communications; energy; and water, sanitation, and waste management. The same sectors also play a substantial—but proportionately smaller—role in the ADF program, which is far more diffused (Table 6).

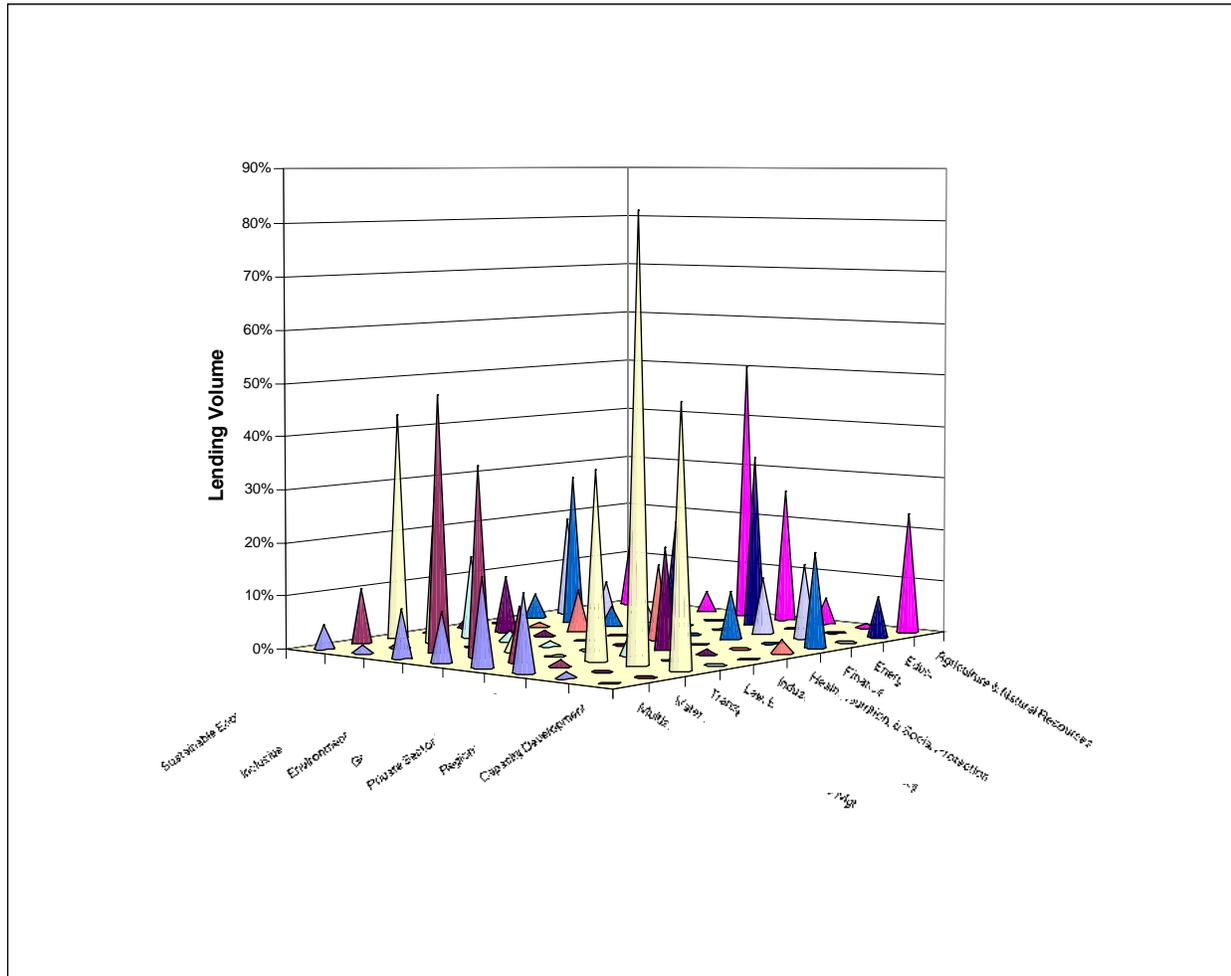
Table 6: Sectoral Concentration of ADF and OCR Programs, 2006–2008

Funding Window	Number of Sectors Accounting for ≥ 5% of Respective ADF or OCR Pipeline	Number of Sectors Accounting for ≥ 10% of Respective ADF or OCR Pipeline	Number of Sectors Accounting for ≥ 15% of Respective ADF or OCR Pipeline	Number of Sectors Accounting for ≥ 20% of Respective ADF or OCR Pipeline
ADF	9	4	2	0
OCR	5	4	2	1

Note: There are 10 sectors in ADB's classification system.

19. **Thematic Breakdown of Public Sector ADF and OCR Programs.** The thematic breakdown of the combined ADF and OCR program is in Figure 3.

**Figure 3: Proposed Public Sector Lending Operations by Theme and Sector, 2006–2008
Cross-cutting Thematic Priority-Sector Matrix**



20. Looking at the poverty reduction strategy's cross-cutting thematic priorities by sector of operation, the following are notable:

- (i) *Capacity Development.* This is particularly pronounced in transport and communications, agriculture and natural resources, and finance. In other major sectors such as energy or water, sanitation, and waste management, capacity development is less well represented.
- (ii) *Regional Cooperation.* This theme is heavily pronounced in transport and communications, suggesting emphasis on cross-border interventions. It is also evident as a theme in many energy projects. Other sectors are primarily country-focused.
- (iii) *Private Sector Development.* While well represented across sectors, this theme is substantial only in transport and communications. Where the private sector dominates, including industry and trade, finance, and agriculture and natural resources, it is not conspicuous.

- (iv) *Gender and Development.* This theme is represented most in agriculture and natural resources as well as education.
- (v) *Environmental Sustainability.* As may be expected, this theme is well pronounced in water, sanitation, and waste management, and agriculture and natural resources.

21. **Building Robust, Balanced Strategies and Programs.** The program described above reflects the status of current CSPs. Analysis of the program demonstrates that potential scaling-up of OCR operations, in particular, is at present confined to only a small number of DMCs that are eligible to access OCR resources. Sectorally, there appears to be a clear link between the sector of operation and the willingness of DMCs to incur borrowing costs. Thematically, the strong focus on economic growth in OCR operations, in particular, suggest that priority needs to be afforded to ensure balanced representation of the PRS pillars. WPBF priorities to build robust and balanced strategies and programs will, therefore, focus on:

- (i) *Expanding and De-concentrating OCR operations.* CSP development will focus more on identifying and capitalizing on opportunities for OCR financing in the full range of OCR-eligible DMCs. This will include work to develop a new generation of clients, through piloting new financing instruments and modalities.
- (ii) *Increased Value-Added of ADB Operations.* Ultimately, the real cost of ADB assistance will always depend on the socio-economic results and benefits achieved at the project level. As such ADB projects must, as a rule, serve as models for development and replication, reflecting international standards and best practices. ADB's knowledge management agenda will be increasingly integrated into project operations, to ensure that DMCs have access to the latest technical and sectoral expertise. In doing so the role of the CSP will be crucial to ensure that ADB's full arsenal of support modalities can be brought to bear as an integrated whole in achieving these objectives. Promoting innovation will be a critical element in this approach, in which ADB can offset the risk and costs to DMCs. Within ADB quality assurance mechanisms will be reinforced to allow a 'quality first' approach.
- (iii) *Increased Concessionality of ADB Operations.* The real cost of borrowing is a major factor influencing operational level and sectoral/thematic priority. Reducing costs of transacting with ADB is, therefore, a priority under the WPBF, and will cover financial and non-financial costs, including acceleration of response times, exploring means for greater concessionality as well as full use of the benefits offered by local currency operations.

22. **Exercising greater selectivity and strategic focus.** Ultimately, the availability of qualified staff to manage and support CSP implementation will be the most critical determinant of development effectiveness. Building teams with excellent country, sectoral, thematic, and banking skills will, therefore, be of priority, and a new project team leadership training program will be applied for this purpose, with greater incentives for teamwork fostered through the new performance development plan. Building successful teams will also depend on achieving greater selectivity and focus to allow critical mass of specialists to be established to allow the establishment of viable teams. In selected DMCs, ADB will start identifying "core" sectors and subsectors for the greatest focus and critical mass, and allow staff to become more specialized.

B. Improving Portfolio Performance

23. **Critical Role of Project Implementation for Development Results.** Project implementation is the crucial stage for achieving development results. Greater development effectiveness will, therefore, depend on the quality of ADB portfolio management as well as DMCs' own capacity for implementing ADB-financed projects. In this regard the WPBF will increase ADB support to DMCs for project implementation, support DMCs' to build capacities for this purpose, while taking systematic measures to ensure the health of the portfolio.

24. **Improving Portfolio Quality.** Improvements in the performance of the project portfolio—that will encompass on average 550 public and private sector operations—will be critical for scaling up ADB's development effectiveness, as well as to provide the platform for sustained, successful and expanding partnerships with DMCs. To improve performance, WPBF measures include:

- (i) *Restructuring Existing Portfolios.* To ensure the health of ADB's portfolio, loans that persistently perform poorly will systematically be canceled or changed in scope.
- (ii) *Reinforce Project-Readiness Assurance Systems.* A more comprehensive system for ensuring project-readiness will be introduced, including enhanced project filters.
- (iii) *Intensified Delegation of Project Implementation Functions to Resident Missions.* The percentage of loans managed by resident missions is projected to increase from 38% to 55% by the end of 2008. To accelerate disbursements, processing will be extended from four to seven resident missions.⁵
- (iv) *Simplicity in Project Design.* To ensure that project designs are consistent with executing agency (EA) implementation capacity, ADB will design projects with fewer goals and thematic areas.
- (v) *Greater Focus on Technical Aspects of Project Implementation.* ADB will explore greater use of resident mission-based teams, with increased use of national officers to secure technical expertise needed to implement projects. Higher priority will be afforded to the use of attached TA to ensure that EAs have access to technical expertise.

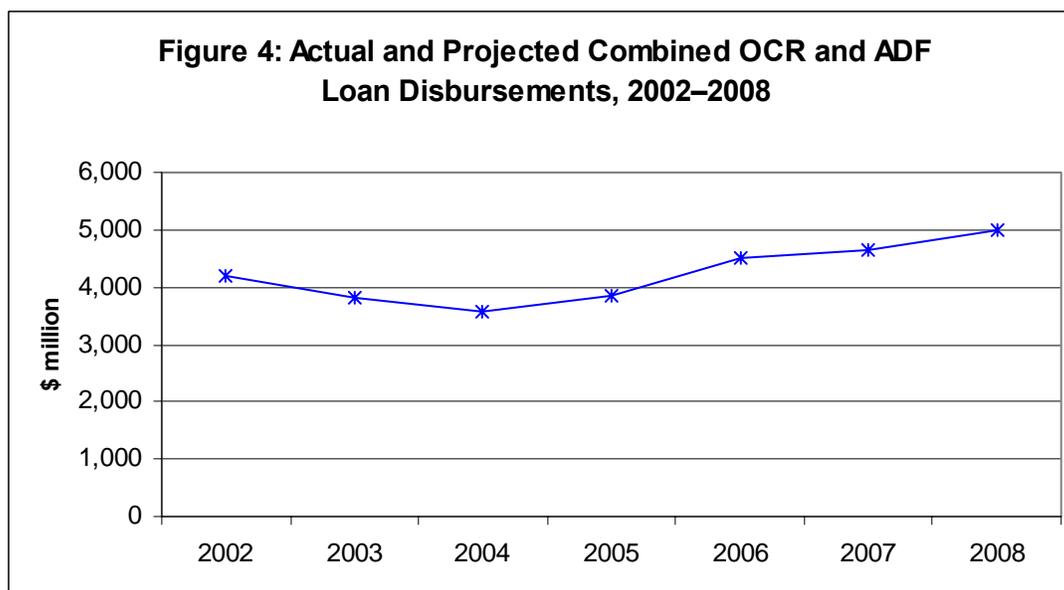
25. A leading indicator of portfolio health is the level of projects rated 'at risk' under the project performance reporting system. Of all project loans, 11% are rated "at risk". With the measures described above, this number should be reduced to 8% by the end of 2008. Program loans "at risk" will be reduced from 18% to 14%.

26. **Loan and ADF Grant Portfolio Disbursement Projections.** As a result of high prepayments and cancellations, disbursements have in recent years significantly lagged approved loan amounts. As development impact is related to resource flows, declining disbursement levels can contribute to reduced ADB development effectiveness. Therefore,

⁵ Indicatively, the resident missions of the People's Republic of China, Sri Lanka, and Viet Nam. The resident missions of Bangladesh, India, Indonesia, and Pakistan have completed implementation.

improvements in disbursement performance will be made central to the broader aim of scaling-up for more effective aid.

27. Figure 4 shows⁶ that combined disbursements from ADF and OCR public and private sector operations are expected to reverse the recent trend of declining disbursements. A detailed breakdown of disbursement projections is in Appendix 4.



28. Measures to improve portfolio quality are expected to contribute to a turn-around in disbursement performance. In addition, specific measures will be undertaken to better plan and monitor disbursement performance, including longer-term planning instruments and more intensive monitoring of disbursement performance at Management level.

29. **Asian Tsunami Fund (ATF) Operations.** A notable feature of the WPBF is reconstruction and rehabilitation activities under the ATF. A total of \$572 million has been committed for seven projects in five DMCs. ATF implementation is expected to be highly resource-intensive. Having few projects, the ATF portfolio covers large, high-profile, multisectoral interventions with numerous subprojects. Given the minimal lead time for designing ATF projects, much design and preparation work will be done "as you go".

⁶ Based on the lower-case OCR lending scenario (para. 9).

Box 2. ADB Tsunami Support in Aceh and Nias

The tsunami disaster led to a quick and large-scale mobilization of human and financial resources by ADB in Indonesia, which led to the Earthquake and Tsunami Emergency Support Project (ETESP) and other grants supported by the Japan Fund for Poverty Reduction. ADB has provided \$301 million to Indonesia out of the Asian Tsunami Fund, and mobilized \$31 million in grant cofinancing. Eleven ongoing projects were reprogrammed to mobilize about \$65 million equivalent. Given the need for a local presence, ADB established the Extended Mission to Sumatera, with offices in Medan and Banda Aceh, to coordinate and oversee ADB support.

The massive scale and complex nature of reconstruction dictate the need for long-term ADB involvement. The need for urgent rebuilding in light of near-total devastation will demand innovative approaches. The ETESP allows for flexible support in about 12 sectors, providing for cross-sector links to be exploited with community participation.

As rebuilding gathers pace over 2006–2007, attention will be on speedy restoration of essential public services and provision of private assets. At the same time, since over \$4 billion in donor support will be flowing to Aceh and Nias, local government capacity will be strained. Hence, considerable staff and financial resources need to be devoted to ensuring sound fiduciary governance in the utilization of ADB funds. Administrative accountability needs to be ensured in the fragile environment, alongside social and environmental safeguards.

C. Ensuring Synergistic Application of Public and Private Sector Assistance

30. **Key Thrusts.** Recognizing the crucial role of private sector development in poverty reduction, CSPs' focus on this area will be strengthened and more strategic use made of mutually reinforcing public and private financing.

31. **Operational Projections.** Lending is expected to be the main area of activity for private sector operations (Table 7). Modest growth is expected year on year across the WPBF period. Energy and finance are expected to remain the main areas of focus and currently account for 87% of the private sector portfolio (Appendix 5). The number of operations is expected to remain constant compared with that in recent years.

Table 7: Projected Private Sector Operations, 2006–2008

Interventions	2006		2007		2008	
	No. of Operations	\$ million	No. of Operations	\$ million	No. of Operations	\$ million
Equity	9	162		170		179
Loans	8	589		619		649
Guarantee	2	74		77		81
ADB	19	825	20	866	20	909

32. **Redefining ADB's Approaches for Private Sector Development and Organizational Alignment.** Synergy between ADB's public and private sector operations will be reinforced. To ensure that this matter receives top priority, a special task force on ADB's role in private sector development (PSD) has been formed to identify options for discussion with Management and

the Board by November 2005. The task force will address issues of mandate in promoting PSD, establishing performance targets, modalities, and products as well as organizational alignment and changes. Measures that have been defined include the following:

- (i) *Anchoring private sector activities in the CSP.* The role of the CSP will be strengthened to allow ADB to focus on priority needs in the public and private sectors, and to foster partnerships between them. As a general principle, CSPs' public sector operations should explore measures to "crowd in" private sector operations to establish the enabling environment for them.
- (ii) *ADB-wide Team Approach.* Interdepartmental teams will be built to ensure an integrated approach to private and public sector assistance, as guided by the CSP. Team leadership and composition will be determined according to the needs of the specific assignment.
- (iii) *Gauging Developmental Impact.* The development impact of private sector operations will systematically be gauged by applying good practice evaluation standards.

Box 3: Integrating Public-Private Assistance under a Joint CSP in Bangladesh

In Bangladesh, the country strategy and program (CSP) will combine public and private sector support to attract foreign direct investment and widen opportunities for public-private partnerships in energy, transport, the social sector, and finance.

ADB will support private sector development (PSD) by easing key infrastructure bottlenecks to growth by building the basic education, skill, and health foundation for a more productive labor force and by nurturing a vibrant small and medium-sized enterprise sector. ADB will help improve the policy and regulatory environment for PSD, including financial governance, and by facilitating the restructuring and privatization of selected state-owned enterprises.

This work will be conducted under the auspices of a new joint CSP. ADB, the Government of Japan, the United Kingdom's Department for International Development, and the World Bank are jointly developing their country strategies for Bangladesh to help implement the Government's national poverty reduction strategy. Each partner will have separate "business plans" within the context of a common strategy. The common strategic core of the joint strategy will be an "outcome matrix", based on development outcomes drawn from the national poverty reduction strategy. The joint strategy with the three development partners enables ADB to be more selective and focused. The strategy also enables ADB to strengthen its engagement where reforms are difficult but fundamentally important to growth and poverty reduction, such as the power, port, and railway sectors.

IV. PROMOTING REGIONAL COOPERATION AND INTEGRATION

33. **Defining ADB's Role:** The WPBF aims to strengthen ADB's role as a catalyst and coordinator for regional cooperation and integration (RCI). Support will primarily be focused on subregional initiatives, with four distinct and interdependent areas of activity:

- (i) *Subregional Economic Cooperation.* This is expected to be the bedrock of ADB RCI support. ADB will support a number of initiatives that promote connectivity

and competitiveness in various subregions,⁷ including (a) integrated transport infrastructure, (b) energy infrastructure, and (c) integrated markets and production.

- (ii) *Trade and Investment Cooperation.* Trade facilitation and policy support is a common feature of ADB's RCI support. In recognition of the growth of free trade and other cooperative agreements, ADB will help DMCs ensure consistency among the agreements, and with multilateral trade liberalization under the World Trade Organization framework. ADB will help DMCs study broader trade issues under the Doha round. Work programs will support improving customs systems and procedures.
- (iii) *Monetary and Financial Cooperation.* This area has gained substantial momentum for ADB activity, particularly after the 1997 financial crisis. WPBF activities will include support for financial sector reform, bond market development, as well as monetary and financial cooperation, with focus on Southeast and East Asia.⁸
- (iv) *Cooperation on Regional Public Goods.* Work on these—including support for regional responses to HIV/AIDS and other communicable diseases and promoting environmental sustainability—is focused on the Mekong subregion and the Pacific DMCs, as well as on South Asia.

34. ADB's support for these areas is planned under RCSPs and CSPs, comprising explicit regional operations as well as national operations with regional elements incorporated. Nonlending resources will be used to develop policy and build capacity, as well as to study regional issues. As subregions could learn from each other, ADB will assess its possible role as a broker of information and knowledge.

35. A basic premise of ADB's approach to RCI is that any initiatives must complement multilateral and globalization efforts. ADB will continue to promote "open regionalism", whereby regional cooperation and integration efforts will be consistent with regionalism elsewhere, and multilateralism. Cooperation is essential beyond national borders and with neighboring countries outside the subregional programs.

36. As many regional activities cut across ADB's departmental boundaries, consistent ADB-wide approaches to RCI support must be ensured to help identify potential links and synergies to support regional initiatives.

⁷ Such as the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area, Central Asian Regional Cooperation (CAREC) Program, Committee for Regional Organizations in the Pacific, Greater Mekong Subregion (GMS) Economic Cooperation Program, and South Asia Subregional Economic Cooperation (SASEC) Program.

⁸ This includes support for the Chiang Mai and Asian Bond Market initiatives, as well as maintaining the Asian Bonds Online website.

Box 4: Pacific Aviation Safety Office (PASO)

Recognizing that regional cooperation can be an effective approach to safety regulation and oversight, six Pacific developing member countries (Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, and Vanuatu) are working together to establish PASO. The project's goal is to ensure that the Pacific aviation sector meets all international requirements for safety and security regulation and oversight. ADB financing will enable these countries to comply with international requirements through a cost-effective and financially sustainable organization.

The total project cost is estimated at \$2.1 million. The project will be financed through a regional Asian Development Fund loan of \$1.5 million from ADB made directly to PASO, which has legal personality as an intergovernmental organization founded by a treaty. The loan will be guaranteed severally by Papua New Guinea, Samoa, Kiribati, and Vanuatu. Government counterpart funding of \$0.6 million and related technical assistance from Australia are also expected. This is ADB's first loan to an intergovernmental organization, supported by guarantees of its member countries.

Operating costs will be met through revenues generated from services provided to airlines and airport operators in PASO member countries. Because of the economies of scale and scope created through regional aggregation of functions, these services can be provided at lower cost than under the current alternative of ad hoc national contracting. The estimated economic internal rate of return is 27%.

V. STRATEGICALLY APPLYING AND CONSOLIDATING NONLENDING RESOURCES⁹

37. **Key Thrusts.** ADB's TA resources will play an integral role in scaling-up for more effective aid. Achieving this will rely on a thorough prioritization process under CSPs, to secure critical mass for ADB's TA interventions as well as measures to more closely link TA and lending operations, to make them mutually reinforcing and to ensure that ADB can support a balanced program at country level, in line with the 3 pillars of the PRS. An overview of the current TA program, based on current CSP-based pipelines follows:

38. **Quantum of New Operations.** The number of new operations is expected to decrease from 256 in 2006 to 246 in 2007 and to 236 in 2008. These numbers will be viewed as upper limits, and ADB will strictly adhere to them. They compare with the average of 326 TA projects approved annually from 2002 to 2004. The decrease is expected to increase staff inputs per TA and improve quality.

39. **TA Program Distribution by Modality.** The TA program demonstrates a far greater emphasis on PPTA than since 2002. Of the total number of TA projects planned, 40% are expected to be PPTA.¹⁰ While the proportion of advisory TA (ADTA) is down, the focus will be increasingly on attached TA, directly linked to lending operations. This compares with the recent past, when the scarcity of PPTA undermined the development of new pipelines, with annual number of PPTA approvals fewer than loans in the pipeline, making for an unsustainable deficit.

⁹ Including TA financed from all sources (e.g., technical assistance special fund, Japan Special Fund, and other trust funds), grants (e.g., the Japan Fund for Poverty Reduction) as well as research and sector work conducted by ADB staff members.

¹⁰ As the average TA size expands, PPTA is expected to incorporate enhanced capacity building and advisory components, thereby taking on additional features of ADTA. PPTA may also incorporate regional characteristics.

Table 8: Actual/Projected Distribution and Relative Growth of TA by Modality, 2002 to 2008 (by Number of TAs)

TA Modality	2002–2004 (actual)	2005 (projected)	2006–2008 (projected)	Change between 2006–08 and 2002–04
PPTA	24	21	40	+67%
ADTA	52	52	38	-27%
RETA	24	27	23	-4%
Total	100	100	100	

Note: Figures may not add due to rounding.

40. **Sectoral Distribution of the TA Program.** The TA program focuses on law, economic management, and public policy (17.6% of the total); transport and communications (17.3%); and agriculture and natural resources (16.5%). Since 2002—and mirroring demand for ADB borrowing—growth has been most rapid in transport and communications, water supply, sanitation, and waste management; energy; and health, nutrition, and social protection. An overview of the TA portfolio by sector is in Appendix 6.

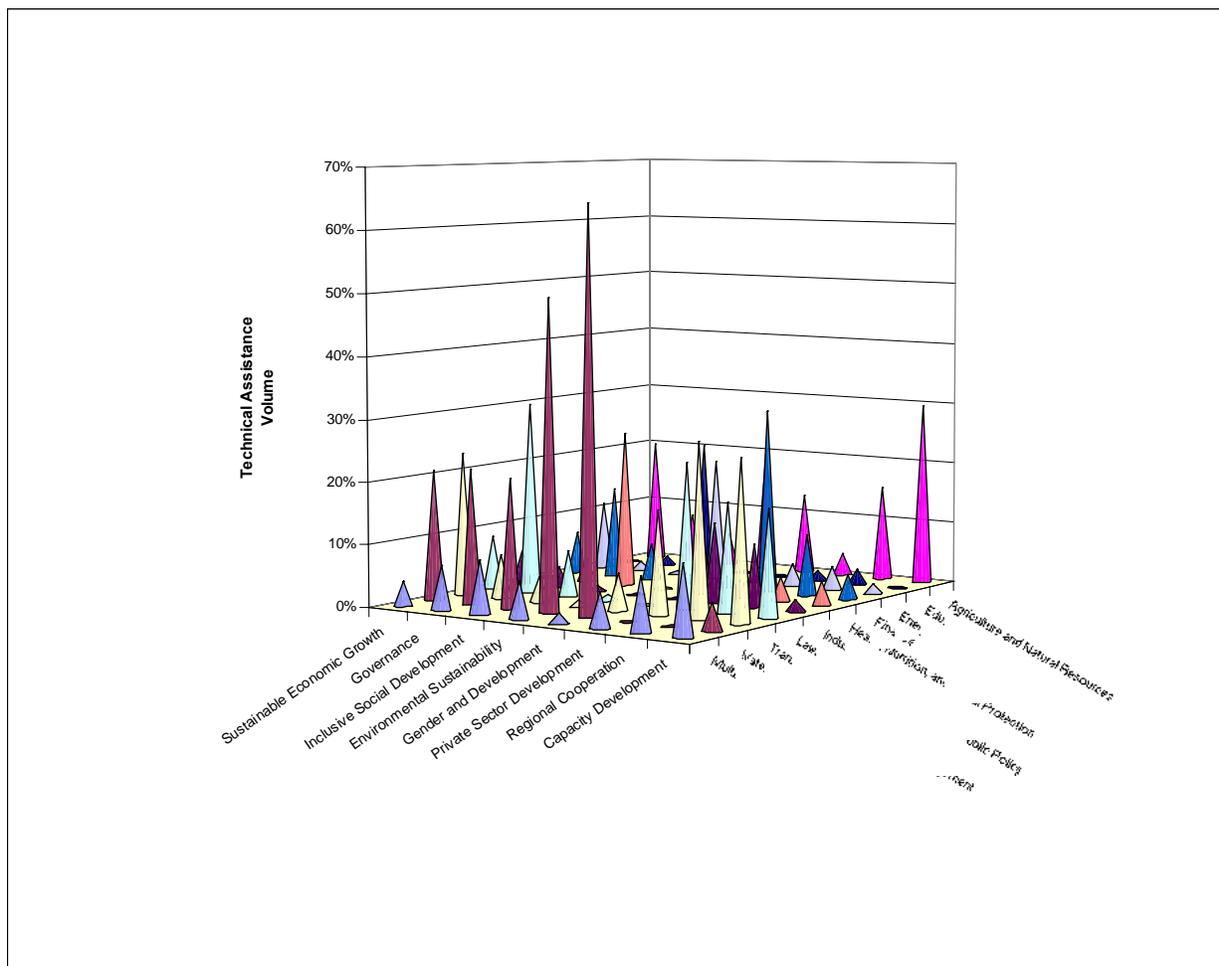
Table 9: Actual/Projected Distribution and Relative Growth of TA Resources by Sector, 2002 to 2008 (by Number of TAs)

Sector	% TA numbers projected			Change between 2002–04 and 2006–08
	2002–2004	2005	2006–2008	
Agriculture and Natural Resources	14	14	17	+19%
Education	5	2	5	0
Energy	8	9	8	+6%
Finance	8	11	8	0
Health, Nutrition, and Social Protection	6	6	7	+12%
Industry and Trade	6	3	4	0
Law, Economic Management, and Public Policy	33	22	18	0
Multisector	5	14	6	+26%
Transport and Communications	11	12	17	+59%
Water Supply, Sanitation and Waste Management.	4	6	8	+77%
Unclassified	0	0	3	
Total	100	100	100	

Note: Figures may not add due to rounding.

41. **Sectoral and Thematic Distribution of TA Program.** The sectoral and thematic breakdown of the TA program is presented in Figure 5.

Figure 5: 2006–2008 Technical Assistance Operations by Theme and Sector
Cross-cutting Thematic Priority – Sector Matrix



42. Taking the thematic priorities of the Poverty Reduction Strategy, the following are notable from the 2006–2008 pipeline of projects:

- (i) *Capacity Development.* This is well represented in many sectors but only sparsely in some, including education; energy; finance; health and nutrition; industry and trade; and water supply, sanitation, and waste management.
- (ii) *Regional Cooperation.* This theme is better represented than the lending program, with substantial TA in agriculture and natural resources, finance, industry and trade, law, economic management, and public policy, as well as transport and communications. Other sectors are primarily oriented to a single country, suggesting room for growth.
- (iii) *Private Sector Development.* This theme varies widely by sector. Proposed TA projects for finance, industry and trade, law, economic management and public policy, and transport and communications have a strong private sector theme. Agriculture and natural resources, and water supply, sanitation, and waste management barely reflect PSD. Again this suggests room for growth.

- (iv) *Gender and Development.* This theme is heavily represented in water supply, sanitation, and waste management, and substantially in agriculture and natural resources, and in health, nutrition, and social protection. It is not a major theme in other sectors.
- (v) *Environmental Sustainability.* As expected, this theme is pronounced in agriculture and natural resources, energy, as well as in water, sanitation, and waste management.

43. **TA Program Financing.** The technical assistance special fund and Japan Special Fund resources available for new commitments in the WPBF are expected to be at least \$99 million and \$40 million annually, respectively¹¹. New commitments financed by trust funds are expected to amount to about \$30 million annually.

44. **Using TA Resources Efficiently.** With 1,062 TA projects under implementation, ADB's TA portfolio has become excessively large, entailing high administrative costs for ADB and DMCs and making it difficult to ensure effective management for quality, relevance, and impact. A leading priority of the WPBF is a major restructuring, including the following initiatives:

- (i) *Reduction in TA Portfolio.* A tight ceiling on the number of new TAs will be maintained. Financing for the TA program will be kept constant, allowing a larger average amount per TA. Inactive or persistently poorly performing TA projects will be systematically and speedily canceled. Changes in TA scope will be limited to fulfilling the original terms of reference. Application of TA closing procedures will be stricter: 18% of all ADTA, for example, will remain open 90 days beyond the technical completion date. By the end of 2008, this figure will be reduced to 14%. These measures are expected to reduce the number of TA projects in the portfolio from 1,000 to 700 by the end of 2008.
- (ii) *Simplification of TA Disbursement.* As TA disbursements are more labor intensive, ADB will simplify and standardize TA claim processing.

45. **Improving TA Quality and Strategic Relevance.** The high number of TA operations has diffused the TA program, and its impact is often not demonstrable. The following measures will increase TA quality and relevance:

- (i) *Strengthening Linkages Between TA and Lending Operations.* This will make TA projects mutually reinforcing.
- (ii) *Reinforcing Strategic Relevance.* All TA must display clear links to the CSP of the DMC in which they are to be implemented. Priority will be afforded to TA with broad strategic impact.
- (iii) *Improving TA Frameworks.* The overall quality of regional TA and ADTA frameworks is not acceptable.¹² Steps to rectify this problem will include (a)

¹¹ Actual commitment authority will depend on levels of savings and cancellations.

¹² Of 66 regional TA projects approved in 2004 and surveyed by the Operations Evaluation Department, only 26% had satisfactory impacts and 43% satisfactory outcomes.

compulsory training for all TA mission leaders, (b) increased scrutiny of TA frameworks, and (c) greater access to specialist advice.

46. **Focusing Research and Knowledge-Generating Activities.** ADB's research and knowledge-generating activities will be increasingly focused on strengthening the effectiveness of ADB operations and on helping DMCs develop informed policy. Research on strengthening the inclusiveness of growth will be a principal feature, and will examine the means for ADB to link economic development activities with poverty reduction. Applying the results of research and knowledge-generating activities will focus on the CSP development stage, especially the analytical underpinning of CSP assessments, to augment quality at entry. Involvement of research staff in country teams will help ensure that CSPs and projects can benefit from ADB's applied research activities.

VI. BUILDING COUNTRY OWNERSHIP AND EFFECTIVE PARTNERSHIPS

47. **Key Thrusts.** The WPBF's principal challenge is to improve ADB's relevance and utility to DMCs. Assistance should be aligned more and partnerships made more effective. Measures that will be effected—and closely adhere to Paris Declaration—include:

A. Forging Greater DMC Ownership and Alignment

48. **Aligning ADB and DMC Strategies and Plans.** Country ownership¹³ is a vital ingredient for development effectiveness. ADB's approach to alignment is based on the following tenets:

- (i) *CSP Alignment.* ADB will continue to align CSPs with national development policies. Where adequate strategies are not in place, ADB will help DMCs build local capacities to develop them. Results-based CSPs will become the norm: with 8 such CSPs already approved or under development, by the end of 2008 they are expected to increase to 24.
- (ii) *ADB Assistance reflected in DMCs' Budgets.* ADB will work with DMC authorities to ensure that ADB public sector financial assistance is reported in the DMCs' budget.
- (iii) *Alignment of Programming and Project Preparation.* ADB will align CSP programming cycles, as well as project preparation, with DMCs' cycles.

49. **Strengthening and Applying Country Systems.** ADB is committed to helping DMCs build and strengthen country systems¹⁴ to allow DMCs to better own and control development programs. Reduced transaction costs, better designed and targeted public activities, as well as reduced corruption are the principal benefits of this approach. Such work will focus on the following:

- (i) *Build Legislative, Regulatory, and Institutional Frameworks.* To ensure that national and international requirements can be met and that documentation and tools are available to implement the framework.

¹³ "Ownership" here is defined as in the Paris Declaration on Aid Effectiveness: "Partner countries exercise effective leadership over their development policies, and strategies and coordinate development actions."

¹⁴ This covers areas such as accounting and disbursement, auditing, monitoring, procurement, and public financial management as well as resettlement and environment.

- (ii) *Develop Management Capacity.* To ensure that the framework can be well implemented.
- (iii) *Establish the Integrity of Country Systems.* Including the availability of control and audit systems, access to information, and effective anticorruption measures.

50. To determine the viability of expanded application of country systems by ADB—as well as their resource implications—ADB will pilot programs in selected DMCs, in cooperation with other development partners.

51. **Integrating Project Implementation Units (PIUs).** ADB will make greater use of DMCs' own project management capacities, where project quality can be assured. Where PIUs are requested by the DMC authorities, ADB will ensure that they are integrated into the EAs. PIU design and operations will be systematically linked to the capacity development objectives of EAs, and PIU exit strategies clearly developed. ADB will systematically promote the use of integrated joint PIUs for ADB's and other development partners' operations.

B. Enhancing Cooperation with Development Partners

52. The WPBF aims to enhance cooperation to reduce transaction costs for aid and to promote greater collective development effectiveness. Measures include the following:

53. **Expand Joint Development of Country Strategy and Programs.** ADB will expand the number of 'joint' CSPs, in consultation with DMC authorities. From a baseline of two such CSPs in 2005, this should have expanded to at least seven by the end of the WPBF period. Priority areas are alignment of development partners' country strategies to the DMC's own policy framework, and greater cooperation on country, sector, and thematic assessments.

54. **Furthering Harmonization.** ADB will maintain its activities to harmonize with development partners to reduce transaction costs for borrowers and improve development effectiveness. Measures include the following:

- (i) *Greater Use of Common Implementation Arrangements.* ADB will increase the joint donor missions to and diagnostic reviews of DMCs. Through greater delegation to resident missions, ADB will reduce the need for fielding missions. The number of DMCs where joint annual country portfolio reviews are conducted will be expanded from 8 DMCs to 13 by the end of 2008.
- (ii) *Harmonizing Procedures and Approaches.* Procedures and approaches in keynote areas such as procurement, financial management and audit, as well as in safeguard areas such as environmental assessments, resettlement, and land acquisition will be systematically harmonized. Other areas will include statistical assessments, project evaluation, and portfolio performance.

Box 5. Progress in Harmonization: The Kyrgyz Republic

The Kyrgyz Republic, which was selected as a pilot country during the High-Level Forum on Harmonization held in Rome in February 2003, is and will remain a leader in harmonization in 2006–2008. ADB, the World Bank, the United Kingdom's Department for International Development, and the Swiss Development Cooperation Office have agreed to develop in 2006 a joint country strategy for the Kyrgyz Republic.

ADB and the World Bank are moving toward a program-based approach in education, with common implementation arrangements, including a common project implementation unit (PIU). An ongoing Japan Fund for Poverty Reduction (JFPR) project is already sharing a PIU with a similar World Bank project, with encouraging results. ADB and the World Bank are also sharing their country performance assessment results. ADB, the World Bank, Islamic Development Bank, and Kreditanstalt für Wiederaufbau (KfW) have been jointly reviewing country portfolios with the Ministry of Finance and executing agencies.

Working with development partners ADB played an important role in developing a national action plan for harmonization. Three priority areas have been identified: procurement, financial management, and project implementation. In procurement, ADB and the World Bank have worked closely to help the Government harmonize procurement documents. Work in the other two areas is under way and will be completed soon.

55. **Exploring the Potential of Program-Based Approaches (PBAs).**¹⁵ ADB will explore the potential for greater participation in PBAs to align support—and for unifying donor resources—with DMC strategies and plans. The potential for using PBAs to bring down transaction costs of external assistance will also be explored. Participation in PBAs may need revisiting of ADB's operational policies to facilitate ADB's involvement in such areas as procurement, disbursement, reporting, safeguard, and anticorruption activities. Pilot programs will be conducted in at least two DMCs to identify specific needs for policy changes as well as to verify the budgetary implications of PBAs, and their impact on transaction costs for DMCs. The pilot programs will help define the most appropriate role for ADB in PBAs, including identification of priority DMCs, sectors, and themes as well as financing modalities.

VII. IMPROVING INSTITUTIONAL EFFECTIVENESS

56. There is a strong link between achieving WPBF objectives and improving ADB's institutional efficiency, especially through the Reform Agenda. Selected measures for efficiency are highlighted below:

57. **Building Global Outreach.** The WPBF aims to step up ADB's proactive engagement with key stakeholders in member countries. Global outreach measures will center on implementing the public communications policy (PCP) and will include the following:

- (i) *Exercising Strategic Leadership.* ADB Management will define external relations' priorities and ADB's stance on related issues.
- (ii) *Media and Relationship Building.* Priority will be afforded to building relationships and formal networks with global media, parliamentarians, and academics and

¹⁵ Often referred to interchangeably as sector-wide approaches (SWAs). ADB defines PBAs as including (i) national support (general budget and balance of payments support), (ii) sector support (budget support at sector level and projects integrated in SWAs), (iii) other forms of PBAs.

researchers. Representative Offices will play a vital role in supporting these networks. A major baseline survey will ascertain major stakeholders' expectations and perceptions of ADB and its performance.

- (iii) *Staff Capacity Building and Training.* Measures to maximize the potential of ADB staff to contribute to external relations will include training for ADB's key communicators. Communication skills will be increasingly required for recruitment or promotion.
- (iv) *Ensuring Accountability for PCP Implementation.* Measures will center on PCP implementation, including staff training, compliance enforcement measures and related staff incentives, a translation framework, and a review of ADB's depository library program as well as a strategy for upgrading ADB's public information centers.
- (v) *Knowledge Dissemination and Public Awareness.* Measures hinge on effective use and dissemination of ADB's vast wealth of development experience and research assets, including their application for global campaigns.

58. Intensified Delegation to Resident Missions. The expanded role of resident missions is a common thread among WPBF measures to increase development effectiveness. The WPBF aims to further delegate operational responsibilities to resident missions, to improve policy dialogue with DMC clients and stakeholders, strategy formulation, and project quality as well as enhance visibility for ADB. With ADB's involvement in areas such as regional cooperation and integration as well as support to fragile states, the need for greater in-field presence is expected to grow. There are numerous permutations for capitalizing on resident missions, each with different resource implications. A review of the resident mission policy will be considered in 2006 to develop optimal solutions. Key issues to be examined include the following:

- (i) *Decentralization Modalities.* As DMCs increase, maintaining a full complement of sector and thematic specialists in each resident mission will be resource-intensive, even with greater selectivity and focus. The potential for regional hubs will be examined, building on experience from the use of the Thailand Resident Mission as a hub for the Mekong subregion. This concept will be particularly relevant for distant regions—including many Central Asian and Pacific DMCs—where mission travel is constrained by high travel costs.
- (ii) *Staffing Issues.* The mix of professional staff and national officers will be considered from the perspective of cost-effectiveness while maintaining the highest standards of support to DMCs.
- (iii) *Headquarters and RM Division of Labor, Responsibility, and Accountability.* The policy review will examine the division of labor, responsibility, and accountability for key areas of work such as CSP development, loan and TA processing in the private and public sectors, portfolio implementation, as well as regional cooperation and integration. The scope of responsibility for areas such as financial management and procurement will be considered.
- (iv) *Delegated Cooperation Issues.* ADB's potential role in delegating cooperation arrangements—a provision under the Paris Declaration—focusing on ADB's

potential role in integrating other agencies' assistance programs will be examined.

59. **Managing Risk.** Comprehensive risk management will allow ADB to plan and deliver public and private sector assistance. The WPBF aims to modernize and integrate risk management systems and tools based on international standards and best practice. Doing so will, for example, enable ADB to deal with a greater range of borrowers and improve the quality of its assets. Specific initiatives in the principal risk categories will include the following:

- (i) *Credit Risk.* Initial focus will be on making the credit risk management unit fully functional by establishing ADB's credit policies, methodologies, and information systems to enable credit risk assessment and portfolio monitoring.
- (ii) *Market Risk.* Focus will be on monitoring, measuring, and reporting market risks (e.g., interest rate, exchange rate, and treasury-related credit risks) associated with ADB's activities in order to preempt and avert financial stress and crises. This will include identifying, formulating, and reviewing ADB's market risk management policies, procedures, guidelines, and methodologies, and ensuring compliance with them. Potential synergies from merging market and credit risk functions—and building on the credit risk management unit—will be examined.
- (iii) *Operational risk.*¹⁶ A priority in the integrated risk management framework will be the implementation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO)¹⁷ framework. ADB will establish and implement an integrated control framework as defined by COSO, shifting internal control assessment from internal and external auditors to business process owners. This shift is expected to improve internal controls at ADB. Other elements of operational risk include security, which will be of paramount priority; compliance with UN security standards will be ensured. Identification and mitigation of risks will be the cornerstone of ADB's approach, backed up by the latest security technologies and best practices of the international security industry. Business continuity will be another key element in operational risk management, with activities proceeding on the basis of the business continuity strategy.

60. A central tenet of risk management will be to ensure that it is embedded in all ADB operations. Given the diverse risks involved, risk management will primarily be carried out by departments and offices, except in areas where centralized management is more desirable. The WPBF aims to establish a more integrated and comprehensive risk reporting system to Management and the Board.

¹⁶ This paper uses the Basel Committee's definition: the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, including legal risk.

¹⁷ The framework is widely accepted as an international best-practice system for improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance.

61. **Policy and Strategy Development.** A comprehensive review of ADB's numerous sector and thematic policies will be undertaken, to align this framework better with development priorities, update content and eliminate redundancies and overlap. Making the policy and strategy framework more relevant for the needs of CSPs and ADB operations will be a particular goal. It is envisioned that this review could lead to the retirement of a number of individual policies and strategies. In the interest of efficiency and economy, development of new strategies will be limited to areas of high priority. Keynote reviews and initiatives in this regard include:

- (i) Medium-Term Strategy II.
- (ii) Energy Sector Strategy.
- (iii) Review of Microfinance Development Strategy.
- (iv) ADB Policy Statement on Environment and Social Safeguards.
- (v) Comprehensive Review of ADB's Water Policy Implementation.
- (vi) Urban Sector Strategy.

VIII. STAFF AND BUDGET FRAMEWORK, 2006–2008

A. Annual Resource Requirements

62. **Applying New Methodologies for Linking Budget to Work Program Priorities.** The prioritized work program highlighted a number of new initiatives. Their implementation will be resource-intensive at the start and in the medium term. In a constrained budget environment, pursuing these development priorities will significantly challenge ADB.

63. The demands for staffing and administrative budget resources were based on departmental work programs.¹⁸ This revised approach benefited from a closer involvement of the ADB vice presidents in prioritizing the work program submissions, and more up-to-date information on expected departmental workloads. Under Management's guideline that any incremental resources required for 2006 will have to be met exclusively from currently available resources, all departments and offices were requested to identify program reductions, phase-outs, trade-offs, and efficiency measures. These are expected to generate savings to offset resource increments needed to implement new priority initiatives. Review of submissions for additional resources, including a rigorous assessment of how and why such incremental resources, will support ADB-wide priorities.

64. Staff-time requirements for planned work programs were compared with staff resources available through the budget. The analyses considered recent trends in the departmental outputs, accomplishments and anticipated work programs. The analyses, which were made for the first time, were made possible by ongoing work on cost information mechanisms:

¹⁸ This approach differs from past practice of utilizing the regional assistance plans for regional departments, and submission of key result areas for all other departments and offices as the basis for assessing staff and other administrative budget resource requirements.

- (i) Program categories were expanded to better capture the cost of project processing, portfolio management, country programming, direct operational support, operations overhead, knowledge management, and support services.
- (ii) Staff time spent by program category, also defined as staff coefficients, was established in 2004 and will be updated through staff-time surveys.

65. These data provided a sounder basis for a regular assessment of staff resource requirements and helped ensure a balanced staff allocation in the regional departments. Preliminary estimates of unit costs of key activities/program categories (e.g., loan/TA processing, project administration, and CSP/CSPU preparation) were also estimated following a refinement in cost accounting. Results from the enhanced cost information mechanism were presented to the Budget Review Committee in June 2005. To develop the mechanism and improve the accuracy of the unit cost data, particularly for staff costs, reviews and consultations with other departments are ongoing. The results of the cost information mechanism will be compiled and presented in conjunction with formulation of the 2006 budget.¹⁹

B. Staff and Budgetary Resource Requirements

66. This section summarizes the staff and budget resources required to implement the work program for 2006–2008. Table 10 summarizes key work program outputs, indicative staff resources, and the overall internal administrative expense budget to deliver the work program.

1. Guiding Principles

67. ***Promoting Efficiency through Prioritization.*** A major guiding principle in formulating the WPBF is the need to demonstrate substantial progress in development effectiveness and results. A salient feature of the WPBF is the vigorous containment of ADB's administrative budget, with a proposed zero real-term budgetary growth in 2006. This includes no increase in the professional staff complement in 2006. Among others, this also calls for selectivity of operations and careful prioritization and balancing of ongoing programs and new initiatives. Staff resources and budget requirements for new initiatives will therefore only be made available through trade-offs, redeployment of existing resources, together with productivity gains and other efficiency measures.

68. Implementation of real-term zero growth of ADB's 2006 budget requires (i) a fundamental centralized reassessment of available resources, and (ii) the equitable redeployment of such resources based on corporate priorities and workload estimates. To this end, across-the-board sequestration of 5% of professional staff positions²⁰ was applied toward a central resource pool to facilitate redeployment of staff resources to priority areas of the WPBF. Across-the-board sequestration of 5% of business travel, staff consultants, communications, and contractual services (based on the 2005 original budget allocation) generated \$2.8 million for priority reallocation under the 2006 budget.

¹⁹ Unit cost data are expected to be accurate and thus useful in guiding the various initiatives to improve institutional efficiency within ADB, through the Program Resource Management module under Information Systems and Technology Strategy II. It was recently decided to advance the start of this module's development from 2008 to 2006.

²⁰ Each department/office does not need to identify positions for relinquishment, but it must limit the number of its existing staff (except supernumerary staff) to less than 95% of the number of 2005 budgeted positions for its department/office. Redeployment within each department/office will continue to be explored vigorously.

Table 10: Work Program and Budget Framework

Item	2002	2003	2004	2005 Estimate ^a	2006 Program ^b	2007–2008 Range/ Average ^b
Public Sector Lending/ADF Grant Operations						
Number of Approvals	67	62	58	83 ^c	76	80–82
Amount (\$ million)	5,530.8	5,917.8	4,946.5	6,509.8 ^c	5,407.0	6,297.0
Private Sector Operations						
Number of Approvals ^d	8	7	16	18	17-20	17–20
Amount (\$ million)	240.5	562.7	807.2	785.6	866.1	909.4
Portfolio Management						
Loan Projects (Public Sector)	442	435	415	430	434	430–440
Private Sector Operations	91	89	97	99-105	100-110	100–110
Technical Assistance	826	878	1,016	937	773	740
Cofinancing and Guarantee Operations						
Number of Approvals	37	28	33	35-40	40-45	40–45
Amount (\$ million) ^e	2,832.4	2,418.0	2,441.0	3,400-3,900	2,500-3,100	2,500–3,100
Technical Assistance Processing						
Number of Approvals	324	315	323	328	256	241
Amount (\$ million)	179.0	176.5	197.3	248.6	180.0	180.0
Grant-Financed Processing						
Number of Approvals	28	12	26	34	17	15
Amount (\$ million)	177.5	454.3	99.4	39.1	58.2	36.7
Country Strategy and Programs^f						
	7	7	3	11	8	9
Country Strategy and Program Updates^f						
	26	20	26	20	25	29
Authorized Staff Resources^g						
Professional Staff	737	768	797	824	824	TBD
National Officer	1,341	355	392	416	431	TBD
Administrative Staff		1,025	1,040	1,070	1,085	TBD
Administrative Budget (\$ million)^h						
	234.3	252.6	275.0	299.7	315.3	331.0–348.0

TBD = to be determined.

^a Including Asian Tsunami Fund projects.^b Minimum deliverables based on lower-case scenario.^c Data is as of 31 August 2005. The data includes the Asian Tsunami Fund of \$572 million for reconstruction and rehabilitation activities under seven different projects in five DMCs.^d Some private sector projects may include two distinct equity investments.^e Amount includes guarantee operations (\$240 million) and complimentary financing scheme (\$100 million) approved in 2003.^f Includes regional cooperation strategy and program/updates.^g Excludes Office of the Compliance Review Panel, Operations Evaluation Department, directors' advisors, and staff services.^h 2007–2008 figures are indicative amounts based on an assumption of a 5% price increase per annum.

69. The one-time sequestration is designed to provide maximum flexibility in the use of resources in support of 2006 programs and will contribute to greater mobility of staff resources among departments and offices to respond to workload fluctuations. The sequestration will be facilitated by the ongoing Enhanced Separation Program (ESP), which is expected to generate professional staff vacancies that can be used to improve skill-mix requirements or to redeploy professional staff resources. With the improved skills-mix, the use of staff consultants will be contained. Staff consulting services will continue to fill short-term gaps for specialization not

currently available or to address short-term work load imbalance in concerned departments. A monitoring mechanism is in place to ensure judicious use of such resources.²¹

70. 2006 should be seen as a year of budget consolidation. After several years of annual increase in staff, the institution will take stock of available resources, including locations and skill mix, and carefully assess and possibly redeploy the use of such resources based on updated work programs, departmental workload estimates, and emerging new institutional priorities. With the preparation of an updated strategic medium-term framework expected to be completed in 2006, existing resources should be consolidated until ADB can assess staff and other administrative resources required to support the updated framework. In the interim, ADB will continue to observe the impact of new initiatives on staff workload. Ways and means of achieving greater organizational efficiency will be explored. ADB will identify potential areas of growth in its operations and evaluate the need for incremental staff and administrative resources.

71. In addition to redeployment (para. 68), further savings are expected to be generated in 2006 through (i) reduction of the quantum of TA; (ii) closure of South Pacific Regional Mission; (iii) productivity measures introduced by OAS in administrative services and expenses (library and contractual services); (iv) rationalization of staff benefits policies and administration; and (v) streamlining of business processes related to a number of initiatives under the Innovation and Efficiency Initiative (IEI), including the possible discontinuation of the annual CSP update. These savings will be used to partially offset higher staff costs resulting from filling positions and to improve portfolio management.

2. Staffing Requirements

72. **Matching Staffing to Needs.** During 2003–2005, Management continued to gradually increase the professional staff complement. Eighty new positions were created, among which 32 were added in 2003, 31 in 2004, and 29 in 2005, mostly benefiting operational departments. During the WPBF, departments and offices requested a total of 118 professional staff positions. Following a rigorous assessment of this demand, one fourth of these requests were considered urgent and prioritized, and suitable to be met through redeployment in 2006. Such urgent and prioritized requests will be filled in 2006 from existing vacancies or those that will stem from the ESP. For 2007–2008, the staff resource framework will be prepared in connection with the ADB-wide policy and strategy development work for the medium term (para. 70).

73. As part of resource consolidation under the 2006 budget, the alignment of staff skills will be improved. ADB's human resource strategy (HRS) continues to be central to enhancing ADB's capacity to meet the work program's challenges. Under the performance development plan (PDP), initiated in 2005, individual staff member's work plans are better aligned with the institution's key result areas and competencies framework, and responsibilities and accountabilities more clearly defined. The PDP improves the framework for meaningful and objective evaluation of staff performance, as well as for establishing clearer and sharper performance distinctions among staff members. ADB's planned revisions to the compensation system under the 2005 review of ADB's compensation and benefits will underpin the PDP through better recognition, reward, and incentives for performance. Other HRS initiatives include the following:

²¹ Engagement of staff consultants for a period greater than 60 days, requires endorsement by Budget and Management Services Division. Engagement of staff consultants for a period greater than one year requires the endorsement of Director General, Budget, Personnel and Management Systems Department.

- (i) Strengthening organizational capability by introducing a technical career stream, a skill inventory exercise, improved and more effective recruitment, and improved staff career development planning;
- (ii) Strengthening leadership skills by delegating accountability, sensitizing line managers to the importance of stricter budgetary discipline and more judicious use of resources under a contained budget scenario, and training for leadership; and
- (iii) Training support better aligned with ADB's business needs, including new policies and initiatives (e.g., the IEI and PCP).

74. The allocation of the sequestered pool of resources to individual department's and office's requirements has been initiated and will be finalized during preparation of the 2006 budget. Management will determine the final broad resource allocations under the WPBF,²² primarily for the following priority areas:

- (i) *Regional departments.* Support the departments' initiatives to scale up development effectiveness, which will include efforts to boost financial assistance, build robust pipelines, improve portfolio performance, and pilot IEI policies and instruments, and to initiate operations in new member countries.
- (ii) *Portfolio management.* Assign resources to improve project quality by helping step up EAs' capacity to implement projects, and to implement the project performance monitoring system (PPMS) action plan through training and strengthening of PPMS skills.
- (iii) *Private sector operations.* Ensure synergy between private and public sector operations, consolidate private sector operations, and continue to manage ADB's equity investments and private sector loan portfolio during the WPBF period. Manage the workload in project processing and portfolio administration to expand operations to new DMCs.
- (iv) *Regional economic cooperation and integration.* Strengthen the newly established Office of Regional Economic Integration so that it can cover areas such as subregional economic cooperation, trade and investment, as well as bond market development.
- (v) *PCP.* Implement the PCP by deploying external relations specialists to the European Representative Office and to headquarters to build strong capacity in strategic development, campaign coordination, and networking with academia, as well as to develop substantive new relationships with target audiences.
- (vi) *Credit risk management.* Increase staff resources in credit assessment by the Credit Risk Management Unit to expand operations to the private and public sectors on limited or non-recourse basis.

²² In accordance with para. 17 of the President's Planning Directions to the Vice Presidents (29 April 2005).

- (vii) *COSO framework.* Implement the COSO Integrated Internal Control Framework to partly address operational risks and to improve internal control over external financial reporting.
- (viii) *ADF-related matters.* Support the performance-based allocation exercise, the scheduled ADF IX midterm review, and upgrading of ADB's financial management and systems' capacity to improve ADF borrowers' debt management and financial planning.

75. Staffing requirements submitted during the WPBF process do not include the full impact of certain initiatives that have been recently formulated and presented to the Board (e.g., IEI, regional cooperation and integration, risk management functions, and building new partnership framework for operations with OCR and middle-income countries). Staffing requirements for these initiatives will be identified when the 2006 budget is formulated, as will staffing requirements to support delegation to resident missions. BPMSD will carefully consider how to achieve an optimal mix between staff in headquarters and in resident missions during WPBF period.

C. Budget Preview

76. **Defining Resource Needs.** The formulation of the 2006 budget will be based on a zero real-term budget growth scenario (para. 69). Across-the-board sequestration of 5% of professional staff positions and 5% of selected expense items based on the 2005 original budget allocation translates into a resource pool of about 30 professional staff positions and \$2.8 million worth of other resources. The Management Committee will guide the redistribution of these limited resources based on corporate priorities and the rigorous assessment of departmental workloads so that they are allocated flexibly and equitably. At this stage in preparing the 2006 budget, the cost of a number of initiatives needs further refinement and can only be more specifically quantified later. These initiatives include the following:

- (i) Cost of severance pay and relocation under the ESP (to be offset by savings on salaries and benefits over the next 5 years), which will depend on the final number of eligible staff who agree to join;
- (ii) Costs related to the full-year impact of the Thailand Resident Mission, Pacific Liaison and Coordination Office in Sydney, and further delegation of functions to resident missions;
- (iii) Costs of increasing administration of trust funds;
- (iv) Depreciation costs related to approved special capital budgets; and
- (v) Costs and savings related to the recently approved policies and instruments of the IEI.

77. The 2006 internal administrative expense budget is projected at about \$315.3 million.²³ This includes a general contingency of 1% of the total budget, and a price increase of about 5%

²³ This excludes increase in depreciation expenses related to approved capital expenditure plans, as well as severance and relocation costs of staff electing to leave ADB as part of the ESP.

over the 2005 budget. Price growth is assumed to accommodate, among others, the annual increase in staff salaries. Efforts will be directed to minimize any volume increase.

78. Additional savings (para. 71) that can be used to fund ADB-wide priorities will continue to be identified. However, as certain areas may be transitioning to further growth and thus require net incremental resources beyond what can be absorbed through savings, the general contingency may need to be used in 2006, depending largely on the status of resource utilization at the midyear review of the 2006 budget.

Table 11: Summary of 2006 Budget Preview by Expense Category
(\$ thousand)

Major Expense Category	2004 Actual (A)	2005 Estimate ^a (B)	2006 Preview ^b (C)	Percentage Change (C)/(B)
Board of Governors ^c	594	953	1,300	36
Board of Directors	18,502	19,335	19,357	0
Operational Expenses	206,422	222,537	237,183	7
Administrative Expenses	49,516	53,870	54,379	1
Subtotal	275,034	296,695	312,219	5
General Contingency (1%)		2,969	3,122	
Total	275,034	299,664	315,341	5

^a Midyear estimate. General contingency includes \$1.4 million for tsunami-related activities, and \$0.5 million for unplanned severance pay incurred by the Operations Evaluation Department.

^b Excludes incremental depreciation and costs in relation to the severance pay and relocation of staff joining the enhanced staff separation program.

^c Starting in 2006, all expenses related to the Annual Meeting will be allocated under the Board of Governors.

IX. RESOURCE AND EXPENDITURE PARAMETERS FOR 2007 TO 2009

A. Operational Resources

79. Indicative resource parameters to guide CSP development for the 2007–2009 cycle are in Table 12. Actual figures will be provided in the President's Planning Directions in 2006.

Table 12: Planning Assumptions for 2006–2008
(\$ million)

Funding Source	Average Annual Program 2002 to 2004	2005 Program Estimate	Annual Program Size 2006 to 2008 ^a	Annual Program Size 2007 to 2009
Ordinary Capital Resources ^b	4,500	5,850	6,500	6,850
Asian Development Fund	1,400	1,500	1,700	1,700 ^c
Technical Assistance	184	249	180	180

^a Based on rounded figures, and using the WPBF reference case scenario.

^b Includes public sector lending and private sector loans, equity and guarantees. Public sector lending is based on the reference case.

^c Assumes constant ADF financing levels beyond the ADF IX period.

1. Ordinary Capital Resources – Resource Status

80. As of 30 June 2005, OCR lending headroom was \$21.4 billion, providing sufficient headroom for the indicative lending program foreseen in the WPBF period.

2. Asian Development Fund – Resource Status and Program Size

81. The commitment authority for 2007 to 2009 is estimated to range from \$5.3 billion to \$5.8 billion (net of 6.5% disbursement risk). Average annual program size is assumed at \$1.7 billion.

3. Technical Assistance Program – Resource Status and Program Size

82. Principal financing sources for the TA program are the TASF, Japan Special Fund and bilateral trust funds. Projected annual resource availability for TASF is estimated at \$99 million (excluding funds freed-up from savings and cancellations). There is an estimated funding gap of TASF of \$60 million during 2006-2008, which could be funded by OCR net income transfer of approximately \$20 million a year. Resource availability for JSF is expected to increase to \$40m (excluding funds freed-up from savings and cancellations). Financing from trust funds is expected to be at least \$32 million annually. ADB will maintain the TA program at around \$180 million.

B. Expenditure Expectation

83. The 2007–2008 growth rate of the internal administrative expenses will be determined once the updated strategic medium-term framework is completed in 2006. The budget growth rate is expected to accommodate a price increase. In addition, the budget growth rate is also expected to accommodate expenditures related to (i) staffing of required skills to support the updated strategic medium-term framework, (ii) operationalizing IEI policies and instruments which are not fully funded in 2006, (iii) implementing the Business Continuity Plan, and (iv) depreciation charges from recently approved capital expenditures, including Information Systems and Technology Strategy II.

84. The 2006 Budget document will be prepared and circulated to the Board around the third week of November 2005. The budget document will incorporate the views expressed and guidance provided by the Board during the discussion of the WPBF as well as staff discussions with the Budget Review Committee in November 2005. Board consideration of the 2006 Budget is planned for mid-December 2005.

X. WPBF REPORTING AND MONITORING

85. The explicit integration of mechanisms to monitor progress towards implementing the operational priorities of the work program, specific measures taken to better link allocation of resources (staff and budget) with priority programs, and initiatives aimed at better measuring performance and informing decisions are fundamental changes introduced in this year's WPBF. These changes are in line with ADB's managing for development results agenda and the heightened emphasis on accountability for performance within ADB. The enhanced results-orientation of the WPBF is expressed in a results framework (provided in Appendix 7) which (i) specifies monitoring mechanisms and key deliverables expected during the WPBF period, (ii) highlight benefits associated with the WPBF priorities both at the strategic and operational levels, and (iii) identify risks and assumptions associated with the achievement of the key

deliverables. The results framework highlight particular steps and actions, to be introduced or being implemented, with a view to enhancing the results-orientation of ADB's planning and budget processes.

86. For monitoring and reporting purposes, a set of core performance indicators (Appendix 8) was selected to assess bank-wide progress in implementing the 2006-2008 work program, primarily in respect of operations. For each performance indicator, planned figures or expected directions of change during the WPBF period, have been estimated based on consolidated data provided by regional departments. It is understood that the set of performance indicators has primary relevance at the institutional level as regional departments contribute differently and selectively to the WPBF operational priorities. Most departments and offices of the ADB have engaged in processes aimed at better defining their key results areas and identifying the related performance indicators, taking into account the specificities of their mandates and clients as well as their distinctive areas of contributions to the institutional objectives of the ADB.

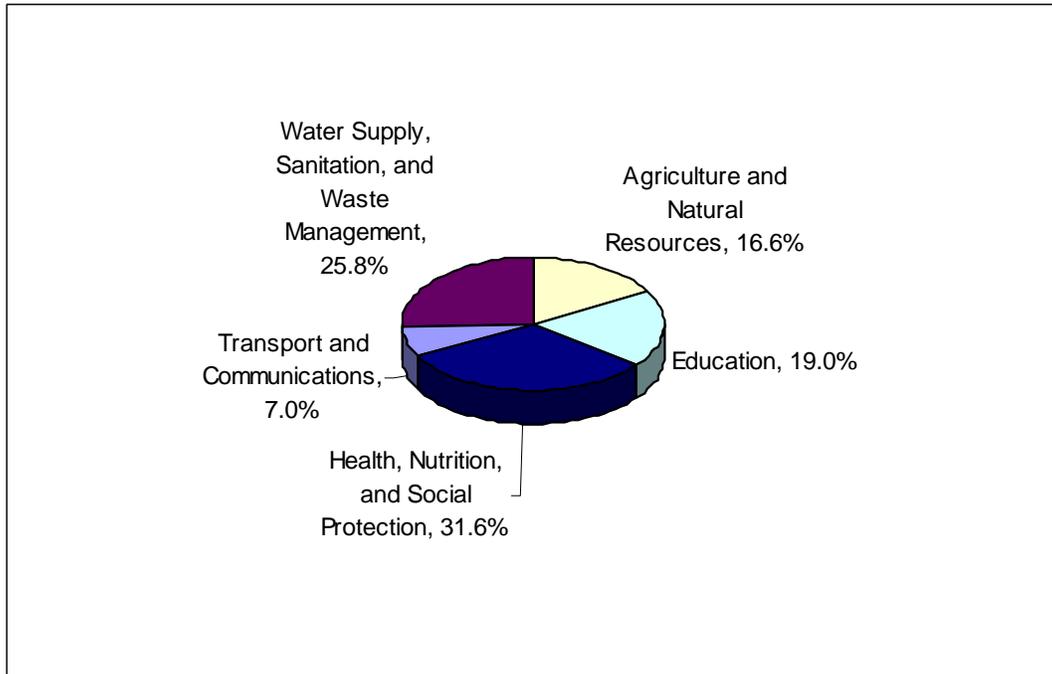
87. It is proposed that concise "executive" reports on the WPBF implementation, will be submitted to Management at Management Committee Meetings on Operations, highlighting areas for which further analysis and/or management guidance may be required. Reporting modalities and contents, including the set of performance indicators, will be tested and reviewed during the first year of WPBF implementation for adjustment and improvement. Progress during the first year of implementation will be reported to the Board through next year's WPBF update.

INDICATIVE^a ADF LENDING, 2002–2008
SECTOR CLASSIFICATION

Sector	% Number of ADF Loans			% Volume of ADF Loans		
	2002–2004 Average	2005	2006–2008 Average	2002–2004 Average	2005	2006–2008 Average
Agriculture and Natural Resources	20	23	21	18	30	18
Education	12	6	10	14	3	13
Energy	4	2	10	5	2	9
Finance	8	15	10	4	5	9
Health, Nutrition, and Social Protection	4	6	5	3	5	5
Industry and Trade	9		4	5	0	4
Law, Economic Management, and Public Policy	12	6	6	8	7	6
Multisector	13	15	5	22	25	7
Transport and Communications	12	17	17	16	16	16
Water Supply, Sanitation, and Waste Management	6	9	13	6	7	12
Total	100	100	100	100	100	100

^a Actual breakdown for 2007 to 2008 will be dependent on performance-based allocations.

INDICATIVE ADF GRANT PROGRAM, 2002 TO 2008—SECTOR CLASSIFICATION
(% to total grant amount)



ACTUAL AND PROJECTED LOAN AND ADF GRANT PORTFOLIO DISBURSEMENTS**Table A4.1: OCR Loan Disbursements, 2002–2008
(\$ million)**

	2002	2003	2004	2005	2006	2007	2008
ECRD	809	761	752	839	937	1,030	1,133
MKRD	96	29	24	15	27	36	81
PARD	16	18	18	28	30	30	30
PSOD	55	113	109	285	147	153	166
SARD	886	1,044	908	1,080	1,027	1,265	1,467
SERD	1,205	724	697	424	1,447	1,050	871
Total	3,067	2,688	2,508	2,671	3,615	3,563	3,748

**Table A4.2: ADF Loan Disbursements, 2002–2008
(\$ million)**

	2002	2003	2004	2005	2006	2007	2008
ECRD	76	84	117	98	130	143	157
MKRD	339	361	307	391	431	489	476
PARD	20	24	22	22	20	20	20
PSOD	0	0	0	0	0	0	0
SARD	661	595	549	595	916	989	1,148
SERD	40	64	60	67	107	121	153
Total	1,136	1,128	1,055	1,172	1,604	1,762	1,955

**Table A4.3: Combined OCR and ADF Loan Disbursements, 2002–2008
(\$ million)**

	2002	2003	2004	2005	2006	2007	2008
ECRD	885	845	869	937	1,067	1,173	1,291
MKRD	435	390	332	406	458	525	557
PARD	36	42	39	50	50	50	50
PSOD	55	113	109	285	147	153	166
SARD	1,547	1,639	1,457	1,675	1,943	2,254	2,615
SERD	1,245	788	757	490	1,554	1,170	1,024
Total	4,202	3,816	3,563	3,843	5,219	5,325	5,703

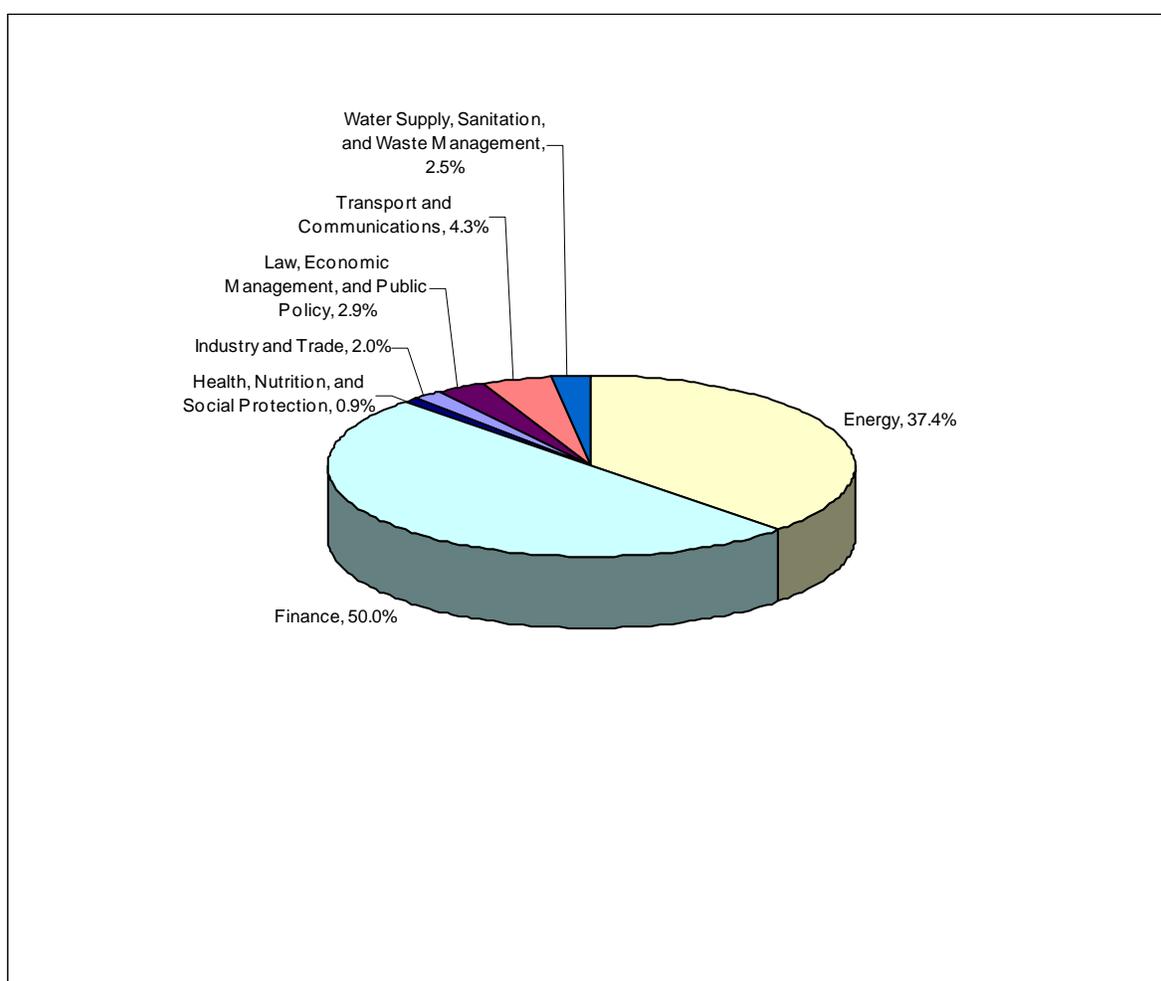
SECTORAL BREAKDOWN OF PRIVATE SECTOR OPERATIONS, 2002–2005

Table A5: Private Sector Operations, 2002–2008

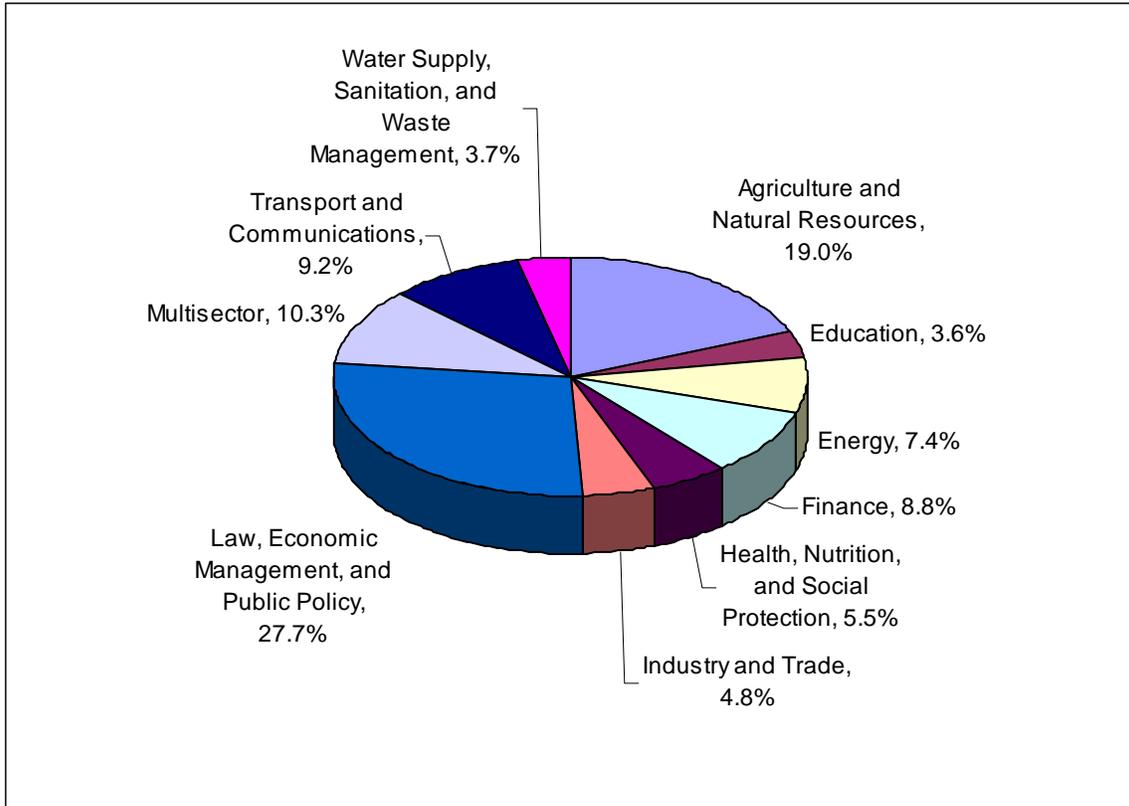
Interventions	2002–2004 Average		2005		2006–2008 Average	
	No. of Operations	Amount (\$ M)	No. of Operations	Amount (\$ M)	No. of Operations*	Amount (\$ M)
Equity	6	85	12	293	9	171
Loans	5	226	10	418	8	619
Guarantees	2	125	3	200	2	77
Total	13	437	25	911	19	867

* Number of operations is for 2006 only. There are no estimates for 2007–2008.

Figure A5: Sector Classification of Private Sector Operations, 2002–2005
(% to volume of operations)



SECTOR DISTRIBUTION OF APPROVED TA PORTFOLIO (As of August 2005)



RESULTS FRAMEWORK FOR THE 2006–2008 WPBF

2006–2008 WPBF Operational Priorities	Monitoring Mechanisms, key milestones and Deliverables ²⁴	Expected Longer Term Benefits and Impact on Development Effectiveness	Risks and Assumptions
Scaling-Up Resource Flows for More Effective Aid			
Building robust programs with greater selectivity and strategic focus	<p>Results-based County Strategies and Programs (CSPs) mainstreamed, as a means for achieving greater program selectivity and clearer linkages with development outcomes</p> <p>Minimum deliverables approach for lending adopted under the WPBF</p> <p>Performance indicators of WPBF reporting include (i) annual lending volumes, (ii) disbursement levels, and (iii) loan preparation time</p> <p>Pilot financing instruments and modalities introduced during the WPBF period</p>	<p>Diversification of ADB products improves ADB's capacity to respond effectively and flexibly to its DMC needs</p> <p>ADB contribution to development outcomes expected to increase through larger lending volumes and rationalized approaches to cross-cutting thematic priorities</p> <p>Selectivity and concentration on core sectors and areas of interventions allows economies of scale and strengthens technical competitive advantages</p>	<p>Availability of staff and budget resources for scaling up operations expected to stem partly from (i) the resource pool constituted by the 5% sequestration of PS complement and budget for 2006, and (ii) savings accrued from TA prioritization and increased delegation to resident missions</p> <p>Skills and technical expertise can be mobilized rapidly to support increased lending pipelines</p> <p>Strategic choices are driven by technical factors, including analysis of ADB's comparative advantages at the country level</p>
Strategic application and consolidation of private sector operations	<p>Volume of private sector operations and number of DMCs with ongoing operations monitored under WPBF reporting</p> <p>Credit Risk Management Unit established and operational to better manage risks associated with private sector operations and pilot financing instruments</p>	<p>Improved understanding of the development impact of private sector operations</p> <p>Enhanced catalytic role of ADB and increased presence and visibility at the DMC level</p> <p>Fostered partnerships and synergies between public and private sector operations</p>	<p>Internal procedures and practices can be adjusted to facilitate the effective integration of private sector operations in CSPs</p> <p>Coordinated programs from public and private sector windows can be developed and reflected in CSPs</p>
Improving portfolio performance	<p>Performance indicators of WPBF reporting including (i) proportion of projects "at risk", (ii) disbursements, (iii) proportion of loan projects administered by Resident Missions (RMs)</p> <p>Spring cleaning of lending</p>	<p>Increased attention to project implementation improves disbursement ratios and contributes to restore net transfers to certain DMCs</p> <p>Delegation of loan administration to RMs can improve ADB's response time</p>	<p>Cancellations of loan proceeds or major changes in project scope may be reluctantly considered by executing agencies and difficult to implement in certain contexts</p> <p>Staff resources and training</p>

²⁴ Performance indicators with baseline data, 2005 estimates and planned figures for 2006–2008 are provided separately in Appendix 8.

2006–2008 WPBF Operational Priorities	Monitoring Mechanisms, key milestones and Deliverables ²⁴	Expected Longer Term Benefits and Impact on Development Effectiveness	Risks and Assumptions
	<p>portfolios undertaken regularly during the WPBF period</p> <p>Disbursement and financial management functions delegated to a growing number of RMs</p> <p>Project Performance Management System (PPMS) action Plan implemented</p> <p>Project readiness assurance mechanisms developed</p>	<p>and quality of service provided to executing agencies</p> <p>Better informed portfolio management decisions on the basis of improved project reporting and progress indicators (from the PPMS)</p> <p>Overall portfolio performance improved through project readiness filters</p>	<p>provided to resident missions has to be commensurate with the level of delegation sought</p> <p>Appropriate staff incentives are in place to promote assignments in resident mission</p> <p>Portfolio performance is acknowledged in the staff incentive system</p>
Improving Strategic Application of Non Lending Resources			
Reducing TA portfolio	<p>Projected number of new operations (funded under TASF and JSF) capped during the WPBF period and expected to decline sharply</p> <p>Performance indicators of WPBF reporting including (i) number of Advisory TA projects approved annually and (ii) proportion of Advisory TAs not financially closed 90 days after technical completion</p> <p>Spring cleaning of the TA portfolio undertaken regularly during the WPBF period</p>	<p>Concentration on fewer TA operations is expected to result in improved quality and design of operations</p> <p>Curbing and cleaning the TA portfolio permit to free and reallocate staff resources to other operational priorities</p>	<p>Definition of assistance priorities at the country level and selection criteria (including TA alignment to country strategies and lending programs) are necessary to control the TA pipeline</p> <p>Element of flexibility and capacity to respond to assistance needs by maintaining open TA accounts is reduced</p>
Improving TA quality and strategic relevance	<p>Three-year Knowledge Product and Services (KPS) Program introduced under the Knowledge Management Framework allowing greater scrutiny and strategic relevance of TA</p> <p>Implementation of the Project Performance Management System (PPMS) action Plan, including staff training in the use of Design and Monitoring Frameworks</p> <p>Trust fund operations systematically included in Country Strategies and</p>	<p>Prioritization and concentration of country analytic work on core areas contribute to strengthen ADB's knowledge and comparative advantages</p> <p>Enhanced synergies between ADB's lending and non lending operations strengthen DMCs capacity for project and program implementation and can improve overall portfolio performance</p> <p>Improved quality at-entry of TA projects and enhanced staff competencies in project design</p>	<p>Regional Departments may find it difficult vis a vis client DMCs to withdraw from certain areas of technical assistance</p> <p>Viable exit strategies (from non priority sectors) have to be worked out with DMC agencies and other development partners time to minimize costs and risks</p> <p>An "opportunistic" approach to trust funds may prevail</p> <p>Management is prepared to review and reconsider trust</p>

2006–2008 WPBF Operational Priorities	Monitoring Mechanisms, key milestones and Deliverables ²⁴	Expected Longer Term Benefits and Impact on Development Effectiveness	Risks and Assumptions
	Programs (CSPs)	Enhanced contribution of trust funds to ADB's development agenda and programs at the country level	funds from the perspective of ADB's institutional agenda and strategic priorities
Better Aligning Assistance with DMC Needs			
Building country-focused strategies and demand-driven programs	<p>CSP guidelines and business processes revised to facilitate mainstreaming of results-based CSPs (including introduction of biennial reviews and completion reports)</p> <p>Number of DMCs with results-based CSPs monitored as part of WPBF reporting</p> <p>Pilot financing instruments and modalities introduced during the WPBF period</p>	<p>Increased development impact of ADB assistance expected though better aligned strategies and results-oriented programs</p> <p>Improved focus of assistance allows economies of scale and enhances technical comparative advantages</p> <p>Enhanced ADB's responsiveness to country needs and priorities through diversified financing instruments</p> <p>Stronger partnerships built with DMC agencies and other national development partners at the country level</p>	<p>Additional resources can be mobilized for the effective preparation of results-based CSPs (involving enhanced diagnostics, assessments, consultations with development partners, etc.) as well as the envisaged biennial reviews</p> <p>National strategies and analytic work feeding the CSP process may not be fully owned by DMCs</p> <p>Consultations with civil society and other stakeholder groups of ADB's assistance programs are routinely held</p> <p>Different planning cycles in DMCs and ADB and/or DMCs electoral cycles may alter the degree of relevance and alignment of the CSP</p>
Promoting the use of country systems	<p>Reporting on the use of country systems envisaged under the Paris Declaration on Aid Effectiveness (number of "parallel PIUs", share of aid flows that uses country procurement systems and project financial management systems)</p> <p>Use of country systems piloted together with the World Bank in selected countries</p>	<p>The use of country systems contributes to reduce transaction costs for DMCs, builds local capacities, and facilitates project implementation</p> <p>Country systems (for procurement, financial management, audit, monitoring and evaluation, safeguard policies, etc.) are gradually upgraded to international standards</p>	Substantial capacity development support, including through TA can be made available to upgrade country system
Investing in regional cooperation and integration	<p>Establishment and staffing of the Office for Regional Economic Integration (OREI)</p> <p>Share and number of lending</p>	Enhanced role of ADB as catalyst of assistance generating greater level of resources for cross-border operations	Regional cooperation and integration are also political processes subject to a high level of uncertainty

2006–2008 WPBF Operational Priorities	Monitoring Mechanisms, key milestones and Deliverables ²⁴	Expected Longer Term Benefits and Impact on Development Effectiveness	Risks and Assumptions
	operations classified under “Regional Cooperation” monitored as part of WPBF reporting	Enhanced role and visibility of ADB as broker of knowledge at the regional and subregional levels	
Reinforcing Development Partnerships			
Enhancing cooperation and coordination with development partners at the country level	Performance indicators of WPBF reporting include (i) Number of joint CSPs and joint Annual Country Portfolio Reviews, and (ii) official co-financing mobilized Reporting on development partnerships envisaged under the Paris Declaration on Aid Effectiveness (including loans/grants approved as program-based approach, joint missions to DMCs, joint country analytic work)	Efficiency gains derived from joint analytic work and joint operations Improved coordination and cooperation between development partners contribute to better positioning ADB according to its comparative advantages both at the institutional and country levels	Supplementary resources are required for defining coordination and partnership modalities at the country level Complex joint operations such as program-based approaches typically involve longer preparation time and may require flexibility in operational policies during implementation
Furthering harmonization with development partners at the institutional level	Continued harmonization efforts and simplification of procedures and business processes in several areas including procurement of goods and services, engagement of consultants, CSP preparation, safeguard areas, etc.	Efficiency gains and reduction in transaction costs derived from harmonization of donor procedures and systems	Flexibility and relaxation of individual agency systems and rules can be granted to promote effective partnership building
Linking Resources with Priority Programs and Assessing Performance			
Reporting on WPBF implementation	WPBF progress reports submitted to management at Management Committee Meetings on Operations Set of performance indicators (harmonized with other ADB institutional reports) used to monitor progress towards WPBF priority directions	Continued attention to WPBF operational priorities and regular guidance provided by senior management WPBF reporting can pave the way for the development of performance measurement systems at the level of individual departments and offices	Commitment and accountability of ADB management for pursuing operational priorities of the WPBF Reporting “fatigue” and resistance to the introduction of performance measurement mechanisms Relevance of the set of performance indicators and subsequent improvements in WPBF reporting mechanisms

2006–2008 WPBF Operational Priorities	Monitoring Mechanisms, key milestones and Deliverables ²⁴	Expected Longer Term Benefits and Impact on Development Effectiveness	Risks and Assumptions
Funding WPBF priority programs	<p>Staff Resource pool constituted for 2006 to support WPBF priority programs including regional cooperation and integration, credit risk assessment and management, public communications policy, and other operational priorities</p> <p>Human Resources deployment ratios, consistent with WPBF operational priorities (scaling up assistance and increased delegation to RM) monitored as part of WPBF reporting</p>	Institutional coherence improved by sourcing priorities through established mechanisms	Methods for allocating the resource pool are consistent with the stated priorities
Moving towards performance- based systems and procedures	<p>ADB-wide cost efficiency ratios monitored as part of WPBF reporting</p> <p>Introduction of more accurate cost indicators including unit costs per product/activity.</p> <p>Introduction of a staff time recording system or its equivalent allowing a more accurate analysis of unit costs</p> <p>Set of staff incentives adopted during the WPBF period to better link performance with career development</p> <p>Performance and Development Plans (PDP) used to cascade results-based workplans from departmental to individual levels</p> <p>Rating of managerial performance introduced under the PDP</p>	<p>Cost of doing business by major type of activity can be better captured and cost efficiency comparisons are possible to gauge performance</p> <p>Unit cost analysis facilitates the identification of measures for improving internal efficiency, further streamlining business processes</p> <p>Improved performance and motivation of staff and management</p> <p>Clarification of objectives and results expectations at all levels of the organization</p>	<p>IT system improvements progress as planned to support unit cost computation</p> <p>Wider acceptance of performance management systems by staff and management</p> <p>Head of departments and offices can allocate resources (staff and budgets) according to key results areas</p> <p>Mechanisms can be put in place to facilitate inter-departmental reallocation of resources</p>

BANK-WIDE PERFORMANCE INDICATORS FOR THE 2006–2008 WPBF

PERFORMANCE AREAS	BANK-WIDE PERFORMANCE INDICATOR	Baseline 2004 (or current 2005)	2005 Estimate	WPBF Planned Figures/ Projections		
				2006	2007	2008
Financial Assistance Level	1. Annual public sector volume (ADF and OCR approvals) in \$US millions					
	a. ADF (indicative only from 2007)	1,240	1,240	1,430	1,530	1,590
	b. OCR (lower case scenario)	3,710	4,690	3,976	4,744	4,732
	2. Annual disbursement levels in \$US millions:					
a. ADF	1,055	1,170	1,600	1,760	1,950	
b. OCR	2,508	2,670	2,920	2,880	3,030	
	3. Private Sector Operations approved annually (loans, equity operations, or guarantees) in \$US millions	16	21	19 operations approved per year on average in 2006–2008		
	4. Loan processing time: number of months between beginning of PPTA fact-finding (or loan fact-finding if project processed without PPTA) and board approval for projects approved during the year	23.9	Average loan processing time reduced to 18 months by 2008			
Portfolio Management	5. Number of loan projects “at risks” as a percentage of total loan projects:					
	a. program loans	18% (current)	18%	18%	16%	14%
	b. project loans	11% (current)	11%	10%	9%	8%
	6. Number of lending projects administered by resident missions as a percentage of total lending projects	38% (current)	38%	44%	50%	55%
TA Consolidation	7. Number of Advisory TAs (all funding sources) approved annually	174	160	110	95	85
	8. Number of Advisory TAs not financially closed 90 days after their technical completion date as a percentage of total Advisory TAs	18% (current)	18%	17%	16%	14%
Regional Cooperation and Integration	9. Number of lending projects classified under the “regional cooperation” theme approved annually	4	6	10 loans approved per year on average in 2006–2008		

PERFORMANCE AREAS	BANK-WIDE PERFORMANCE INDICATOR	Baseline 2004 (or current 2005)	2005 Estimate	WPBF Planned Figures/ Projections		
				2006	2007	2008
Country Alignment and Partnerships	10. Number of DMCs with results-based Country Strategies and Programs (CSPs)	1	8	19	21	24
	11. Number of joint CSPs and joint Annual Country Portfolio Reviews (CPR) conducted annually			Joint CSP prepared in 4 new countries in 2006-2008		
	a. CSP	0	2			
	b. Annual CPR	8	11	Joint Annual CPRs carried out in 13 countries each year		
	12. Amount of co-financing mobilized from official sources, public sector loans, TA and grants combined in US\$ millions	800		Official co-financing increased to an average of \$1,000 million per year in 2007-2008		
Resource Allocations	13. Cost efficiency (public and private sectors):					
	a. Internal administrative expense (IAE) per \$1 million of loan approval	\$50,000		Decline in real terms of ratio over 2006-2008		
	b. Internal administrative expense (IAE) per \$1 million of loan disbursement.	\$77,000		Decline in real terms of ratio over 2006-2008		
	14. Human Resources deployment:					
	a. Budgeted professional staff (PS) national officers (NO) in "Operations" and "operations support" as a percentage of total PS and NO	73%		Increase in the share of the 'operations' groups and 'operations support' over 2006-2008		
	b. Budgeted PS and NO in " Support Services" as a percentage of total PS and NO	27%		Decrease in the share of "support services" group over 2006-2008		
c. Budgeted PS and NO in Resident Missions (RMs) as a percentage of total PS and NO	20%		Increase in the share of RMs over 2006-2008			

Notes:

For indicator 14: "Operations" includes the five regional departments and Private Sector Operations Department; "Operations Support" includes Vice-President (Knowledge Management and Sustainable Development) Group, Office of Regional Economic Integration, Credit Risk Management Unit, Accountability Mechanism (Office of the Special Project Facilitator, Office of the Compliance Review Panel) and Operations Evaluation Department; 75% of Office of the General Counsel, Controller's Department, Office of the Compliance Review Panel; "Support Services" includes Vice-President (Finance and Administration) Group (excluding 75 % of Office of the General Counsel and Controller's Department), Young Professional Program and the President's Group (excluding Management, Office of the Regional Economic Integration, Credit Risk Management Unit).