



November 2009

Better and Faster Loan Delivery

Report of the Loan Delivery Working Group

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
BTOR	–	back-to-office report
DMC	–	developing member country
EA	–	executing agency
EBP	–	enhanced business processes
EBRD	–	European Bank for Reconstruction and Development
IDB	–	Inter-American Development Bank
MRM	–	Management review meeting
NBP	–	new business processes
P3M	–	project processing and portfolio management
PAM	–	project administration memorandum/manual
PPTA	–	project preparatory technical assistance
RRP	–	Report and recommendation of the President
SRC	–	staff review committee
TA	–	technical assistance

NOTE

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

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I. MANDATE

1. The loan delivery working group was tasked to identify reforms that would significantly reduce the Asian Development Bank's (ADB's) loan delivery time to first disbursement without compromising project quality.¹ ADB's developing member countries (DMCs) have indicated that they want ADB to reduce its transactions costs and response time and make its processes more efficient. Efficiency gains will be even more critical as ADB increases its lending volume following the 200% general capital increase approved by its Board of Governors in April 2009. It is expected that the number of project approvals will increase from 102 in 2008 to more than 150 per year in next few years.

II. PRESENT AND TARGET LOAN DELIVERY TIME

2. ADB's loan delivery performance is too slow. The average time for loan processing up to approval for a project that includes project preparatory technical assistance (PPTA) has remained about 2 years, despite efforts to streamline it in the new business processes (NBP) in 2002² (Table 1). The average processing time for projects, programs, periodic financing requests, and supplementary operations averaged 16 months in 2008, surpassing the 2012 target of 18 months specified in the *ADB Results Framework*.³ There has been some improvement since the introduction of the enhanced poverty reduction strategy⁴ in 2004, which removed the quota for poverty intervention projects and reduced the complexity of project design. ADB's product delivery is generally slower than that of other regional multilateral development banks, such as the European Bank for Reconstruction and Development and the Inter-American Development Bank (IDB) (Appendix 1).⁵ The period from loan approval to first disbursement is 12 months, which remains too long. ADB's target for 2010 is 10 months.

Table 1: Loan Delivery Time
(Average in Months)

Item	2002–2008
PPTA Processing (PPTA fact-finding to approval)	4
Recruitment of Consulting Firm	5
PPTA Implementation (up draft final report completion)	8
Rest of Loan Processing	7
Total Processing Time	24
First Disbursement	12

PPTA = project preparatory technical assistance.

Sources: (i) ADB. 2009. *Increasing Efficiency in Recruiting Consulting Services for ADB Financed Projects*. Draft under Preparation. Manila; (ii) Project Processing Information System; and (iii) ADB staff estimates.

¹ This report covers business processes and practices for conventional sovereign operations financed by ordinary capital resources (OCR) loans, Asian Development Fund (ADF) loans, and ADF grants. Management approval of the report does not prejudice unique business processes for specific lending instruments mandated by the relevant policies approved by the Board of Directors, such as those for the multitranches financing facility (MFF), emergency assistance, and supplementary financing. Where applicable, disclosure requirements of the Public Communications Policy will be preserved. See ADB. *Public Communications Policy: Disclosure and Exchange of Information*. Manila.

² ADB. 2002. *Business Processes for the Reorganized ADB*. Manila.

³ ADB. 2008. *ADB Results Framework*. Manila.

⁴ ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila.

⁵ At the European Bank for Reconstruction and Development (EBRD), the loan processing time for sovereign operations is normally 1 year from initial concept to loan signing. Inter-American Development Bank's (IDB's) loan processing time has declined sharply to 7–10 months from 18–24 months.

III. REVIEW OF NEW BUSINESS PROCESSES

A. Previous Loan Delivery Reforms

3. The streamlining options available in the present business processes have not been fully utilized. The NBP in 2002 introduced a merger of final PPTA tripartite review and loan fact-finding mission, optional appraisal missions, and simplification of document circulation for interdepartmental review. The enhanced business processes (EBP) in 2006⁶ introduced project categorization based on complexity and risks to determine processing requirements—e.g., there would be no appraisal mission or staff review committee (SRC) meeting for straightforward projects—along with enhanced documentation and review processes for concept clearance. However, these streamlining measures have not been widely practiced and have not had the expected impact on loan delivery performance. This was due to the lack of awareness of the proposed changes in some cases. The experience of some of the reforms is described below.

- (i) **Merging final PPTA tripartite review and loan fact-finding and waiving appraisal missions.** These reforms have made little change. The intention was for the loan fact-finding mission to be integrated fully with the final PPTA tripartite review meeting. This was central to the streamlining introduced by the NBP for expediency and to better link fact-finding with the work of the PPTA consultants.
- (ii) **Quality of PPTA reports was expected to be assured through close collaboration with the consultants and interdepartmental review of their outputs.** However, the 2004 NBP review found that due to constraints on technical assistance (TA) and staff resources for supervision, this could not be achieved.⁷
- (iii) **Differentiation of processing based on risks and complexity.** This reform has made little difference. In addition to the general waiver of appraisal missions and SRCs, the project categorization introduced by the EBP in 2006 calls for loan negotiations after the management review meeting (MRM) in cases of follow-on and less complex projects. However, these opportunities for streamlining have not been widely used.
- (iv) **Interdepartmental review.** The requirements for interdepartmental review remain onerous and the NBP's call to refrain from circulating twice the report and recommendation of the President (RRP) before the MRM and SRC has not been widely implemented. Project team leaders have confirmed that commenting departments still tend to provide feedback on project proposals outside their departmental mandate. The NBP envisaged a single circulation of the RRP before the MRM and SRC and the circulation of an issues paper and comments matrix before the meetings. However, revision and second circulation of the RRP is still common practice. This takes additional time for all concerned, both the person revising the paper and those rereading it.
- (v) **Separation of concept clearance procedures for PPTA and loans.** The EBP in 2006 led to repetitive documentation and reviews. Under the NBP, it was possible to cover both a PPTA and its ensuing loan by a single brief concept

⁶ ADB. 2006. *Further Enhancing the Country Strategy and Program and Business Processes*. Manila.

⁷ See ADB. 2004. *Review of the Implementation of the New Business Processes*. Manila.

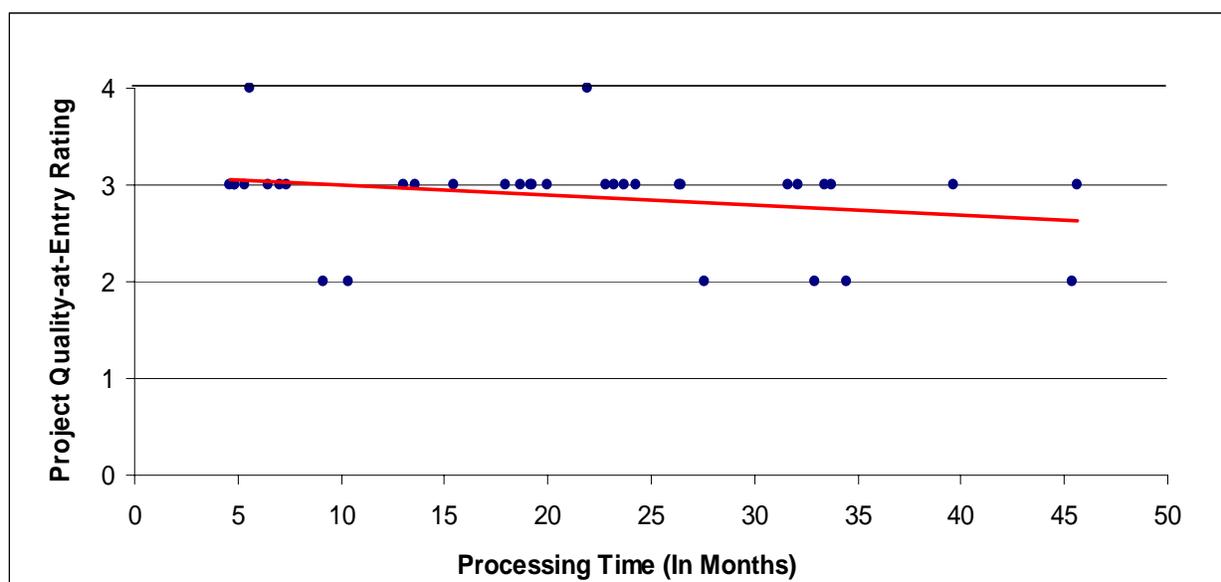
paper (simply by ticking the boxes for PPTA and the loan and presenting financial plans for both). The EBP introduced a two-stage concept clearance process; first a concept paper for the PPTA and then a separate one for the project.

- (vi) **Back-to-Office Reports (BTORs).** The instruction in the NBP that BTORs should be completed "in 2 working days of mission return" is not being followed. The NBP also specified that the BTOR should focus "on substance not presentation," but submission of BTORs is often delayed while their content is refined to perfection. Many BTORs are lengthy (more than the prescribed three pages), input-oriented, formal, and are often subject to revisions by directors. Late completion of the BTORs affects timely interdepartmental communication and decisions and in turn, delays project processing.

B. Loan Delivery Quality

4. Project quality-at-entry has improved. A comparison of the results of a quality-at-entry assessment performed in 2008 (for 47 projects approved in 2006–2007) shows an improvement in project design over the result of the previous study on projects approved in 2004–2005 conducted in 2006. Of the sample projects, 85% were rated as *satisfactory* or better in terms of their quality-at-entry, especially with regard to policy and institutional aspects and poverty, social and environmental aspects, compared with 81% in the 2006 study. A study of 35 sample loans approved in 2006–2007 (Figure 1) suggests that there is no positive correlation between longer processing time and quality-at-entry. In other words, a shorter delivery time does not necessarily lead to lower project quality. Notwithstanding this finding, further business process streamlining needs to ensure there is no negative impact on project quality.

Figure 1: Correlation between Processing Time and Quality of Loans, 2006–2007



1 = unsatisfactory, 2 = marginally satisfactory, 3 = satisfactory, 4 = highly satisfactory.

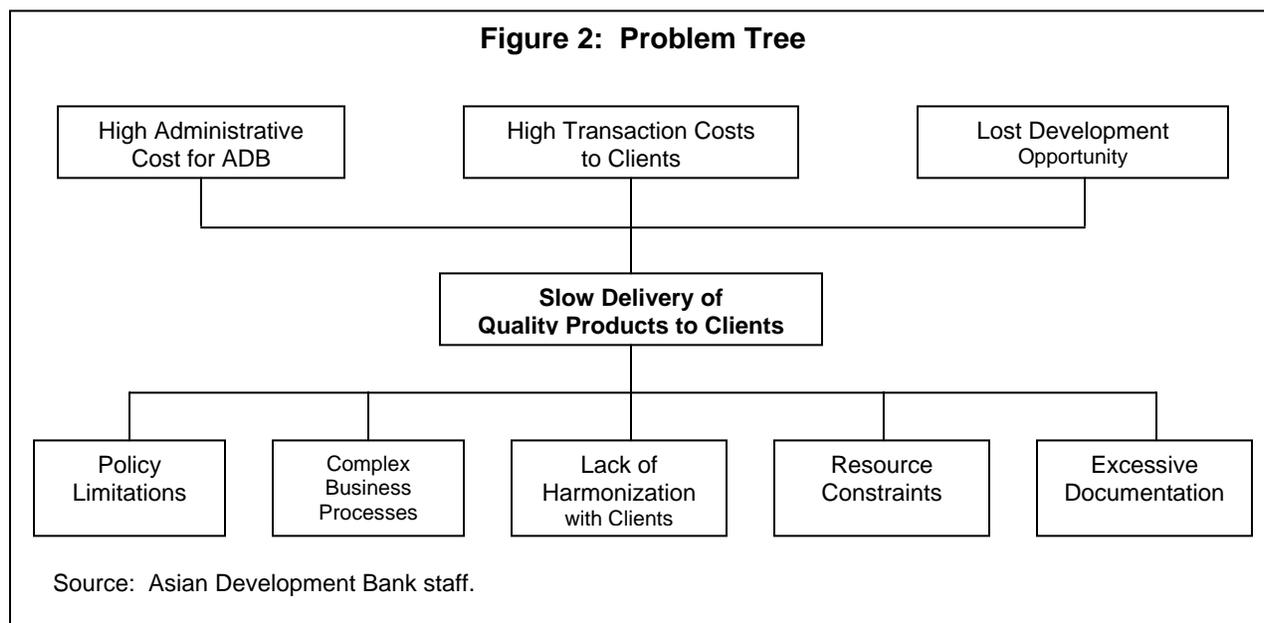
Source: Staff assessment of a sample of 35 sovereign projects.

C. Special Evaluation Findings

5. A recent special evaluation study⁸ identified key issues affecting business processes and these need to be followed up. The study identified three issues for consideration by the Board and Management, including: (i) the excessive workload of the project team leader, (ii) the level of budget not being commensurate with the expansion in PPTA scope, and (iii) the need for greater project supervision to avoid implementation delays. The study also found that PPTA concept clearance was a superfluous step. Finally, the team leader should spend more time supervising the PPTA consultant team. These points are valid and need to be followed up.

IV. PROBLEMS AND OPPORTUNITIES

6. For a project with a PPTA, ADB's average loan delivery time of 36 months from concept to first disbursement is just too slow. Slow loan delivery results in: (i) high transaction costs to client DMCs and delayed delivery of benefits, (ii) high administrative costs for ADB, and (iii) lost development opportunities. The key causes of slow loan delivery are presented in a problem tree in Figure 2 and examined below.



A. Policy Limitations

7. **Delegation.** ADB policy devolves responsibility for decisions and approvals to different levels in the organization, but approvals and decisions are not delegated to the lowest optimal level. Many project processing decisions require Management or director general clearance, including concept clearance, PPTA approval, processing approvals, circulation, endorsements, mission authorizations, and meeting minutes approvals. There is considerable scope to rationalize delegation to the lowest optimal level for timely loan delivery.

⁸ ADB. 2008. *Special Evaluation Study: Project Performance and the Project Cycle*. Manila.

8. **Project preparatory technical assistance processing.** Stand-alone PPTA processing and consultant recruitment still require too much time and resources. The TA reform in 2008⁹ substantially reduced the time required for PPTA processing, but the need to process stand-alone PPTA for each project still consumes a considerable amount of time and resources. Consultant recruitment takes an average of 5 months to engage a firm (about 20% of the time taken for loan approval).

9. **Preparation of designs and bid documents.** There is no facility to assist ADB clients to prepare detailed designs and bidding documents for infrastructure projects. ADB and many clients' readiness criteria require these designs and documents for infrastructure works to be ready before loan effectiveness. The delays in preparing them significantly hold up implementation of physical works. ADB has supported some clients to prepare the designs and documents through TA loans. However, ADB does not have an effective instrument to provide TA grants to clients, especially small countries, for this purpose. While the establishment of a new assistance instrument is outside the scope of this report on business processes, consideration should be given to such an initiative.

10. **ADB lending modalities.** There is scope to augment ADB's lending modalities for efficient loan delivery. ADB has no instrument for results-based lending for investment loans. IDB has already introduced a performance-driven loan that allows disbursement based on actual developmental results and verification of related expenditures.¹⁰ The World Bank is exploring the possibility of introducing a similar loan as part of ongoing reforms.¹¹ If designed properly, the results-based lending instrument has the potential to facilitate loan delivery through its focus on development results, rather than on inputs. ADB's supplementary financing modality is not widely used for follow-on projects. Supplementary financing has proved to be relatively efficient in terms of loan processing time (6.6 months on average in 2002–2007). However, it accounted for just over 1% of ADB's loans by number and less than 1% by amount in 2002–2007. By comparison, a similar World Bank modality, referred to as additional financing, accounted for about 24% of investment lending operations in number in the fiscal year 2008. One reason for the modest use of supplementary financing at ADB is the policy limitation (i.e., cap) on both the number and the amount. The cap specifies that the aggregate amount of up to two provisions of supplementary financing cannot exceed the amount of the original financing.

B. Complex Business Processes and Practices

11. **Need to implement reforms.** ADB needs to implement the reforms under the NBP effectively and go beyond them. ADB typically follows a sequential process for project preparation and processing. The PPTA concept comes first, followed by the project concept. After PPTA approval and implementation processing should start together with the final tripartite meeting (as per NBP). Consultants recruited under PPTA are usually treated as a team separate from the ADB staff team, and must complete their work before ADB processing can commence. There is often duplication of work and the sequential nature of this process creates unnecessary delays in project preparation. A further issue is that all projects continue to be treated in the same manner, and differentiation of processing by complexity of project has not become a common practice.

⁹ ADB. 2008. *Increasing the Impact of the Asian Development Bank's Technical Assistance Program*. Manila.

¹⁰ IDB. 2006. *Proposal for a Pilot Program for Performance-Driven Loans*. Washington, DC.

¹¹ World Bank. 2009. *Investment Lending Reform: Concept Note*. Washington, DC.

12. **Long start-up periods.** Project start-up periods are too long, partly because of a lack of sufficient implementation readiness at the time of loan approval. A focus on project readiness is critical for a quick start-up, but the degree of utilization of project readiness filters (a checklist of actions) varies across regional departments. Efforts to improve project readiness have produced results in India where the average time from loan approval to 10% disbursement has fallen from 40 months in 2002–2003 to 11 months in 2007. Another problem is the long lead times in recruiting implementation consultants (see para. 15). ADB has long default times for loan signing (12 months) and effectiveness (3 months). These activities must be expedited and the time reduced to a minimum.

13. **Program loans.** The delivery time for program loans is shorter than that for project loans, but could be streamlined further. A second MRM is required for all programs, whether or not there are any issues that require Management's attention and guidance. The processing requirements of the second and subsequent subprograms under the program cluster approach, including the lengthy concept clearance process,¹² are essentially the same as those for the first subprogram, which prevents ADB from taking full advantage of program lending as a fast-disbursing instrument.¹³ Finally, under the current summary procedure rule, all program loans, regardless of the amount, are subject to full Board discussion,¹⁴ which imposes administrative burdens on staff. Summary procedure principles, including clear selection criteria, should be applied to program lending in a similar manner to project lending.

**Table 2: Comparison Between Project and Program Loans
Average Delivery Time, 2002–2007**

Phases	Project Loans (Months)	Program Loans (Months)
Fact-finding to approval	24.0	19.3
Approval to first disbursement	12.0	5.5

Source: Asian Development Bank staff.

14. **Safeguards.** Safeguards are an essential component of ADB's development mandate and operations. With the approval of the new safeguard policy¹⁵ and implementation arrangements, loan delivery streamlining must optimize safeguard compliance.

15. **Recruitment and procurement.** Procedures for the recruitment of consultants and the procurement of loan-financed goods and services take too long. It takes an average of 5 months to recruit a consulting firm under a TA project and nearly 12 months under a loan. For TA recruitment, reforms are underway to reduce this time. The speed of recruitment of loan-financed consultants, goods, works and related services depends on the recruitment capacity of the executing agencies (EAs) concerned. However, there are steps on ADB's side that can be expedited.

C. Challenges of Harmonization with Government and Development Partners

16. Business processes, rules, practices of DMC governments, and those of development partners often affect the ADB loan delivery process and need to be taken into account.

¹² On the other hand, there is no concept clearance requirement for second and subsequent tranches under MFF and individual subprojects under the TA cluster.

¹³ See ADB. 2009. *Program Lending Policy: Clarification*. Manila.

¹⁴ ADB. 2005. *Revision of the Summary Procedure*. Manila.

¹⁵ ADB. 2009. *Safeguard Policy Statement*. Manila.

Sometimes limited capacities for project processing in EAs and central government agencies, complex and unclear government procedures, and a lack of synchronization among DMCs, ADB, and development partners are important causes of delays. ADB loan delivery must factor in and harmonize with the business processes and practices among key stakeholders, while acknowledging the underlying transaction costs.

D. Resource Constraints

17. ADB's resources are limited and it is essential to make optimal use of the resources applied to loan processing. Project teams need specialized expertise, including technical, economic, financial, safeguards, and legal skills. PPTA resources need to be made available in a timely manner so processing is not delayed. Resident mission staff and facilities can help loan delivery and government interaction and need to be fully used.

E. Excessive Documentation

18. Multiple and repetitive documentation requirements—e.g., for PPTA and loan concept papers, RRP, and project administration memorandums (PAMs)—slow down loan delivery. The format of each of these documents is different, while many of the sections and appendixes are common (e.g., the rationale for intervention, sector assessment, social and poverty analysis, and TA or project classification). Descriptions of project implementation arrangements are repeated in the RRP, legal agreements, disbursement letter, and PAM.

19. Mission leaders find that excessive documentation causes the most delays during the early phase of loan processing. The inflexible RRP format with no differentiation based on project risk or complexity means that the same efforts are required for simple and straightforward projects. There is significant scope to reduce the length of documents, while catering to the information needs of a diverse audience.

V. PROPOSED REFORMS IN BUSINESS PROCESSES

A. Guiding Principle for Streamlining

20. Considering the problems and opportunities that have been identified the following principles for business process streamlining have been defined.

- (i) **Efficiency and optimal use of resources.** This is the basic tenet of business process streamlining.
- (ii) **High-quality delivery.** Streamlining must not lead to a loss of quality.
- (iii) **High project implementation readiness.** Streamlining of business processes must enhance project readiness and portfolio performance.
- (iv) **Delegation of authority.** A higher degree of authorization should be accorded to the lowest optimal functional level.
- (v) **Concise documents based on a single platform.** There is significant scope to simplify ADB documents, while maintaining the operational purpose of each document.

- (vi) **Use of information and communication technology.** Well-designed information and communication technology can help to manage administrative procedures efficiently, e.g., through the project processing and portfolio management (P3M) initiative.

B. Proposed Reforms

21. The working group proposes the following reforms to streamline ADB loan delivery.

1. Concept Clearance

22. **Project and PPTA concept papers should be rationalized.** Instead of PPTA concept clearance followed by project concept clearance, a single process is proposed. Only a project concept paper would be prepared, with sections on due diligence where the requirements for staff, staff consultants, or a PPTA would be detailed. No project preparatory note would be required. In this regard, a PPTA would be considered an input (rather than an output in itself) in the processing of the project and its related terms of reference, consultancy requirements and implementation arrangements would be attached to the project concept paper. Only one design and monitoring framework would be prepared. A reconnaissance mission¹⁶ may be undertaken to agree on the project concept and due diligence requirements and, as necessary, the parallel requirements for an associated PPTA. A concise but clear concept paper articulating broad project objectives, scope and any necessary PPTA would be submitted to the approval authority. A single process would save preparation time and one round of interdepartmental review and approval.

2. PPTA and Consultant Engagement

23. **Establishment of a project development facility should be considered.** Processing of PPTAs is time consuming and a new ADB-wide system of approving regional TA allocations for operational program preparatory work is proposed. Every year, the Board of Directors would consider an allocation for the 1-year forward lending program as a large TA (say \$50 million per operations group). Vice presidents would allocate resources to regional departments and, in turn, directors general would allocate the departmental provision to divisions for directors to use for project preparatory work. The new approach should allow more flexible mobilization of consulting services. It should also help to align resource allocations with Strategy 2020 priorities.¹⁷ Approval of subprojects under the facility should be at the director general level through the project concept clearance process proposed in para. 22.

24. **Indefinite delivery contracts should be introduced to ease mobilization of consultants.** A more flexible approach would be adopted for hiring consultants, with a clear emphasis on saving time without impairing quality, competition, or governance. To achieve this, every department or division would have a pool of prequalified consultants (individuals or firms) on a retainer basis. The proposed approach should enable mission leaders to mobilize consultants quickly. This proposal, alongside of uses of umbrella contracts and individual consultants, would be applied to the proposed project development facility (para. 23).

¹⁶ A standalone PPTA fact-finding mission is not expected to be fielded.

¹⁷ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

25. **Timing for preparatory actions for PPTA consultant engagement should be advanced.** Usually, PPTA processing and recruitment of consultants are undertaken sequentially. It is proposed that preparatory work for the recruitment of consultants would be undertaken while PPTA processing was being completed, leaving only contract signing after PPTA approval and effectiveness. Advance actions, resource mobilization from the project development facility (upon its establishment), and staff consultancy should also be carried out.

3. Loan Processing Proposals

26. **PPTA implementation and loan processing should be merged further.** The NBP in 2002 merged PPTA implementation and loan processing at the point of the PPTA final tripartite meeting. It is proposed that loan fact-finding should begin at an interim stage of PPTA implementation, prior to the final tripartite meeting and following completion of surveys, initial design work, costing, safeguards, and due diligence to establish the viability of the project.¹⁸ Apart from saving loan delivery time, the proposed approach allows a closer link between all concerned: the processing mission has a more integral role in guiding project preparation; consultants have closer supervision and directions; and government is more closely involved in the project design. Subsequent to the fact-finding mission the consultants would further refine the project design to be used to further augment and improve project documentation and undertake pre-implementation works.

27. **Projects should be categorized as either "low-risk" or "complex."** Categorization as a "low risk" project means it has the following four features: (i) loan amount not exceeding \$200 million for projects (or not exceeding \$50 million for programs); (ii) sound record of ADB's previous experience in the sector; (iii) reasonable EA capacity in terms of project administration; and (iv) safeguard categorization other than A. Unless the project is classified as "low risk" on this basis, enhanced processing missions and close support from the community of practice will be required. As prescribed in the current business processes, initial categorization will be approved by the concerned vice-president as part of the concept clearance process, based on the information presented therein (subsequent changes to categorization, if any, would also require approval by the vice-president).

28. **The interdepartmental review process should be streamlined.** It is proposed that the current interdepartmental review process be replaced with a two-fold peer review process comprising: (i) a specific cross-departmental review; and (ii) a sector-focused review. The former takes place on specific technical aspects of the project design and implementation arrangements, such as procurement and safeguards, at any point in time when expertise of the departments/offices concerned is required (even without completion of a draft RRP). Economics and Research Department (on economic analysis), Central Operations Services Office, Independent Evaluation Department, Office of Cofinancing Operations (in case where cofinancing is proposed), Office of Regional Economic Integration (in cases of interventions addressing regional cooperation and integration), Regional and Sustainable Development Department (Environment and Safeguards Division), and Office of the General Counsel should be engaged in this process. Regional departments should copy draft RRP or sections of RRP for review and may consult with other departments or offices, as well as the concerned resident mission, that may provide inputs specifically on technical matters in the areas of their direct expertise. The second sector-focused review process will concentrate on technical advice on

¹⁸ In this regard, care will be taken to ensure that their respective functions and activities are not commingled. This is because PPTAs are funded from special funds resources while loan processing by ADB staff is funded from internal administrative expenses which are part of the ordinary capital resources, and each has to be separated from the other.

the sector concerned, whereby the full RRP is sent to the head of the community of practice or COP for coordination of a comprehensive sector-focused review of the proposal.

29. The mandatory MRM should be replaced by a risk-differentiated quality assurance process. Following the peer review process, a comments matrix and issues paper would be circulated to all the reviewers. For "complex" projects, an MRM would be chaired by the vice president with the director general and project team, and issues would be discussed and decisions taken on further project processing. Other relevant parties may join the meeting if requested by the operations group concerned. For "low-risk" projects, an SRC would be chaired by the director general with the project team. Issues would be discussed and decisions taken on further project processing. Other relevant parties may join the meeting if requested by the regional department concerned. Minutes would be copied to the vice president who may call for a further meeting. The MRM and SRC minutes would in all cases be signed off by the director general. It is expected that this reform would reduce the burden on management time while maintaining oversight and project quality. The focus on specific project documents or issues would also save the time of commentators. Clearance to proceed with loan negotiations may be accorded at MRM or SRC without the need to secure separate memo approval. It is envisaged that an appraisal mission and/or a further SRC would be optional and undertaken only if specifically required by either the MRM or the first SRC.¹⁹

30. Authority and accountability should be delegated among the vice president, the director general and the director levels (Appendix 2). It is proposed that authority be delegated as follows.

- (i) The vice president would approve project concepts including risk-based categorization and PPTA department allocations.²⁰ The vice president would also chair MRMs for "complex" projects.
- (ii) The director general would approve the PPTA allocations for each division in the department.²¹ The director general would also chair SRCs for "low-risk" projects and approve minutes of MRMs and SRCs, and utilization of summary procedure. The director general would also have the authority for loan and grant signing, and authority to delegate this function.
- (iii) The director would sign the design and monitoring framework for circulation and allocate PPTA resources to projects.

31. A BTOR should be submitted within 2 working days of the mission's return. To comply with the requirements of the NBP and to ensure mission findings are communicated in a concise and timely manner to all concerned with the project, BTORs would be submitted electronically,²² facilitating more effective communication between the department management and the project team. Currently, there are often numerous revisions to the text, which should be

¹⁹ If an appraisal mission is called for, loan negotiations should be completed as part of the appraisal mission where possible.

²⁰ Concurrently, the vice-president would approve the PPTA (if required) within his/her approval authority not covered in the project development facility.

²¹ In the course of circulation of the project concept paper, the director general would approve the small-scale PPTA (if required) within his/her approval authority not covered in the project development facility and the subprojects covered in the project development facility.

²² The practice of hard copy circulation can be maintained until completion of the system that enables electronic submission of BTORs, potentially as part of P3M.

avoided with the proposed electronic communication approach. BTORs should comprise only two pages of main text in an executive summary form, with reference to details available in appendixes (including memorandums of understanding and aide mémoire, where applicable).

32. Processing requirements for program loans should be streamlined. It is proposed that summary procedure for Board consideration be followed for program loans up to \$50 million (including sector development programs whose program component is up to \$50 million), provided other reasonable criteria for summary procedure are met. This proposal would require a revision to the summary procedure policy and hence Board approval. Other procedural requirements that are unique to program loans, including a requirement for a second MRM and concept clearance for each subprogram, would be discontinued.

33. Project processing should be concluded upon loan effectiveness. To maintain the focus on timely loan delivery, the milestone for the operational department's completion of processing should be loan or grant effectiveness, rather than Board approval. The divisional key results areas and staff performance development plans should reflect loan effectiveness as the target output. The achievement of project processing targets should be carefully monitored and properly rewarded.

4. Documentation Proposals

34. A single concept paper, covering both PPTA and the ensuing project, should be progressively developed into the RRP in the course of project processing. A simplified RRP (with a maximum of 10 pages) would present only the essential project information required for Board consideration—the problems/opportunities to be addressed, the solution to be supported by ADB and the impacts. Sector assessments,²³ detailed implementation arrangements in the form of the PAM, and other supporting documents would be detached from the RRP as standalone linked appendixes. An electronic project file should be implemented to support project processing and to be the repository²⁴ for all the information on the project.

5. Project Implementation Proposals

35. The PAM should serve as a manual²⁵ for project administration and should be the only document to describe implementation arrangements. The PAM would be developed early in the course of project delivery and fact-finding and would be reviewed by the MRM or SRC, during loan negotiations, and by inception, midterm, and other review missions. All information related to project implementation would be contained in the PAM²⁶ and cross-referenced (not repeated) in other key project documents, such as the RRP. Early preparation of the initial PAM would help to improve project design, as well as aiding project implementation. The following approaches need to be followed and incorporated into the PAM:

- (i) Project readiness filters covering major project implementation actions (e.g., government approvals, procurement and resettlement) need to be used more actively and consistently (para. 12). A project checklist should be tailored to the

²³ See ADB. 2009. *Enhancing Knowledge Management Under Strategy 2020: Plan of Action for 2009–2011*. Manila.

²⁴ For further information on the proposed electronic knowledge repository, see ADB. 2009. *Country Partnership Strategy: Responding to the New Aid Architecture—Report by the Country Partnership Strategy Working Group*. Manila.

²⁵ Project administration memorandum is proposed to be renamed project administration manual.

²⁶ In the case of a program loan, the development policy letter and policy matrix presented as part of the RRP should specify required actions in the form of reform implementation and the PAM would be optional.

design of the project and the capacity of the executing agency. Such checklists would help prevent project start-up delays and enable early disbursement.

- (ii) Country and project teams should strive to harmonize government and ADB business processes. Such initiatives have already been undertaken in a number of DMCs (e.g., Viet Nam).

36. PPTA resources should be mobilized to support pre-implementation works. Currently, a PPTA consultant's work is largely focused on project feasibility studies, with little emphasis on preparations for the early phase of loan implementation. Weak capacity on the part of the executing agency is a common cause for project start-up delays and to facilitate project implementation, the scope of PPTAs should include pre-implementation works, wherever feasible and this should be reflected in the terms of reference for consultants.

6. Lending Modality Enhancements

37. ADB should review its lending instruments. First, a new results-based budget support instrument would enhance results-orientation by providing financing upon completion of project implementation milestones. Second, greater use should be made of supplementary financing, particularly for follow-on projects. The most recent review of the policy on supplementary financing calls for enhancement of its implementation, so as to incorporate lessons learned.²⁷ A policy update will be submitted for consideration of Management and the Board in early 2010.

VI. IMPACT OF REFORMS

38. Each proposed reform aims to improve or preserve quality-at-entry and shorten loan delivery time. It is expected that with the implementation of the proposed reforms loan delivery time up to Board approval could be reduced from 24 months to 12 months. It is further expected that the reforms could reduce the time from Board approval up to first disbursement from an average of 12 months to 6 months. It is anticipated that the proposed reforms could reduce the human resource requirements per loan by around 20% from current levels.

VII. IMPLEMENTATION

39. Upon Management approval of the proposals presented in Section V, applicable operations manual (OM) sections and project administration instructions will be amended. In particular, revisions to OM Section D11 on sovereign loan processing will be prioritized to ensure the implementation of the streamlined business processes from January 2010 in a phased manner. The reforms relating to the establishment of a project development facility and new lending instruments require further design and consideration and, if assessed feasible, these will be implemented in a subsequent phase. Briefing sessions on the streamlined business processes will be organized to inform staff of the proposed reforms. The Strategy and Policy Department will monitor implementation of the streamlined business processes.

40. A revision to the summary procedure for program loans would require Board approval and a revised policy document will be prepared for Board consideration.

²⁷ ADB. 2005. *A Review of the Policy on Supplementary Financing: Addressing Challenges and Broader Needs*. Manila.

BUSINESS PROCESSES REFORMS AT OTHER MULTILATERAL DEVELOPMENT BANKS

1. The World Bank launched a reform of its investment lending in 2009. It is exploring the introduction of risk-based differentiation of loan processing requirements and standardization of the methodology to assess various risks to development. It is also trying to enhance loan implementation by increasing the financial and human resources allocated to project administration relative to that for processing new loans.
2. The Inter-American Development Bank (IDB) has a long list of investment lending instruments, which provides significant flexibility to its clients and staff. One instrument of potential interest is a results-based lending scheme, which was adopted by IDB in 2006. While the IDB instrument has some issues (e.g., disbursements are based not only on development results but on financial expenditures, as for conventional investment lending), it can be adapted to suit ADB's conditions. The World Bank is planning to adopt a similar instrument as part of its investment lending reform.
3. IDB has successfully cut loan processing time by half (from 18 months–2 years to 7–10 months) following the streamlining of business processes after its 2007 reorganization. This streamlining included deferring project designing works to the loan implementation phase, simplifying documentation (project documents have been reduced from 30 pages to 15 pages, and the concept paper from 15 pages to 5 pages), and rationalizing IDB's multi-committee review processes. IDB is also mainstreaming project administration by trying to ensure continuity of the loan processing officers throughout the administration phase.
4. Most of the European Bank for Reconstruction and Development's (EBRD's) loans are nonsovereign, and its business processes are not comparable to ADB's business processes for sovereign operations. Nonetheless, generally speaking for sovereign operations, loan processing by EBRD is considerably quicker than that by ADB.
5. The present loan processing requirements of these multilateral development banks are presented in Table A1.

TABLE A1: PRESENT LOAN PROCESSING REQUIREMENTS OF ADB AND OTHER MULTILATERAL DEVELOPMENT BANKS

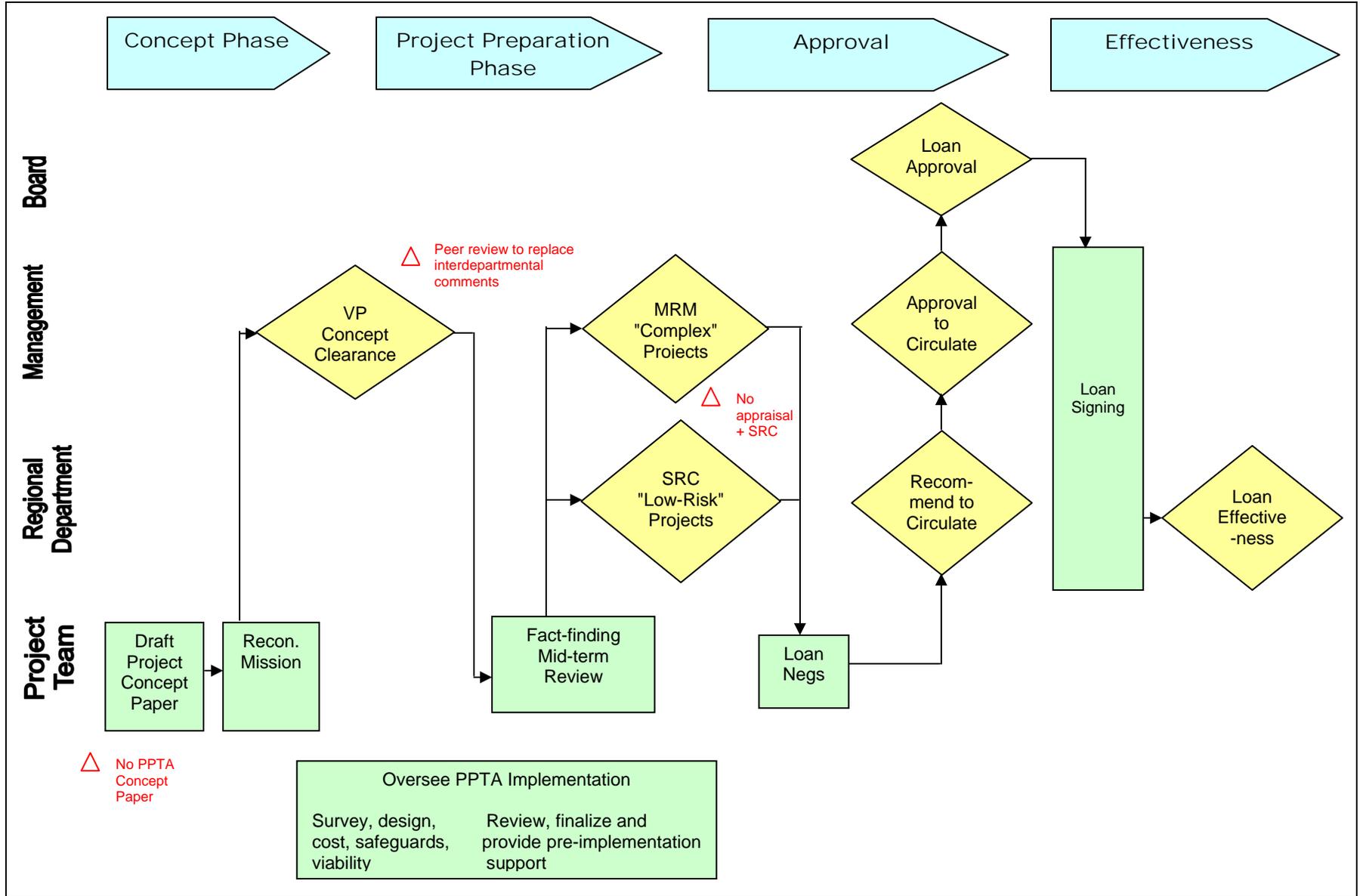
Item	ADB	EBRD	IDB	World Bank
Documentation	Concept paper PID MOU or aide memoire RRP (up to 60 pages, including 25 pages of main text) PAM Loan agreement	Project concept Mandate letter Basis business deal (including term sheet) Project summary document A written report to the Board regarding the proposal, together with recommendations.	PP POD LP/PAL (up to 12 pages plus annexes) LRP Loan contract.	PID PIP Pre-appraisal package Aide memoire SAR MOP Legal documents Status of loan negotiations Statutory committee report
Review	Concept paper meeting Interdepartmental review MRM SRC (or second MRM)	The Ops Com approves the concept and undertakes a final review	Quality and risk review gathers bank-wide comments on project proposal Committees, including OPC Vice presidencies of countries and sectors approve each key step (PP, POD/LP at OPC, LRP).	PID peer review Peer and LEG review of the pre-appraisal package SAR/MOP review
Management Intervention	VP accords concept clearance VP chairs MRM VP authorizes loan negotiations President approves Board circulation.	The Ops Com consists of senior management from banking and finance	Management reviews and approves POD EVP decides to review LRP at OPC. President (or other senior officials) approves projects with IDB-administered funding with a value of \$750,000 or less, depending on the amount and type of the project	RVP to decide whether or not to convene RLC meeting RVP to authorize appraisal mission RVP to approve negotiations RVP to approve major change to project and loan documents RVP to approve Board circulation of the loan package.
Board Intervention	Board approves loans (full Board discussions, or summary procedure for amounts that do not exceed \$200 million)	Board approves projects	Board approves projects with IDB-administered financing exceeding \$750,000).	Advice to ED concerned on loan negotiations Advice to the Board on status of negotiations Final approval (regular procedure for projects that are large relative to the economy or the public investment program or to the

Item	ADB	EBRD	IDB	World Bank
				bank's lending program to the country; streamlined procedures for other projects)
Lending Instruments Other than Conventional Investment Loans	Sector lending Program lending Sector development program Financial intermediation loan Emergency assistance loan Multitranches financing facility	Not applicable	Loans for multiple works program Global credit loans Time-slice operations CCLIPS PDL ILs MLs Sector facilities PBL Hybrid loans Emergency loans (including emergency reconstruction facility and disaster prevention sector facility)	Rapid response and emergencies Financial intermediary lending Development policy lending

ADB = Asian Development Bank, CCLIPS = conditional credit lines, EBRD = European Bank for Reconstruction and Development, ED = executive director, EVP = executive vice president, IDB = Inter-American Development Bank, ILs = innovation loans, LRP = loan results report, LP = loan proposal, MDB = multilateral development bank, MLs = multiphase loans, MRM = management review meeting, MOP = memorandum and recommendation of the President, Ops Com = operations committee, OPC = operations policy committee, PAL = proposal for loan approval, PAM = project administration memorandum, PBL = policy-based loans, PDL = performance driven loans, PID = project information document, PIP = project information plan, POD = proposal for operation development, PP = project profile, RLC = regional loan committee, RRP = report and recommendation of the President, RVP = regional vice president, SAR = staff appraisal report, SRC = staff review committee, VP = vice president.

Sources: (i) ADB. *Operations Manual* (available at <http://www.adb.org>); (ii) EBRD. 1990. *Agreement Establishing the European Bank for Reconstruction and Development*. Paris; (iii) EBRD website (<http://www.ebrd.com>); (iv) IDB. 2007. *The New Project Cycle: Principles and Guidelines*. Washington, D.C.; (v) IDB website (<http://www.iadb.org>); and (vi) World Bank. *Operational Manual* (available at <http://www.worldbank.org>).

LOAN DELIVERY FUNCTIONAL RESPONSIBILITIES



MRM = management review meeting, PPTA = project preparatory technical assistance, Recon. = reconnaissance, SRC = staff review committee, VP = vice president.

Source: Asian Development Bank staff.