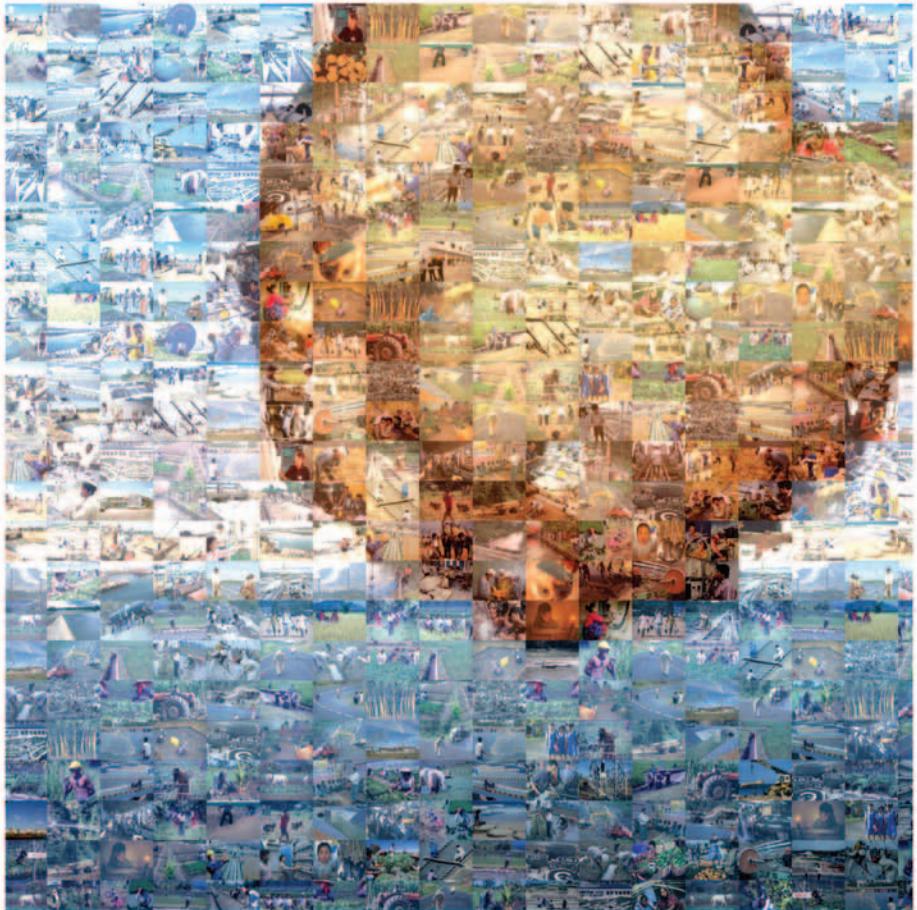




## ASIAN DEVELOPMENT BANK ANNUAL REPORT 2004





**ASIAN DEVELOPMENT BANK**  
ANNUAL REPORT 2004

© 2005 Asian Development Bank

Every effort has been made to ensure the accuracy of the data used in this publication. Variations in data in Asian Development Bank (ADB) publications often result from different publication dates, although differences may also come from source and interpretation of data. ADB accepts no responsibility from any consequence of their use.

The term "country," as used in the context of ADB, refers to a member of ADB and does not imply any view on the part of ADB as to the member's sovereignty or independent status.

In this publication, \$ refers to US dollars.

Also available in CD-ROM and can be downloaded from ADB's website at [www.adb.org/publications/](http://www.adb.org/publications/).

ISSN 306-8370

Printed in Singapore.

# MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS



Of the many momentous events of 2004, the most tragic was the massive tsunami in the Indian Ocean in the final week of the year. The toll in lost lives and property was staggering and will never be fully recorded. Overnight more than 2 million were added to the 1.9 billion poor in the region who live on less than \$2 a day. Although our best efforts can never compensate the survivors for their pain, suffering, and loss of beloved family members and friends, the Asian Development Bank (ADB) and its partners are determined to replace devastation and

despair with hope and confidence in the future while continuing to pursue our vision of freeing all of Asia and the Pacific from poverty.

Immediately following the disaster, ADB and its partners, the World Bank, the Islamic Development Bank, the United Nations, and the Japan Bank for International Cooperation, sent teams of experts to assess the extent of damage and to develop plans for rehabilitation and reconstruction. ADB's financial contribution was initially set at \$325 million. In

the months following the tsunami, ADB substantially increased its financial commitment and continued to work with its partners to address recovery needs in India, Indonesia, Maldives, and Sri Lanka. ADB established the Asian Tsunami Fund comprising \$600 million in grant resources for reconstruction efforts and identified a further \$175 million in funding from ongoing projects and programs.

The challenges facing ADB and its partners in these tsunami-affected countries are unprecedented. It is not simply a question of replacing infrastructure. Restoring the livelihoods of some of the world's poorest will be an equally complex task.

ADB's response to the tsunami was guided by the new Disaster and Emergency Assistance Policy. Approved in 2004, it emphasizes that rehabilitation after disasters involves more than infrastructure and stresses that capacity building and institutional strength to address disasters both before and after they occur must be central to ADB's assistance.

The tsunami response served to demonstrate ADB's capacity to act swiftly and effectively in times of crisis. This was also evident in our response to the avian flu outbreak in partnership with the World Health Organization, the Food and Agriculture Organization and other agencies and in our proactive approach to post-conflict reconstruction activities in Afghanistan, Sri Lanka, and Timor-Leste.

Several initiatives adopted in 2004 will allow ADB to continue to enhance its development effectiveness. ADB refined its poverty reduction strategy to achieve greater results. Integral to this is ADB's commitment to managing for development results. The reform agenda inaugurated in 2004 is grounded in the managing for development results framework and commits ADB to key reform initiatives to reinforce its capabilities to help its developing member countries achieve results.

The year also saw notable progress in other areas. The new accountability mechanism became fully operational, and the Operations Evaluation Department began reporting directly

to the Board of Directors. The successful replenishment of the Asian Development Fund provided \$7 billion in concessional resources to assist the poorest developing member countries reduce poverty over the next 4 years.

Other achievements of note included the adoption of the knowledge management framework, the approval of a new information systems and technology strategy, the review and revision of several other major strategies, the development of a public communications policy, and the approval of a new human resource strategy.

These and many other initiatives help ensure that ADB is an effective, dynamic development partner that is better able to assist its developing members meet the challenges of an ever-changing world. With the support and commitment of the staff and that of all our members and partners, it is my privilege to continue ADB's work in support of peace and prosperity for all in Asia and the Pacific.

---

#### ASIAN DEVELOPMENT BANK MANILA

12 April 2005

**Chairman of the Board of Governors**  
**Asian Development Bank**

Dear Mr. Chairman,

In accordance with Article 39 of the Articles of Agreement of the Asian Development Bank and Section 13 of its By-Laws, I submit to the Board of Governors *Annual Report 2004*, including a separate report on the activities of the Special Funds, which has been prepared under the direction of the Board of Directors. *Annual Report 2004* also includes the financial statements prescribed in Section 15 of the By-Laws.

Sincerely,

  
**HARUHIKO KURODA**  
 President and Chairman  
 Board of Directors

## MEMBERS, CAPITAL STOCK, AND VOTING POWER

(as of 31 December 2004)

	<b>Year of Membership</b>	<b>Subscribed Capital<sup>a</sup> (% of total)</b>	<b>Voting Power<sup>b</sup> (% of total)</b>		<b>Year of Membership</b>	<b>Subscribed Capital<sup>a</sup> (% of total)</b>	<b>Voting Power<sup>b</sup> (% of total)</b>
<b>REGIONAL</b>							
Afghanistan	1966	0.034	0.345		Austria	1966	0.344
Australia	1966	5.851	4.998		Belgium	1966	0.344
Azerbaijan	1999	0.450	0.677		Canada	1966	5.289
Bangladesh	1973	1.032	1.143		Denmark	1966	0.344
Bhutan	1982	0.006	0.322		Finland	1966	0.344
Cambodia	1966	0.050	0.357		France	1970	2.354
China, People's Republic of	1986	6.516	5.530		Germany	1966	4.374
Cook Islands	1976	0.003	0.320		Italy	1966	1.828
Fiji Islands	1970	0.069	0.372		Luxembourg	2003	0.344
Hong Kong, China	1969	0.551	0.758		The Netherlands	1966	1.037
India	1966	6.402	5.439		Norway	1966	0.344
Indonesia	1966	5.507	4.723		Portugal	2002	0.344
Japan	1966	15.781	12.942		Spain	1986	0.344
Kazakhstan	1994	0.816	0.970		Sweden	1966	0.344
Kiribati	1974	0.004	0.321		Switzerland	1967	0.590
Korea, Republic of	1966	5.094	4.393		Turkey	1991	0.344
Kyrgyz Republic	1994	0.302	0.559		United Kingdom	1966	2.065
Lao People's Democratic Republic	1966	0.014	0.329		United States	1966	15.781
Malaysia	1966	2.754	2.520				12.942
Maldives	1978	0.004	0.321				
Marshall Islands	1990	0.003	0.320				
Micronesia, Federated States of	1990	0.004	0.321				
Mongolia	1991	0.015	0.330				
Myanmar	1973	0.551	0.758				
Nauru	1991	0.004	0.321				
Nepal	1966	0.149	0.436				
New Zealand	1966	1.553	1.560				
Pakistan	1966	2.203	2.080				
Palau	2003	0.003	0.320				
Papua New Guinea	1971	0.095	0.393				
Philippines	1966	2.409	2.245				
Samoa	1966	0.003	0.320				
Singapore	1966	0.344	0.593				
Solomon Islands	1973	0.007	0.323				
Sri Lanka	1966	0.586	0.787				
Taipei, China	1966	1.101	1.199				
Tajikistan	1998	0.290	0.549				
Thailand	1966	1.377	1.419				
Timor-Leste	2002	0.010	0.325				
Tonga	1972	0.004	0.321				
Turkmenistan	2000	0.256	0.522				
Tuvalu	1993	0.001	0.319				
Uzbekistan	1995	0.681	0.862				
Vanuatu	1981	0.007	0.323				
Viet Nam	1966	0.345	0.594				
<b>Subtotal Regional</b>		<b>63.241</b>	<b>64.878</b>				
<b>NONREGIONAL</b>							
Austria	1966	0.344	0.593				
Belgium	1966	0.344	0.593				
Canada	1966	5.289	4.549				
Denmark	1966	0.344	0.593				
Finland	1966	0.344	0.593				
France	1970	2.354	2.200				
Germany	1966	4.374	3.817				
Italy	1966	1.828	1.780				
Luxembourg	2003	0.344	0.593				
The Netherlands	1966	1.037	1.147				
Norway	1966	0.344	0.593				
Portugal	2002	0.344	0.593				
Spain	1986	0.344	0.593				
Sweden	1966	0.344	0.593				
Switzerland	1967	0.590	0.790				
Turkey	1991	0.344	0.593				
United Kingdom	1966	2.065	1.970				
United States	1966	15.781	12.942				
<b>Subtotal Nonregional</b>		<b>36.759</b>	<b>35.122</b>				
<b>TOTAL</b>		<b>100.000</b>	<b>100.000</b>				

Note: Figures may not add due to rounding. For other details, see tables on pages 128 and 129.

a Subscribed capital refers to a member's subscription to shares of the capital stock of ADB.

b The total voting power of each member consists of the sum of its basic votes and proportional votes. The basic votes of each member consist of such number of votes as results from the equal distribution among all members of 20% of the aggregate sum of the basic votes and proportional votes of all members. The number of proportional votes of each member is equal to the number of shares of the capital stock of ADB held by that member.

## THE RECORD

(amounts in \$ million)

	1966–2004	2001	2002	2003	2004
<b>OPERATIONAL ACTIVITIES</b>					
<b>TOTAL LENDING (amount)</b>	<b>110,298</b>	<b>5,339<sup>a</sup></b>	<b>5,658</b>	<b>6,085</b>	<b>5,293</b>
Number of Projects <sup>b</sup>	1,879	60	70	66	64
<b>Ordinary Capital Resources (OCR) Loans (amount)</b>	<b>80,263<sup>a</sup></b>	<b>3,977<sup>a</sup></b>	<b>4,008</b>	<b>4,706</b>	<b>4,051<sup>a</sup></b>
Number of Loans	1,062	30	35	37	33
Disbursements (amount)	52,879	2,850	3,067	2,688	2,508
<b>Asian Development Fund (ADF) Loans (amount)</b>	<b>30,035</b>	<b>1,361</b>	<b>1,650</b>	<b>1,379</b>	<b>1,242</b>
Number of Loans	1,065	46	53	47	47
Disbursements (amount)	20,871	1,024	1,136	1,128	1,055
<b>A. Government and Government-Guaranteed Loans (amount)</b>	<b>108,387</b>	<b>5,301</b>	<b>5,548</b>	<b>5,918</b>	<b>4,947</b>
Number of Projects <sup>b</sup>	1,791	57	67	62	58
<b>OCR Loans (amount)</b>	<b>78,366</b>	<b>3,940</b>	<b>3,898</b>	<b>4,539</b>	<b>3,705</b>
Number of Loans	975	26	32	33	27
Disbursements (amount)	51,652	2,799	3,011	2,575	2,399
<b>ADF Loans (amount)</b>	<b>30,021</b>	<b>1,361</b>	<b>1,650</b>	<b>1,379</b>	<b>1,242</b>
Number of Loans	1,060	46	53	47	47
Disbursements (amount)	20,856	1,024	1,136	1,128	1,055
<b>B. Private Sector Loans (amount)</b>	<b>1,910</b>	<b>38</b>	<b>110</b>	<b>167</b>	<b>347</b>
Number of Projects <sup>b</sup>	88	4	3	4	6
<b>OCR Loans (amount)</b>	<b>1,896<sup>c</sup></b>	<b>38</b>	<b>110</b>	<b>167<sup>c</sup></b>	<b>347</b>
Number of Loans	87 <sup>c</sup>	4	3	4 <sup>c</sup>	6
Disbursements (amount)	1,226	51	55	113	109
<b>ADF Loans (amount)</b>	<b>14</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Number of Loans	5	—	—	—	—
Disbursements (amount)	14	—	—	—	—
<b>EQUITY INVESTMENT<sup>c</sup> (amount)</b>	<b>925</b>	<b>30</b>	<b>36</b>	<b>36</b>	<b>185</b>
Number of Investments	128	3	4	2	12
<b>EQUITY UNDERWRITING (amount)</b>	<b>40</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Number of Commitments	6	—	—	—	—
<b>TECHNICAL ASSISTANCE<sup>d, e</sup> (amount)</b>	<b>2,586</b>	<b>144</b>	<b>179</b>	<b>175</b>	<b>197</b>
Number of Projects	5,658	253	323	313	323
<b>COFINANCING<sup>f</sup> (amount)</b>	<b>42,986</b>	<b>1,322</b>	<b>2,805</b>	<b>2,563</b>	<b>2,441</b>
Number of Projects	669	25	36	28	33
<b>GUARANTEES</b>					
Political Risk Guarantee (amount)	713	—	382 <sup>g</sup>	70	10
Number of Projects	8	—	3	1	1
Partial Credit Guarantee (amount)	2,449	90	500	170	65
Number of Projects	16	1	1	2	1
<b>RESOURCES</b>					
<b>Ordinary Capital Resources</b>					
Authorized Capital ( <i>at end of period</i> )	54,162	43,834	47,288	51,997	54,162
Subscribed Capital ( <i>at end of period</i> )	54,162	43,628	47,234	51,997	54,162
Borrowings ( <i>gross</i> )	55,323	1,607	6,145	4,141	1,629
Outstanding Debt ( <i>at end of period</i> )	24,212	24,813	26,324	26,359	24,212
Ordinary Reserve ( <i>at end of period</i> )	8,865	7,812	8,470	8,892	8,865
Special Reserve ( <i>at end of period</i> )	190	183	184	186	190
Gross Income	32,808	2,239	2,060	1,740	1,379
Net Income after Appropriation of Commissions/ Guarantee Fees to Special Reserve	11,373	862	978	436	427
<b>Special Funds Resources</b>					
Asian Development Fund Total Resources ( <i>at end of period</i> )	29,571	19,887	22,853	26,759	29,571
Technical Assistance Special Fund Total Resources ( <i>at end of period</i> ) <sup>h</sup>	1,062	911	920	1,006	1,062
Japan Special Fund					
Regular and Supplementary Contributions ( <i>at end of period</i> ) <sup>i</sup>	877	814	836	853	877
Asian Currency Crisis Support Facility <sup>i</sup>	241	241	241	241	241
ADB Institute Special Fund Total Resources ( <i>at end of period</i> ) <sup>i</sup>	96	61	71	83	96

<sup>a</sup> Data not applicable.<sup>b</sup> Totals may not add due to rounding.<sup>c</sup> Projects with multiple loans are counted once. Cumulative number of projects excludes supplementary loans.<sup>d</sup> Adjusted to exclude terminated loans.<sup>e</sup> Comprising technical assistance grants funded by ADB and other sources. Regional technical assistance projects included.<sup>f</sup> Adjusted to reflect changes in technical assistance amounts and number of projects.<sup>g</sup> Adjusted to reflect changes in cofinancing arrangements.<sup>h</sup> Adjusted to reflect actual commitments.<sup>i</sup> Figures revised to include other resources and transfers to the Asian Development Fund.<sup>j</sup> Figures represent contributions.

## CONTENTS

<b>1</b>	<b>2004 IN REVIEW: BOARD OF DIRECTORS' REPORT</b>
2	New and Revised Policies and Procedures
5	Development Partnerships
6	Governing Structure
10	Financing Operations
<b>16</b>	<b>SPECIAL THEME: THE CHANGING FACE OF THE MICROFINANCE INDUSTRY</b>
	<b>Building Financial Systems for the Poor</b>
<b>31</b>	<b>PART 1: INSTITUTIONAL EFFECTIVENESS</b>
32	Managing for Development Results
34	Accountability
36	Knowledge Management
37	Achieving Development Impact
44	Human Resources and Budget
46	Administration
<b>48</b>	<b>PART 2: POVERTY REDUCTION</b>
50	Strategic Priorities
57	Thematic Priorities
66	Regional Perspectives
<b>96</b>	<b>PART 3: FINANCIAL STATEMENTS</b>
97	Management's Discussion and Analysis
115	Financial Statements
<b>184</b>	<b>PART 4: ANNEXES AND APPENDIXES</b>
185	Statistical Annex
230	Appendices
<b>239</b>	<b>ADB CONTACT ADDRESSES</b>

## ABBREVIATIONS

ACCSF	Asian Currency Crisis Support Facility	LTSF	Long-Term Strategic Framework
ADB	Asian Development Bank	MBL	market-based loan
ADF	Asian Development Fund	MDB	multilateral development bank
ASA	Association for Social Advancement	MDG	Millennium Development Goal
ASEAN	Association of Southeast Asian Nations	MfDR	managing for development results
ATM	automatic teller machine	NGO	nongovernment organization
BCM	Business Continuity Management	NPRS	national poverty reduction strategy
BCRC	Board Compliance Review Committee	OAG	Office of the Auditor General
CAI	Clean Air Initiative	OAS	Office of Administrative Services
CAP	country assistance plan	OCR	ordinary capital resources
CAPE	country assistance program evaluation	OCRP	Office of the Compliance Review Panel
CAREC	Central Asia Regional Economic Cooperation	OECD-DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
CD	capacity development	OED	Operations Evaluation Department
CEA	country environment analysis	OSPF	Office of the Special Project Facilitator
CFA	channel financing arrangement	PMCL	pool-based multicurrency loan
CGA	country governance assessment	PPR	project performance report
CGAP	Consultative Group to Assist the Poor	PRC	People's Republic of China
CRP	Compliance Review Panel	PRG	political risk guarantee
CSP	country strategy and program	PRS	poverty reduction strategy
CSPU	country strategy and program update	RCSP	regional cooperation strategy and program
DEC	Development Effectiveness Committee	REMU	Regional Economic Monitoring Unit
DMC	developing member country	RM	resident mission
ECG	Evaluation Cooperation Group	RSDD	Regional and Sustainable Development Department
FAS	Financial Accounting Standards	SAARC	South Asian Association for Regional Cooperation
GAD	gender and development	SES	special evaluation study
GAP	gender action program	SME	small and medium-sized enterprise
GEF	Global Environment Facility	SPF	Special Project Facilitator
GHG	greenhouse gas	SPRU	Results Management Unit within the Strategy and Policy Department
GMS	Greater Mekong Subregion	TASF	Technical Assistance Special Fund
GDP	gross domestic product	TPR	technical assistance performance report
HR	human resource	UN	United Nations
IAE	internal administrative expense	UNDP	United Nations Development Programme
ICT	information and communication technology	UNEP	United Nations Environment Programme
ISTS II	Toward E-Development in Asia and the Pacific: A Strategic Approach for Information and Communication Technology	UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
IT	information technology	UNESCO	United Nations Educational, Scientific and Cultural Organization
JFICT	Japan Fund for Information and Communication Technology	UNICEF	United Nations Children's Fund
JFPPT	Japan Fund for Public Policy Training	UNIFEM	United Nations Development Fund for Women
JFPR	Japan Fund for Poverty Reduction	US	United States
JSF	Japan Special Fund	WHO	World Health Organization
JSP	Japan Scholarship Program	WTO	World Trade Organization
Lao PDR	Lao People's Democratic Republic		
LIBOR	London interbank offered rate		

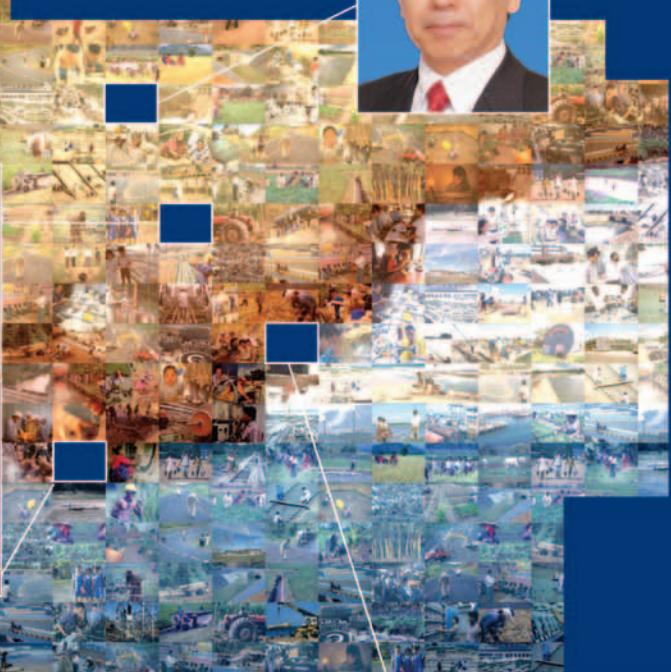
# 2004 IN REVIEW: BOARD OF DIRECTORS' REPORT



President Haruhiko Kuroda



*Top (left to right): Rolf Eckermann, Emile Gauvreau, Agus Haryanto, Chol-Hwi Lee;  
Bottom (left to right): David Taylor, Geert Jan Engelsman, Richard Stanley, Batir Mirbabayev*



*Top (left to right): Maria Magpili-Jimenez, Michele Miari Fulcis, Masaki Omura, Ashok Saikia; Bottom (left to right): M. Akram Malik, Niklaus Zingg, Masaichiro Yamanishi, M. Saiful Islam*



*Top (left to right): Stephen Sedgwick, Paul W. Speltz, Chaiyuth Sudthitanakorn, Xiaosong Zheng; Bottom (left to right): Richard Moore, Troy Wray, Sein Tin, Xiaolong Mo*

As the development community works to achieve the Millennium Development Goals (MDGs) by 2015 (see page 49), it focuses on performance, development effectiveness, and the need for management strategies to improve products, services, results, and impact—that is, managing for development results (MfDR). This is crucial in Asia and the Pacific where more than half the world's poor reside and where the effects of the devastating tsunami in December are only beginning to be felt and addressed. In 2004, the Asian Development Bank (ADB) therefore dedicated itself to improving the management of its resources and the impact of its operations.

In November of 1999, ADB adopted a poverty reduction strategy (PRS) that comprised three pillars—pro-poor, sustainable economic growth; inclusive social development; and good governance. A review of the PRS that began at the end of 2003 concluded that the pillars are still relevant but recommended that country support be more closely aligned with national poverty reduction strategies, that monitoring poverty should be more comprehensive, and that monitoring performance should shift to MfDR in developing member countries (DMCs) and should be closely linked to the MDGs.

As a result, all new country strategies and programs (CSPs) will have a results framework that includes monitoring and that links the constraints to poverty reduction identified in country poverty assessments with the proposed program, desired outcomes, and expected outputs with indicators for each relevant pillar, sector, and thematic priority. To complement the results framework, links between project outputs and sector outcomes will be emphasized in sector road maps. The CSP for Nepal prepared in 2004 was the first to follow the new format.

Recommended management reforms include (i) establishing an MfDR unit; (ii) developing strategic and operational processes/procedures for MfDR; (iii) mainstreaming MfDR throughout ADB; (iv) improving human resource management systems and processes and implementing the new human resource (HR) strategy; (v) aligning operational policies, strategies, and approaches with the PRS review and the Long-Term Strategic Framework 2001–2015 (LTSF); and (vi) making capacity development a thematic priority. In line with the overall MfDR framework, a comprehensive, results-oriented monitoring and evaluation system will be established at the project, sector and thematic, country, and institutional levels.

To support adding capacity development as a thematic priority, the knowledge management framework adopted in June aims

to put ADB's considerable knowledge into a readily usable form that is easily accessible to anyone who can log onto its website. An extensive capital investment in information systems and technology (information systems and technology strategy for 2004–2009) will facilitate implementation.

To remain relevant in a region that is rapidly changing and to achieve greater development impact, ADB adopted a reform agenda on 14 June 2004 guided by the LTSF and the PRS review. In fact, the internal changes and realignment outlined in the review are the core of the agenda. It is subtitled, "Development Effectiveness: Achieving Results Together." The agenda specifies 19 interrelated initiatives that will enhance ADB's capability to manage its resources and activities to ensure its products and services contribute to desired development outcomes (see box on page 4).

Progress in 2004 was encouraging. Three initiatives were completed: strengthening performance-based allocations, establishing a results management unit, and conducting the independent assessment of the 2002 reorganization of ADB. Twelve of the remaining 16 will be completed in 2005, and the rest will be implemented over the next 3 years pending the allocation of appropriate financial resources and staff. In addition, the new HR strategy was approved; its implementation is crucial to the success of the reform agenda.

## **NEW AND REVISED POLICIES AND PROCEDURES**

To meet the needs of ADB's development partners, the Board of Directors approved several policy, financial, and administrative papers in 2004 and reviewed a number of others.

In June, ADB approved a comprehensive disaster and emergency assistance policy that will provide rehabilitation and reconstruction assistance as well as assist DMCs with prevention of, preparation for, and mitigation of the impact of future disasters. It was developed after extensive consultations with specialized agencies, civil society, nongovernment organizations, and DMC governments. The integrated policy framework (i) focuses on protective strategies; (ii) adopts a systematic approach to disaster management including natural and man-made disasters and the aftermath of conflicts; (iii) mainstreams disaster risk management as an integral part of development; (iv) strengthens partnerships among development and specialized organizations to improve the effectiveness of emergency aid as no single agency can provide all the resources needed to cope

## PROFILE

The Asian Development Bank was established in 1966 through a multilateral agreement ratified by 31 members. ADB's current membership totals 63 of which 45 are in Asia and the Pacific. ADB has its headquarters in the Philippines and offices worldwide including resident missions in Afghanistan, Azerbaijan, Bangladesh, Cambodia, People's Republic of China, India, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Pakistan, Papua New Guinea, Sri Lanka, Tajikistan, Thailand, Uzbekistan, and Viet Nam. ADB also maintains a country office in the Philippines; a regional mission for the South Pacific in Vanuatu; and a special office in Timor-Leste. It has representative offices for Europe in Frankfurt, Germany; for Japan in Tokyo; and for North America in Washington, DC, United States. There is a subregional office for the Pacific in Suva, Fiji Islands and a liaison and coordination office for the Pacific in Sydney, Australia.

ADB's vision is an Asia and Pacific free of poverty with better living conditions and quality of life for all its inhabitants. The strategic agenda focuses on pro-poor, sustainable economic growth; inclusive social development; and governance for effective policies and institutions with thematic priorities of capacity development, environmental sustainability, gender and development, private sector development, and regional cooperation and integration (*for more on ADB, see [www.adb.org](http://www.adb.org)*).

with disasters; (v) uses resources more efficiently and effectively to better support pre- and postdisaster activities; (vi) improves organizational arrangements within ADB for planning, implementing, and communicating effectively on disaster and emergency assistance; and (vii) highlights that rehabilitation involves more than replacing and upgrading infrastructure. The policy further states that efforts will be made to decrease the time required to approve rehabilitation projects so assistance will be timely and effective. In line with the policy, immediately following the tsunami disaster on 26 December, ADB created an interdepartmental task force to coordinate rapid assistance.

Also in June, ADB approved *Toward E-Development in Asia and the Pacific: A Strategic Approach for Information and Communication Technology* (ISTS II) to provide information systems that support ADB's core business activities, deliver the knowledge management framework, institutionalize the partnership between ADB operations and information technology (IT), and develop IT services that are secure and reliable. ISTS II

was formulated with guidance from the IT Steering Committee chaired by the ADB Vice-President for finance and administration. The committee monitored the development of the strategy and determined priorities and sought input from various stakeholders, including the Board of Directors.

To realize the recommendations made in the PRS review and to effectively implement the reform agenda and the knowledge management framework, in September ADB approved the HR strategy. The goals are (i) to improve working and hiring conditions and opportunities for career development for staff at headquarters and in resident missions; (ii) to establish an effective system to manage and reward performance; (iii) to strengthen leadership and accountability; and (iv) to improve channels of communication.

The Board of Directors endorsed in November *Responding to the Priorities of the Poor 2005–2009: A Pacific Strategy for the Asian Development Bank*. The strategy is unique at ADB in that it covers all operations of the Pacific department. The strategy adopted the two principal priorities of the poor as identified in participatory assessments of hardship and poverty: opportunities for cash incomes and improved access to basic social services. Strategic objectives and key result areas are consistent with ADB's PRS and its commitment to the MDGs. The focus is on improving the environment for the private sector, reducing costs and inefficiencies in the economy, providing basic social services, and achieving good governance.

ADB also reviewed its 1994 policy on confidentiality and disclosure of information and its 1994 information policy and strategy and prepared a new policy on public communications in 2004. Under the new policy, which will be reviewed by the Board of Directors in 2005, ADB will make more information about its operations publicly available. In addition to updating practices of disclosing and sharing information so that they will be better suited to global communications, the policy reinforces ADB's standing as an accountable, transparent public institution that actively seeks to share its considerable knowledge. ADB's stakeholders from the public, private, and nonprofit sectors as well as its Board of Directors, Management, and staff actively participated in writing the policy through extensive consultations throughout the year. Staff discussed the policy with the public in Bangalore; Beijing; Bishkek; Dhaka; Hanoi; Jakarta; London; New Delhi; Ottawa; Suva; Sydney; Tokyo; and Washington, DC in addition to meeting with advocacy nongovernment organizations on several occasions at ADB headquarters.

The Board of Directors reviewed an information paper on the implementation of the 2001 water policy which showed encouraging progress in improving water services, conservation, participation, and governance. Modest progress was made in introducing integrated water resource management and in improving regional cooperation, and limited progress was made in promoting a national focus on water sector reforms. Exemplary or good practice in implementing the water policy was shown in 54% of water loans but in only 20% of technical assistance projects. A comprehensive review of policy implementation will be conducted in 2005.

## **Internal Initiatives**

ADB's focus on results and greater emphasis on impact and outcomes were evident in several of its internal initiatives.

A change in the reporting structure for the Operations Evaluation Department (OED) to allow for greater independence of the evaluation function took effect in 2004 when OED began reporting directly to the Board of Directors through the Development Effectiveness Committee (see [www.adb.org/OED/](http://www.adb.org/OED/)).

The accountability mechanism adopted at the end of 2003 became operational in 2004. The aim is to improve development effectiveness, project quality, and transparency in operations. Its two functions—consultation and compliance review—provide for problem solving and for reporting alleged violations of ADB policies and procedures, respectively.

The knowledge management framework adopted in June lays out five specific outputs for the next 4 years.

- The organizational culture of ADB will be more supportive of knowledge sharing. Staff will be empowered and encouraged to fully participate in implementing the framework.
- Knowledge products and services will be managed more effectively.
- Business processes and information technology will be updated. A special committee will work to improve access to information repositories, storage processes, and systems to make data searches less cumbersome. Another initiative is mapping expertise within ADB through a skill and knowledge database of staff and expanded consultant profiles. Tapping the knowledge of experienced colleagues will promote efficiency and add value to ADB operations.
- ADB staff will share knowledge through well-functioning “communities of practice.”
- Knowledge sharing with external stakeholders and other parties will be expanded.

A new sector and thematic classification system took effect on 1 July. Classifying loans, projects, and technical assistance by sector and theme is important for tracking allocations of resources and the purpose and impact of operations. The classification ADB used before July 2004 was established in 1984 and was out of date. In June an interdepartmental working group updated the list to reflect the PRS and the LTSF. More than 2,000 loans and 5,300 technical assistance

---

## **THE REFORM AGENDA**

Together, the following 19 initiatives will enhance ADB's capability to manage its resources and activities to ensure its products and services contribute to desired outcomes. Three were completed in 2004, 12 will be achieved in 2005, and 4 will be implemented over the next 3 years. The Reform Coordination Committee established on 23 July 2004 coordinates implementation, monitors progress, and communicates with staff and stakeholders.

- Review the implementation of the private sector development strategy.
- Review the implementation of governance and anticorruption policies.

- Prepare a strategic approach for regional cooperation.
- Strengthen the performance-based allocation policy.
- Review the graduation policy.
- Review the medium-term strategy for 2001–2005.
- Review and recommend ways to improve modalities and approaches to meet the needs of countries borrowing from ordinary capital resources.
- Review and recommend ways to improve support for capacity development.
- Establish a results management unit.
- Design and implement an action plan for managing for development results.
- Implement the action plan for project performance management systems.
- Get an independent assessment of the 2002 reorganization.
- Increase the efficiency and innovativeness of products.
- Harmonize and align practices and procedures with developing member countries in agreed areas.
- Implement measures to alleviate bunching at the end of the year.
- Implement the action plan for the knowledge management framework.
- Prepare and implement a unified public communications policy.
- Implement the latest information systems and technology strategy.
- Formulate and implement a new human resource strategy.

activities approved since 1966 were then reclassified. The revised definitions of themes and sectors are broadly consistent with those used by the United Nations and the World Bank and enable comparison of resource allocation patterns.

The Business Continuity Management Steering Committee in conjunction with the Office of Administrative Services set up an in-country facility to minimize disruption to business operations and to reduce its impact. Continuity plans covering all operations will be developed and tested in 2005. The plans will guide operations from the initial declaration of a disaster or crisis through recovery and restoration of processes and systems. Establishing an offshore recovery facility will be evaluated.

## DEVELOPMENT PARTNERSHIPS

ADB continued to provide support for global partnerships to (i) enhance joint efforts with agencies such as the United Nations, other international finance institutions, and bilateral donors; (ii) contribute to global forums; and (iii) take part in combined efforts to develop indicators and other monitoring and evaluation instruments.

For more effective operations, ADB continued to delegate responsibility to the field with the opening of new resident missions in Baku, Azerbaijan and Bangkok, Thailand; a subregional office in Suva, Fiji Islands; and the establishment of a liaison and coordination office for the Pacific in Sydney, Australia.

During the Asian Development Fund (ADF) IX negotiations in 2003–2004, ADB outlined a systematic approach to implementing MfDR at the country and institutional levels and as part of a global partnership. This will mean greater selectivity, a stronger orientation toward results, better alignment with DMC priorities and systems, and greater cooperation with other agencies. Donors endorsed an ADF IX program of \$7 billion for 1 January 2005–31 December 2008 plus additional amounts for financing foregone interest on grants. This is significantly higher than the \$5.65 billion agreed during ADF VIII.

A cooperation fund in support of MfDR was established in July 2004 with an initial grant from Canada complemented by a contribution from the Netherlands. The fund totals about \$1.7 million and will be used to pilot small-scale DMC initiatives that promote results-based approaches and techniques in public sector management.

Indicative of its active engagement in regional and international issues was ADB's support for and participation in the following.

- ADB cosponsored two MfDR regional workshops: one in Bangkok with Japan and a second in Bishkek with the European Bank for Reconstruction and Development and the United Kingdom's Department for International Development.
- ADB chaired the Multilateral Development Bank Working Group on Managing for Development Results and cochaired the Organisation for Economic Co-operation and Development's—Development Assistance Committee Joint Venture on Managing for Development Results.
- ADB hosted a high-level meeting on health and environment with the World Health Organization and the United Nations Environment Programme with participation of key institutions from the 10 members of the Association of Southeast Asian Nations (ASEAN), People's Republic of China (PRC), Japan, Republic of Korea, and Mongolia.
- ADB established the Japan Fund for Public Policy Training (JFPPT) in March 2004 as a trust fund to enhance capacity building for public policy management in DMCs. The JFPPT program will focus on regional economies in transition. The aim is to arrange partnerships with local academic entities and to acquire assistance from world-class public policy institutions to jointly develop and conduct high quality training programs, primarily in local languages. The training program curricula should cover a wide range of public policy issues for government officials, including analytical skills in planning and implementing public economic policy. The Asian Development Bank Institute (ADB Institute) was designated to administer the JFPPT program. Viet Nam was selected for pilot activities. On 30 March 2004, Japan made an initial contribution to the trust fund in the amount of 905 million yen (\$8.58 million). In 2004, the JFPPT unit conducted two demonstration courses, entered into agreements with local institutions in Viet Nam, and began establishing a training facility in Hanoi.
- ADB established a trust fund to strengthen assistance to its DMCs in fighting money laundering and the financing of terrorism. The Cooperation Fund for Regional Trade and Financial Security Initiative was set up through initial contributions by the governments of Australia, Japan, and United States. The fund will support technical assistance to enhance port security (including airports, cargo ports, and containers) and to combat money laundering and financing of terrorism in developing countries.
- ADB joined the ASEAN+3 finance ministers and the ASEAN Deputy Secretary General in launching AsianBondsOnline, a

one-stop clearinghouse of information on the rapidly growing sovereign and corporate bond markets in the region. Supported by ADB and financed by the Government of Japan, AsianBondsOnline is part of the ASEAN+3 Asian Bond Markets Initiative, a cooperative effort to help develop mature bond markets in the region.

- ADB joined the United Nations Programme on HIV/AIDS (UNAIDS) in adopting a comprehensive response to HIV/AIDS in a report entitled "Asia-Pacific's Opportunity: Investing to Avert an HIV/AIDS Crisis." The report suggests that if prompt action is not taken, by the end of the decade 10 million more people could be infected with HIV, and the economic costs of the virus could have risen to \$17.5 billion annually. The result would be millions more people thrown into poverty. ADB has already earmarked \$140 million from its ADF as grant money for combating HIV.
- ADB and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) signed a revised memorandum of understanding in May that follows up on commitments they made at the Monterrey conference and Johannesburg summit to achieve the MDGs. The new, results-oriented agreement emphasizes regional cooperation, capacity development, protecting the environment, and poverty reduction.
- In response to the rapidly increasing number of road accidents, ASEAN and ADB initiated a regional road safety program with input and participation from a wide range of public and private sector stakeholders. The 10 members each prepared 5-year national road safety action plans and will implement them cooperatively. They also prepared a regional road safety strategy and action plan to monitor

implementation of the national plans, to develop capacity, and to provide training.

## GOVERNING STRUCTURE

ADB's highest policy-making body is its Board of Governors which comprises one representative from each ADB member. The Governors meet annually and elect the 12 members of the Board of Directors who serve 2-year terms. Each Director appoints an Alternate. The President is elected by the Board of Governors for a 5-year term and serves as Chairperson of the Board of Directors. The President manages ADB assisted by four Vice-Presidents and a Managing Director General. (*For a current list of Governors and Directors, see appendixes 2 and 3.*)

In August, ADB President Tadao Chino tendered his resignation. During his 6 years as President, Mr. Chino initiated and oversaw the adoption and implementation of policies and initiatives that will guide ADB's operations for many years to come. In 1999, ADB adopted poverty reduction as its overarching goal. Based on this strategy, negotiations to replenish the Asian Development Fund (ADF VIII) were successfully completed in 2000. That same year, ADB adopted a private sector development strategy aimed at fueling economic growth and creating more jobs. In 2001, ADB achieved another historic milestone with the adoption of its long-term strategic framework to guide directions and operations and to help its DMCs and the region achieve the MDGs by 2015. The reorganization of ADB in 2002, together with its resident mission policy, provided an effective institutional response to these objectives bringing ADB closer to its DMCs. The



successful completion of ADF IX negotiations in 2004 led to ADB's reform agenda which provides another framework for enhancing development effectiveness.

In November 2004, the Board of Governors unanimously elected Haruhiko Kuroda as ADB President to take office in February 2005. He was Special Advisor to the Cabinet of the Japanese Prime Minister and Japan's former Vice Minister of Finance for International Affairs.

The Board of Directors met formally on 43 occasions and held 30 informal meetings in 2004 including briefings, discussion seminars, and presentations. In their informal meetings, the Directors examined a range of issues, including regional cooperation, private sector development, gender action programs, and knowledge management.

## **Board Committees**

*For membership of the Board of Directors standing committees and working committee, see Appendix 4.*

### **Audit Committee**

The committee identified and reviewed a range of issues within its mandate representing a broad cross section of ADB operations and activities. These included ADB Institute and private sector operations focusing on internal controls, financial reporting, and internal and external audits. The decline in ordinary capital resources (OCR) net income due to loan prepayments was a concern.

The audit recommendation implementation report and the report of the independent auditors enabled the committee to monitor the effectiveness and efficiency of controls, including backup procedures, as part of the business continuity plan. Among other controls reviewed were measures taken to ensure accountability, cost-effectiveness, and authorization for mission travel. The committee also continued to monitor the implementation of Financial Accounting Standards (FAS) 133 and parallel reporting for derivative instruments in cooperation with multilateral development banks (MDBs) and independent auditors. Of particular significance was the need to assign fair values and to report embedded derivatives separately in compliance with FAS 133 and generally accepted accounting principles in the United States.

The committee oversaw the selection of outside auditors for 2005–2008 which entailed evaluating financial and technical proposals. PriceWaterhouseCoopers was reappointed.

The offices of the Auditor General, the Secretary, and the General Counsel and the committee reviewed the Audit Committee's terms of reference. In line with the priorities in other MDBs and with the reform agenda, the committee supported institution-wide coordination of risk management by establishing a focal point in a neutral department reporting to Management to be implemented early in 2005.

The committee also reviewed and endorsed the 2004 work program of the Office of the Auditor General (OAG), the audit recommendation implementation report, and the annual report of the Anticorruption Unit<sup>1</sup> of OAG with particular focus on staff accused of fraud and sanctions against firms and individuals.

### **Budget Review Committee**

Prior to 2004, the committee met once a year to review the annual budget proposal and once or twice a year to review special topics such as capital expenditure programs. To involve the committee more extensively in the budget, it met quarterly, attended a series of meetings in November reviewing the proposed budget, and met on an ad hoc basis to review and discuss issues with significant cost and budget implications. Another new procedure was the committee's review of the draft budget in November. Previously, members received the budget after it had been finalized. This change required early completion of the work program and budget framework and of budget preparation.

As the new accountability mechanism and OED now closely support functions of the Board of Directors, the committee decided that their expenses should be presented as sub-categories of the budget for the Board of Directors rather than as operational expenses. The committee also agreed that expenses in the three subcategories would not be fungible: any cost overruns can be met only from general contingencies.

Three special meetings were held to discuss the proposed information systems and technology strategy and capital expenditure requirements for 2004–2009. The deliberations facilitated the Board of Directors' approval of the strategy and investment proposal. In September, the committee reviewed the 2004 midyear budget review and recommended adopting a phased approach in implementing some form of activity-based costing. The committee also recommended approval of proposed 2005 budgets for internal administrative expenses and capital expenditures. The committee was updated on OCR and was informed that changes in loan terms and charges made to improve the competitiveness and marketability of ADB's

---

## SELECTED POLICY, FINANCIAL, AND ADMINISTRATIVE PAPERS CONSIDERED BY THE BOARD IN 2004

- Review of the Asian Development Bank's Income Planning Framework** *19 February*
- Cooperation with Japan—Japan Fund for Public Policy Training** *11 March*
- Review of the Asian Development Bank's Income Outlook and Allocation of 2003 Net Income** *12 April*
- Establishment of a Cooperation Fund in Support of Managing for Development Results** *23 April*
- Special Capital Budget Proposal—Rehabilitation of ADB's Headquarters Building and Enhancement of Security** *7 May*
- Disaster and Emergency Assistance Policy** *1 June*
- Global Environment Facility—ADB's Direct Access to GEF Resources Arrangements for Transfer of GEF Resources to ADB** *24 June*
- Information Systems and Technology Strategy and Capital Expenditure Requirements: 2004–2009** *28 June*
- Cooperation Fund for Regional Trade and Financial Security Initiative** *30 June*
- Review of the Asian Development Bank's Poverty Reduction Strategy** *2 July*
- Eighth Replenishment of the Asian Development Fund and Third Regularized Replenishment of the Technical Assistance Special Fund** *22 July*
- Cooperation with Italy—Technical Assistance Grant Fund** *7 September*
- Inspection Function: Arrangements Regarding Members of the Roster of Experts** *16 September*
- Human Resource Strategy** *27 September*
- Work Program and Budget Framework (2005–2007)** *8 October*
- Anticorruption Policy—Proposed Clarifications and Related Changes to Consulting and Procurement Guidelines** *11 November*
- Review of the Asian Development Bank's Policy on the Performance-Based Allocation of Asian Development Fund Resources** *10 December*
- Country Classification of Timor-Leste** *13 December*
- Borrowing Program for 2005** *16 December*
- Budget of the Asian Development Bank for 2005** *17 December*
- ADB Institute—Three-Year Rolling Work Program 2005–2007 and Budget for 2005** *17 December*
- Delegation of Approval Authority to Director General, Operations Evaluation Department for Certain Technical Related Recommendations** *17 December*
- 

products and prepayments affecting income levels in the short term had all been factored into income projections.

The committee reviewed the ADB Institute's work program and the proposed budget of \$14.4 million and met with the dean and the chief economist and representatives from the Regional Economic Monitoring Unit. The increase in resources allocated to capacity building and training was noted, and the need for further coordination among ADB's three research arms was stressed. The committee recommended approval of the ADB Institute's proposed 2005 budget.

### Inspection Committee

An inspection of the Chashma Right Bank Irrigation Project (Stage III) in Pakistan, previously authorized by the Board of Directors, commenced in December 2003 when a panel of four was drawn from the roster of experts. The panel submitted a draft report in April 2004 that was forwarded to Management, the relevant ADB Director, and the requesters for comment. Management contested a number of the panel's findings. The panel's final report was submitted to the inspection committee in June 2004. It held that ADB had breached a number of operational policies and procedures in the planning/implementation of the project and made recommendations, including one to bring the project back into compliance. The committee consulted Management and the relevant Director and prepared a report for the Board that outlined the process that had been followed, reported the views various parties had expressed to it about the panel's recommendations, and forwarded the panel's report to the Board with a recommendation<sup>2</sup> for approval. The committee further recommended that the Compliance Review Panel should monitor the implementation of the Board's decision under the new Accountability Mechanism. The Board accepted this recommendation in August 2004. The inspection committee then ceased to operate.

### Compliance Review Committee

The Board of Directors approved the new accountability mechanism in May 2003; it replaced the previous inspection function. The former inspection committee was restructured as the Board Compliance Review Committee (BCRC) when the mechanism took effect in December 2003 though the inspection committee continued to meet in 2004 to resolve an inspection that began in 2003. BCRC clears the Compliance Review Panel's proposed terms of reference and time frame for conducting compliance reviews and reviews the panel's draft reports on implementing remedial actions approved by the

Board before they are finalized by the Panel. The Office of the Compliance Review Panel acts as the secretariat to BCRC. BCRC met twice in 2004, once in March to review and approve operating procedures, and once in July to approve the report on its first 6 months of operation (to become its annual report).

### **Development Effectiveness Committee**

To enhance its independence and effectiveness, in 2004 OED began reporting directly to the Board of Directors through the Development Effectiveness Committee (DEC). OED now is fully responsible for the content and recommendations in its reports. Management's role changed from approving to responding to recommendations made in evaluations, and the Board of Directors, through DEC, is directly responsible for the quality and independence of evaluations and for monitoring Management action on recommendations.

In its new role, DEC supervised the selection of a director general for OED and with the President nominated a candidate for Board approval. For the first time, the committee reviewed OED's work program in a 3-year time frame (2005–2007). DEC submitted OED's 2005 budget for Board approval and encouraged OED to gradually increase and broaden its studies.

DEC discussed more country and sector OED evaluations (see *box at right*) in 2004 than in previous years, commended the increase in content in OED's two annual reports, and identified lessons for sustaining successful performance and for improving development effectiveness. The annual report to the Board of Directors included assessments of actions taken on committee recommendations for 2002–2003, the annual report on loan and technical assistance for 2003, and the annual review of evaluation activities in 2003. Evaluations of ADB operations in 2004 were judged to be both satisfactory and efficient.

The positive 5-year trend in the performance of public sector loans continued with the proportion of projects at risk in 2002–2003 significantly lower than that in 1999–2001 though there was also room for improvement. The committee recommended (i) pilot-testing annual reporting of an aggregate, results-based measure of the portfolio's performance; (ii) gaining a better understanding of reduced net resource transfers; (iii) setting mandatory project readiness criteria to reduce delays; (iv) specifying measures of effectiveness in private sector operations; (v) accelerating delegation to resident missions; (vi) allowing more flexibility in budget and staff reallocation to increase supervision of projects at risk; and

(vii) making project implementation schedules more realistic. The committee once again recommended that Management specify a concrete action plan for improving oversight of the technical assistance portfolio, including adopting a more strategic, results-based approach to resource allocation, and placed high priority on recommendations made in OED's annual review to make technical assistance evaluations more discriminating and results-based so that lessons can be applied more effectively. Lessons from countries and sectors should be incorporated into new CSPs and sector strategies, and lessons from policy evaluations should be considered in policy reviews. In the future, annual reviews of evaluations should have a thematic focus.

### **Working Group on the Annual Report for 2004**

The Board Working Group worked closely with Management and staff and set the general direction for the 2004 annual report. This year's report demonstrates how ADB is optimizing its resources and improving its institutional effectiveness through the reform agenda, how it is applying its policies, how it is assisting its DMCs to achieve the MDGs, and how it is moving the poverty reduction agenda forward.

## **REPORTS REVIEWED BY THE DEVELOPMENT EFFECTIVENESS COMMITTEE IN 2004**

### **Project/Program Performance Audit Reports**

Livestock Development Project (Pakistan)

Nam Leuk Hydropower Project (Lao People's Democratic Republic)

Road Improvement Project (Viet Nam)

### **Technical Assistance Performance Audit Report**

Reform of Pension and Provident Funds in Selected Developing Member Countries

### **Thematic Evaluation Studies**

Country Assistance Program Evaluation for Cambodia

Country Assistance Program Evaluation for Nepal

Country Assistance Program Evaluation for Papua New Guinea

Sector Assistance Program Evaluation: ADB Assistance to the Bangladesh Power Sector

Special Evaluation Study of Capacity Development Assistance of ADB to the Lao People's Democratic Republic

Special Evaluation Study of Project Cost Estimates

Special Evaluation Study of Project Performance Management in ADB and Its Projects in Developing Member Countries

Special Evaluation Study of Small-Scale Freshwater Rural Aquaculture Development for Poverty Reduction

## 37<sup>TH</sup> ANNUAL MEETING

At the 37<sup>th</sup> annual meeting on Jeju Island, Republic of Korea from 15 to 17 May 2004, ADB's Board of Governors welcomed the establishment of a results-based management unit, stressed the need to focus on implementing the action plan for managing for development results, and requested that results-based country strategies be aligned with national poverty reduction strategies. In addition the Governors did the following:

- pointed to the region's extensive physical and social infrastructure needs for sustainable economic growth and encouraged ADB to work closely with governments and the private sector to meet these needs;
- stressed that ADB's private sector operations need to be closely aligned with country strategies and programs and requested ADB to support small and medium-sized enterprises and address critical financial issues such as money laundering and remittances;
- requested ADB to provide continued support for regional cooperation in trade and investment and for improving financial intermediation while appreciating ADB's current efforts to issue local currency bonds and its use of partial credit guarantees;
- emphasized the key role of education in mobilizing the productive potential of the poor, noted the importance of narrowing the digital divide to reduce income inequality, and requested more support to develop the knowledge-based economy;
- welcomed ADB's initiatives to improve its development effectiveness;
- expressed satisfaction with the ADF IX replenishment and requested ADB to pursue efficient and effective use of these resources as well as other prudent efforts to mobilize internal resources into the ADF.

The annual meeting was attended by around 2,500 participants, including representatives from multilateral and bilateral institutions, members of the global financial community, and civil society. The 38<sup>th</sup> annual meeting will be held in Istanbul, Turkey.

## FINANCING OPERATIONS

### Funding

The main instruments for providing help to ADB's DMCs are policy dialogue, loans, technical assistance, grants, guarantees, and equity investments (see pages 11–15). ADB offers a range of modalities and terms for loans aimed at improving performance.

About 76.5% of cumulative lending comes from OCR from three distinct sources: private placements and capital markets in the form of borrowing, paid-in capital provided by shareholders, and accumulated retained income (reserves) that provides a buffer for risks.

Loans are also provided from Special Funds. The ADF offers loans on concessional terms to members with low per capita gross national product and weak debt-repayment capacity. It is the only MDB concessional fund dedicated exclusively to economic and social development in the region. The ADF is financed by periodic, voluntary contributions from donors. A major constraint in 2003 was the level of available resources for concessional lending and technical assistance, a situation that might potentially jeopardize ADB's ability to deliver its program. Donor members met on four occasions from October 2003 to May 2004 to replenish the fund and endorsed an ADF IX program of \$7 billion for 1 January 2005–31 December 2008 plus additional amounts for financing foregone interest on grants. This is significantly higher than the \$5.7 billion agreed during ADF VIII. Donors pledged new, shared contributions of \$3.2 billion plus additional, voluntary contributions; \$3.7 billion will be provided from internal resources. ADF IX grants will assist countries making the transition from conflict to peace and stability, will help combat HIV/AIDS and other infectious diseases, and will support priority technical assistance. ADF IX includes a first-ever contribution from the PRC and renewed support from Malaysia.

Other Special Funds are the Technical Assistance Special Fund, the Japan Special Fund, and the ADB Institute Special Fund. ADB also manages and administers additional funds: the Japan Scholarship Program, the Japan Fund for Poverty Reduction, and the Japan Fund for Information and Communication Technology. It also channels grants provided by bilateral donors to support technical assistance and soft components of loans. In recent years, thematic trust funds focusing on gender and development, governance, poverty reduction, water, energy, and the environment were established to support technical assistance operations and selected components of loan projects.

Technical assistance funded through grants or loans helps maximize ADB's development impact. Most technical assistance grants are used for preparing projects and supporting advisory activities in areas such as law and policy reform, strengthening fiscal policies and procedures, good governance, capacity building, and natural resource management.

ADB has a triple-A credit rating<sup>3</sup> and actively mobilizes financial resources through its cofinancing operations, tapping official, commercial, and export credit sources. Assistance to its DMCs creates an enabling environment for private sector development. ADB also directly finances private sector projects to assist commercial investors and lenders. (*For more on ADB financial management, see [www.adb.org/About/fnncemgt.asp](http://www.adb.org/About/fnncemgt.asp).*)

## Financial Resources

Authorized capital stock amounted to \$54.2 billion, and subscribed capital stood at \$54.2 billion. ADB raised long-term funds totaling about \$1.6 billion, of which \$1.0 billion were raised through a global public offering. Gross income amounted to \$1.4 billion, \$1.0 billion of which were generated from the loan portfolio, \$297.3 million from the investment portfolio, and \$39.4 million from other sources of which \$29.7 million came from equity investment operations (\$10.5 million from dividends and \$30.4 million from gains realized on the sale of equity investments offset by \$11.2 million in other income that included ADB's share of losses in net income of the Asian Finance and Investment Corporation Ltd.). ADB's Special Funds are the ADF with 2004 committed resources amounting to \$1.1 billion, the Technical Assistance Special Fund of \$56.4 million, the Japan Special Fund totaling \$28.6 million, and the ADB Institute Special Fund of \$13.1 million.

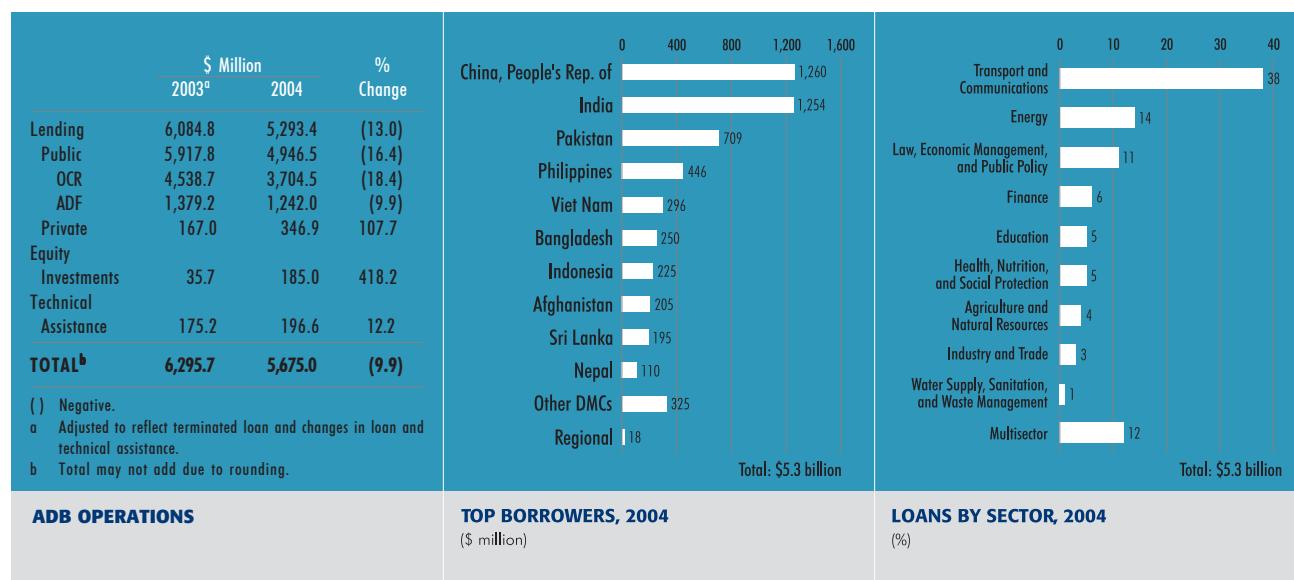
## Loans

Total lending approved in 2004 for public and private sectors amounted to \$5.3 billion for 80 loans to 64 projects. This was

lower than 2003 lending because of decreased lending to Bangladesh, PRC, India, and Pakistan. The average loan size in 2004 was \$66.0 million, compared with \$72.0 million in 2003. Twenty DMCs and one regional project received loans. A total of \$3.6 billion was disbursed. Of this, \$2.4 billion (68%) were for public sector project loans. The rest was for public sector program and sector loans, and private sector loans.

Of the total lending, loans with government guarantees were over \$4.9 billion for 58 projects comprising \$3.7 billion for 27 loans from OCR and \$1.2 billion for 47 loans from the concessional ADF. Fourteen were policy-based programs amounting to \$1.1 billion representing 23% of total public sector lending. Of program lending, \$815.0 million for 7 loans or 73% of the total came from OCR and \$306.4 million for 9 loans or 27% from the ADF. Policy-based programs support DMC efforts to improve policy, institutional, and investment environments and to help meet short-term adjustment costs. Lending to the private sector without government guarantee using OCR amounted to \$346.9 million.

The largest DMC borrowers in 2004 were the PRC and India receiving \$1.3 billion or 24% each of the total. Other top borrowers were Pakistan (\$709 million or 13%) and the Philippines (\$446 million or 8%). The transport and communications sector received the largest share of lending at \$2,030.9 million (38%) followed by energy \$761.8 million (14%), and law, economic management, and public policy \$584.4 million (11%) (see tables 1–5 in the Statistical Annex).



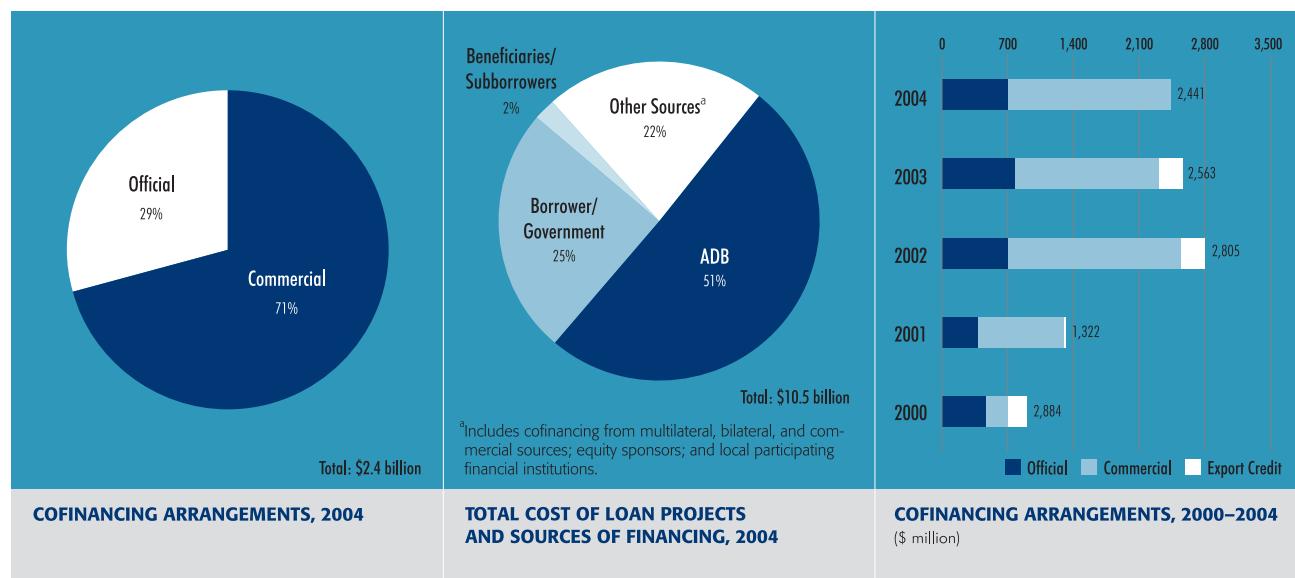
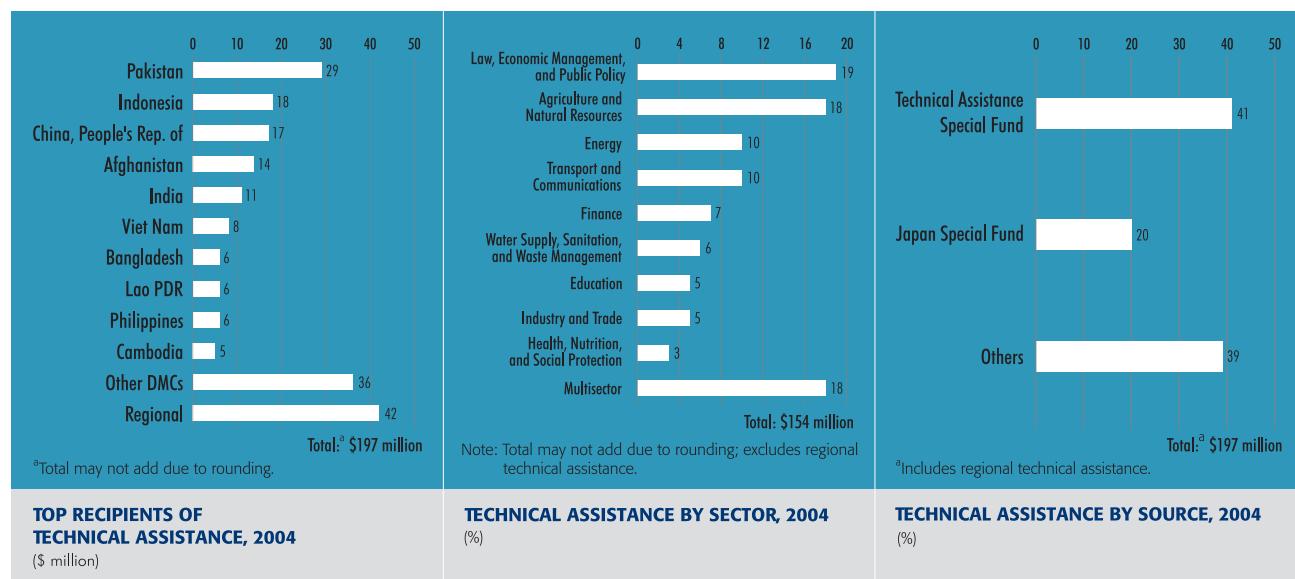
## Technical Assistance

A total of 323 technical assistance grants amounting to about \$196.6 million was approved in 2004. Of those, \$46.2 million were for project preparation; \$108.1 million were for advisory purposes; and \$42.3 million were for regional activities such as conferences, research, studies, and training. Of the total amount for technical assistance, \$79.9 million were from the Technical Assistance Special Fund, \$39.5 million were from the Japan Special Fund, and the remaining \$77.2 million came from other multilateral and bilateral sources. The largest recipient of country-specific technical assistance (excluding regional technical assistance) was Pakistan at \$28.9 million (15%), followed by Indonesia, PRC, and Afghanistan.

Excluding regional technical assistance, the sector distribution was as follows: law, economic management, and public policy \$28.6 million (19%); multisector \$27.4 million (18%); agriculture and natural resources \$27.2 million (18%); transport and communications \$15.9 million (10%); energy \$15.1 million (10%); finance \$10.3 million (7%); water supply, sanitation, and waste management \$9.1 million (6%); education \$8.3 million (5%); industry and trade \$7.7 million (5%); and health, nutrition, and social protection \$4.7 million (3%) (see Table 23 in the Statistical Annex).

## Grants

Grants amounting to \$191.0 million were mobilized in 2004 of which \$99.4 million were ADB-administered for 26 projects



and \$91.6 million were parallel cofinancing from multilateral and bilateral institutions for 7 projects. Grant funds administered by ADB consisted of \$30.0 million from the United Kingdom, \$29.9 million financed by the Japan Fund for Poverty Reduction, \$18.0 million from Canada, \$7.7 million from the Global Environment Facility, \$6.4 million from the Japan Fund for Information and Communication Technology, \$5.6 million from Sweden, and \$1.9 million from the Netherlands (see tables 6, 32–34 in the Statistical Annex).

## Equity Investments

ADB approved a total of \$185 million in 12 equity investments for regional investment funds and financial institutions (see tables 9–12 in the Statistical Annex).

## Cofinancing and Guarantee Operations

ADB's active coordination with its development and financing partners and continuing proactive approach to cofinancing assisted its DMCs in obtaining additional financial resources from bilateral and multilateral funding agencies, as well as from commercial sources. Maximizing the development impact of its assistance programs by identifying cofinancing opportunities that directly complement ADB projects has been the cornerstone of ADB's cofinancing and guarantee operations. In achieving this objective, ADB continued to involve its DMCs in identifying the best financing solutions for public and private sector projects and programs, specifically the use of its credit enhancement products (see [www.adb.org/cofinancing/](http://www.adb.org/cofinancing/)).



As part of its efforts to diversify cofinancing sources and to foster financial partnerships, ADB participated in several international forums such as the Coordination Group of Arab, Islamic, and Organization of Petroleum Exporting Countries' (OPEC) Development Institutions; the Round Table on Trust Funds and Cofinancing of the Inter-American Development Bank; and the Berne Union General Meeting. New product initiatives included the Trade Facilitation Program, in which ADB entered into risk-sharing agreements with commercial banks to help promote international trade in the region. The program involved 51 leading international and regional cofinancing banks that were designated as "founding partners."

Cofinancing and guarantee operations in 2004 amounted to about \$2.4 billion. This represented approximately 46% of ADB's total lending of \$5.3 billion. Thirty-three loan projects in 14 DMCs received cofinancing. The PRC received the largest amount (\$1.0 billion), primarily from its domestic financial institutions, followed by India at \$811.0 million, and Viet Nam at \$298.0 million (see *Table 6 in the Statistical Annex*).

Since 1970, cofinancing and guarantee operations have mobilized a cumulative total of \$43.0 billion providing additional resources for 669 ADB-assisted loan projects and programs. The cumulative total comprises \$23.4 billion from official sources and \$19.6 billion from commercial sources. The energy sector accounted for \$18.2 billion or 42% followed by transport and communications (\$10.3 billion or 24%), industry and trade (\$3.7 billion or 9%), multisector (\$3.2 billion or 4%), and other sectors (\$7.7 billion or 21%).

**Commercial Cofinancing and Guarantee Operations.** These totaled \$1.7 billion for 10 projects including \$945.0 million for ADB loans with government guarantee and \$783.0 million for private sector projects. Guarantee operations amounted to \$75.3 million consisting of a partial credit guarantee of \$65.3 million in support of the Petronet LNG Ltd. project in India and a political risk guarantee of \$10.0 million for the Afghanistan Investment Guarantee Facility project. Additional commercial cofinancing was raised in the form of parallel loans of financial lenders (\$46.1 million) and domestic financial institutions in the PRC (\$945.4 million) and India (\$661.2 million).

**Official Cofinancing.** Cofinancing mobilized from ADB's bilateral development partners and multilateral financial institutions totaled \$713.4 million for 25 projects comprising \$147.1 million in grant funds and \$566.3 million in loans. Of the grant funds, ADB will administer untied grants totaling \$55.5 million contributed by the United Kingdom (\$30.0 million), Canada (\$18.0 million), Sweden (\$5.6 million), and the Netherlands (\$1.9 million). In addition, parallel grant funds of \$91.6 million were provided by the United Kingdom (\$36.0 million), the European Commission (\$18.0 million), Denmark (\$10.0 million), the Netherlands (\$10.0 million), and others (\$17.6 million).

Cofinancing in the form of loans (joint and parallel) was provided by the World Bank (\$225.6 million), France (\$123.5 million), Japan (\$123.0 million), the OPEC Fund for International Development (\$36.0 million), Republic of Korea (\$23.9 million), Germany (\$17.0 million), Norway (\$10.0 million),

	2003	2004
<b>OCR</b>		
Loan Disbursements	2,688	2,508
Principal Repayments <sup>a</sup>	(7,137)	(3,953)
Payments of Interest/Charges	(1,488)	(1,095)
Net Equity Investment	(25)	(20)
Net	(5,962)	(2,560)
<b>ADF</b>		
Loan Disbursements	1,128	1,055
Principal Repayments	(312)	(390)
Payments of Interest/Charges	(175)	(196)
Net	641	469
<b>TOTAL</b>	<b>(5,321)</b>	<b>(2,091)</b>

( ) Represents resource inflow from developing member countries.

<sup>a</sup> Includes prepayments of \$2,790.5 million (\$5,883.8 million in 2003).

	Investments Held		
	No. of Companies	\$ Million <sup>a</sup>	%
Infrastructure	22	746.9	51.1
Funds and Capital Markets	39	324.6	22.2
Financial Sector	26	257.5	17.6
Others	10	133.9	9.2
<b>TOTAL</b>	<b>97</b>	<b>1,462.83</b>	<b>100</b>

Note: At exchange rates as of 31 December 2004.  
<sup>a</sup> Refers to total exposure (drawn and undrawn commitments on equity investments, loans, and guarantees).

#### RESOURCE TRANSFERS TO DEVELOPING MEMBER COUNTRIES (\$ million)

#### PRIVATE SECTOR PORTFOLIO DISTRIBUTION, 2004

and the Nordic Development Fund (\$7.3 million) (see *Table 6 in the Statistical Annex*).

## Resource Transfers

The net transfer of resources to ADB from its DMCs decreased to \$2.1 billion in 2004, compared with \$5.3 billion in 2003. There was a net inflow of \$2.6 billion (\$6.0 billion in 2003) to ADB from OCR borrowers/investors, mainly from prepayments of \$2.8 billion in 2004 (\$5.9 billion in 2003) of OCR pool-based loans. However, net transfers from ADB to ADF borrowers decreased from \$640.8 million in 2003 to \$468.5 million in 2004 (see *tables 26 and 27 in the Statistical Annex*).

Loan disbursements in 2004 totaled \$3.6 billion comprising 92.9% of the target for the year. Of the total, OCR disbursements were \$2.5 billion or 70% and ADF disbursements were \$1.1 billion or 30% (see *tables 7, 8, and 14 in the Statistical Annex*).

Loan service payments reached \$5.6 billion in 2004, compared with \$9.1 billion in 2003. The decrease was mainly because of lower prepayments (\$2.8 billion in 2004). In 2004, the four largest net resource transfers from ADB were to Viet Nam, Sri Lanka, Cambodia, and Uzbekistan (see *tables 26 and 27 in the Statistical Annex*).

## Private Sector Operations

ADB ended 2004 with a total of about \$807.2 million in approved assistance in the private sector. This represents a 49% increase over 2003 assistance of \$542.7 million. The approved interventions comprise 12 equity investments of \$185.0 million, loans of \$346.9 million for six projects, a partial credit guarantee of \$65.3 million, a political risk guarantee of \$10.0 million, and a cross-currency swap with the Philippines of up to \$200.0 million (see *tables 9–12 in the Statistical Annex*). ADB's proposed loan and equity investment will mobilize funding from other sources leveraging ADB's own funds by 5.08 times.

Since ADB's first private sector investment in 1983, it has approved 175 projects with a cumulative amount of \$4.3 billion inclusive of equity, loans, guarantees, complementary financing schemes, and a cross-currency swap with a DMC. ADB's

cumulative equity and loan approvals of \$2.8 billion have catalyzed a total of \$23.4 billion in funding for private sector projects leveraging ADB's investments by a ratio of 7.3 times. Cumulative disbursements for equity investments and loans amounted to \$1.8 billion.

As of 31 December 2004, the overall private sector exposure amounted to \$1.5 billion and consisted of \$485.3 million in equity investment, loans of \$654.7 million, and guarantees of \$322.9 million. The bulk of ADB's private sector exposure is infrastructure projects with a total of \$746.9 million in exposure, followed by investment funds and financial institutions at \$582.1 million, with the balance accounted for by other sectors at \$133.9 million.

The outstanding private sector exposures are interventions largely to India (16.7%), Sri Lanka (14.3%), Bangladesh (13.4%), PRC (10.6%), and Thailand (10.4%). Regional projects account for roughly 13.2% of total exposure.

During the year, ADB actively sought the full and partial divestments of equity shareholdings in 21 project companies, freeing up \$18.2 million of capital for new investments. Loan repayments, including prepayments, amounted to \$82.2 million at the end of the year. Total disbursements during the year amounted to \$151.1 million.

As a matter of good risk management, ADB sets aside a general provision of 8% of the total outstanding healthy portfolio, excluding projects with specific provisions and investments that are marked-to-market. The general provision as of 31 December 2004 was approximately \$44.5 million with the total specific provision at \$89.8 million. The loss reserve ratio as a percentage of total outstanding portfolio was at 16.7%.

ADB recorded revenues of \$67.7 million during the year from its private sector operations. Approximately \$31.3 million were realized capital gains, including recoveries from a total of 21 projects sold/redeemed fully or partially. Cash dividends received from various projects amounted to \$10.5 million. Interest income was recorded at \$23.2 million in 2004. Fees and other income from loans were at \$2.7 million at the end of 2004.

## ENDNOTES

<sup>1</sup> Renamed Integrity Division effective December 2004.

<sup>2</sup> One member of the committee submitted a minority view that the Board should "consider" rather than "approve" the recommendations.

<sup>3</sup> Triple-A credit rating is the highest rating given by credit rating agencies such as Moody's Investors Service and Standard and Poor's and is assigned to entities that offer exceptional financial security and have the smallest degree of risk.

# SPECIAL THEME: THE CHANGING FACE OF THE MICROFINANCE INDUSTRY

## Building Financial Systems for the Poor



### THE CHALLENGE

Despite significant progress in poverty reduction in the last decade, Asia is still home to a majority of the world's poor. If the \$1-a-day poverty yardstick is used, it is estimated that over 690 million poor people live in the region. This constitutes approximately 138 million households. If the yardstick of \$2 a day is used, about 1.9 billion in some 380 million households are poor according to the Asian Development Bank's (ADB) recent estimates.<sup>1</sup> The tsunami disaster in South and Southeast Asia in December 2004 may have increased the number of poor by at least another 2 million.

Microfinance is an effective development tool for poverty reduction for the simple reason that financial services enable poor and low-income households to take advantage of economic opportunities, to build assets, and to reduce their vulnerability to external shocks that adversely affect their living standards. It is now recognized that precisely because they do not have much money, poor and low-income households need financial services even more than other households do. The stark reality is, however, that over 200 million poor and low-income households in Asia may not have access to services as

country studies by ADB and others indicate that the microfinance outreach of formal and semiformal institutions is very limited. ADB's vision is a region free of poverty; excluding the majority of the population from access to financial services is not at all consistent with this vision. Expanding access to financial services is critical for eliminating poverty and for realizing the Millennium Development Goals.

Recent estimates by the Consultative Group to Assist the Poor (CGAP) indicate that microfinance institutions in Asia have about 41 million loan accounts and 98 million deposit accounts.<sup>2</sup> In addition, alternative financial institutions (AFIs) with a social mission such as postal savings banks, rural development banks, and cooperatives also provide microfinance services although it is difficult to estimate the number of poor households they serve. Most of these providers do not, however, offer the broader range of services such as money transfers, insurance, and payment services that poor people demand. Financial services cannot function in isolation as a magic bullet to lift people out of poverty, but the close relationship between financial services and poverty reduction provides strong justification for putting financial systems for the poor at the center of the development agenda. It is for this reason that CGAP is working to build such systems (*see box at right*).

The microfinance industry has been evolving over the last 3 decades. In the early 1980s, it was dominated by nongovernment organizations (NGOs) that experimented with innovative programs and attempted to address what they perceived as the failure of markets and governments to provide financial services for the poor. They were heavily dependent on external grant funding. In fact, ADB's first microfinance project supported NGO microfinance institutions in the Philippines. Some of these NGO operations became flagship programs. Grameen Bank in Bangladesh is perhaps the best known, and BRAC has become a giant in the industry not only in Bangladesh but also globally.<sup>3</sup> Their impressive results generated a great deal of interest in microfinance in the broader development community.

Despite the successes of these and similar institutions, the majority of the poor is still compelled to rely on informal sources of finance or on self-finance neither of which allows them to take full advantage of economic opportunities. High rates of interest on credit in informal markets—often in excess of 120% per annum—cripple incentives to invest in productive activities, and self-finance does not allow poor households to take advantage of new technology. Closing this wide gap

between the massive potential demand for and the supply of institutional financial services for the poor on a sustainable basis is the central challenge of developing financial services.

Like most other funding agencies, ADB has supported microfinance for many years. From 1988 to 1999, ADB approved 14 microfinance projects totaling \$260.10 million, 13 projects with microfinance components valued at about \$106.79 million, and 45 technical assistance projects for about \$24.42 million. Recognizing that the industry landscape has changed over the years, ADB began to formulate a microfinance development strategy in 1999 that was approved in May 2000 (*see box on the next page*). The strategy provides a consistent and comprehensive framework and guides ADB's microfinance operations including policy dialogue with

## THE CONSULTATIVE GROUP TO ASSIST THE POOR

The Consultative Group to Assist the Poor (CGAP) is a consortium of 27 multilateral and bilateral development agencies and 2 private development agencies working together to build financial systems for the poor people in developing countries. CGAP's vision is a world where poor people are considered legitimate clients of their countries' financial systems. To achieve its vision, CGAP provides public and private development agencies, financial service providers, and governments a range of services that includes advice, standards and good practices, training, and knowledge. Because of its unique structure and focus on building sustainable financial systems for the poor, CGAP has become an important platform for generating global consensus on standards and good practices and serves as a resource center and advisory group for the microfinance community around the world.

CGAP has been working to develop a wide variety of financial institutions with a broad range of demand-driven financial services, to improve financial transparency, to enhance the policy and regulatory framework, and to improve donor effectiveness. The Microfinance Donor Peer Reviews launched in 2002 were a major initiative to improve donor procedures, practices, and systems.

CGAP has a comprehensive website ([www.cgap.org](http://www.cgap.org)) to communicate with the global microfinance community and member agencies. ADB has been a member of CGAP since its inception in 1995. In 2001, ADB provided regional technical assistance to extend CGAP's poverty outreach initiatives and has played an active role in the peer reviews.

developing member countries. It also articulates to stakeholders ADB's firm determination to support sustainable microfinance in the region.

After the strategy was adopted, ADB's assistance shifted from providing support for narrowly defined microcredit projects to building financial systems for the poor. From 2000 to 2004, 10 microfinance loan projects totaling \$350.80 million and 16 projects with microfinance components of about \$131.02 million were approved. ADB also provided financial assistance to 7 governments to prepare microfinance projects and for 21 advisory technical assistance projects for capacity building at various levels in 12 countries. The tsunami disaster further reinforced the need for an inclusive financial system that responds to the demands of the low-income segments of the population. In addition to its heavy death toll, the tsunami destroyed the livelihoods of over 300,000 households, and poor households were the hardest hit. Restoring these livelihoods will necessitate an innovative combination of grant assistance and special financial service schemes tailor-made to meet the needs of the survivors.

Global perspectives on microfinance are changing. Even the meaning of the term "microfinance" has altered. According to CGAP,<sup>4</sup> as recently as a few years ago, it meant, "... a credit methodology that employs effective collateral substitutes to deliver and recover short-term, working capital loans to microentrepreneurs." Today, the term encompasses a broad spectrum of financial services that includes not only microcredit but also savings, insurance, and money transfers. Perspectives on the target group for microfinance have also expanded in recent years to include low-income men, women, and children and the poorest of the poor. The inclusion of the last group

seems to have been influenced by the increasing recognition of the link between microfinance and achieving the Millennium Development Goals. Another significant change is that microfinance services are no longer considered a niche market activity that should be confined largely to the development community and carried out solely by specialized microfinance institutions. Today, it is believed that if microfinance is to achieve its full potential, it must be fully integrated into a developing country's financial system with access to vast amounts of human, physical, and financial resources and management know-how.

A paradigm shift toward market-based approaches to poverty reduction is also taking place. In the larger business world, a growing number of established companies including some multinational corporations has achieved impressive results in reaching the poor in innovative ways with their products and services.<sup>5</sup> This reaffirms the feasibility of large-scale commercial microfinance and strengthens private sector interest.

Today's microfinance industry reflects the efforts of stakeholders to address the issue of financial services for the poor as effectively as possible. Macro changes in the policy environment and in financial infrastructure include legal, regulatory, and supervisory frameworks. Micro changes include industry composition, products and services, delivery mechanisms, the potential market, and how the market is served. The region's microfinance industry has seen at least five important changes in recent years: (i) central banks have more actively promoted microfinance in many countries, (ii) the diversity of service providers has increased significantly, (iii) operations have become more diverse, (iv) target markets have become broader, and (v) the level of commercialization

## MICROFINANCE DEVELOPMENT STRATEGY OF THE ASIAN DEVELOPMENT BANK

Once almost exclusively the domain of donors and experimental credit projects, institutional microfinance has evolved over the years into an industry with prospects for sustainable services and significant opportunities for expansion. ADB formulated its microfinance development strategy to harness this potential. The goal is to ensure permanent access to institutional financial services for a majority of poor and low-income households and their

microenterprises. The strategy focuses on (i) creating a policy environment conducive to microfinance, (ii) developing financial infrastructure, (iii) building viable institutions, (iv) supporting pro-poor innovations, (v) supporting social intermediation.

The strategy was formulated in consultation with more than 500 representatives of central banks, ministries of finance, commercial banks

in the public and private sectors, cooperatives, nongovernment organizations, universities, and representatives of other funding agencies. In addition, views were obtained from external experts and organizations such as the World Bank, the Consultative Group to Assist the Poor, and a number of bilateral aid agencies (see [www.adb.org/Documents/Policies/Microfinance](http://www.adb.org/Documents/Policies/Microfinance)).

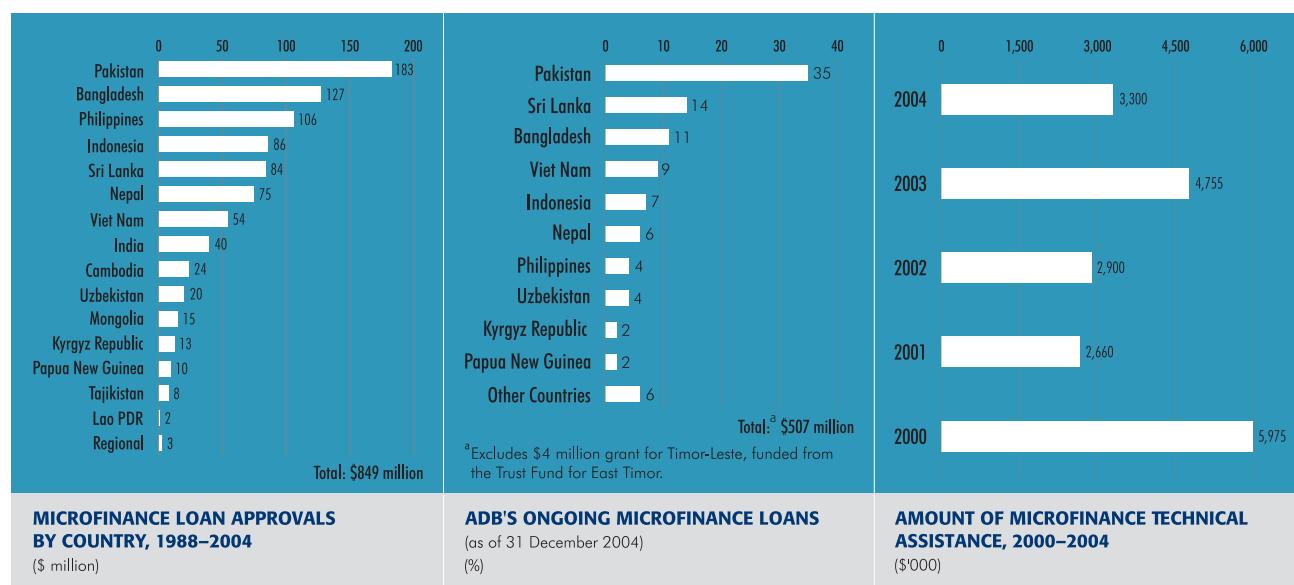
has increased. ADB has played a key role in reinforcing some of these changes through its direct assistance for microfinance operations, its policy dialogue with stakeholders, its sector work, and its knowledge generation and sharing.

## THE ROLE OF CENTRAL BANKS IN MICROFINANCE

Central banks have a potentially major role to play in developing sustainable microfinance, but until recently many in the region were not harnessing this potential. Instead they provided highly concessional refinancing facilities for microcredit operations of state-owned financial institutions thus undermining incentives for sustainable microfinance. Recognizing their important role and the potentially adverse consequences of inappropriate interventions, in 1999 ADB published a study on the microfinance activities of 12 central banks<sup>6</sup> that, along with ADB's policy dialogue, had a significant impact on the evolution of their roles in microfinance. Many central banks have since begun to play the more appropriate role of building financial infrastructure for microfinance. This new role has elevated the status of microfinance in financial sectors, has increased the space for private sector participation, and has helped integrate microfinance into the broader financial system.

Developing legal and regulatory frameworks to facilitate sustainable microfinance has become an important task of many central banks in the region. Cambodia recently introduced regulations for licensing and supervising NGOs as microfinance institutions. Nepal followed a somewhat similar

path and introduced a legal framework that facilitated private sector entry into microfinance, and Pakistan introduced a legal framework for microfinance institutions (see *box on next page*) that resulted in two new, specialized microfinance institutions. The Kyrgyz Republic enacted the Law on Microfinance Organizations that assigns the responsibility for regulating and supervising microfinance institutions to the National Bank of Kyrgyz Republic, and Tajikistan introduced a law on microfinance organizations that regulates different types of service providers and helps to develop the industry. Sri Lanka drafted the Rural Finance Sector Development Act that is expected to provide a legal, regulatory, and supervisory framework for rural financial institutions and microfinance institutions that are not covered by the country's banking law. The State Bank of Viet Nam is formulating a framework for microfinance, and Azerbaijan has prepared a draft legal and regulatory framework for microfinance institutions that is expected to be enacted into law in 2005. In 2000, the Bangko Sentral ng Pilipinas declared microfinance as its flagship program for reducing poverty and improved the policy and regulatory environment for microfinance through nine circular instructions one of which allowed the establishment of microfinance-oriented banks. It has also incorporated microfinance into the basic rural and thrift banking courses that it conducts, has carried out regional advocacy programs in 10 cities to disseminate the message of sustainable microfinance, and has played a key role in developing standard performance indicators for microfinance institutions. ADB played a major role through policy dialogue in these countries to bring about these improvements.



## PAKISTAN'S MICROFINANCE ORDINANCE

In 2000 when ADB approved the Microfinance Sector Development Program for Pakistan, the country's financial system was barely serving poor and low-income households despite the fact that the potential market consisted of over 6.3 million households by conservative estimates. Commercial banks were not involved beyond experimental credit projects, and financial institutions engaged in development work excluded the poor who had no assets. There was no legal framework for specialized microfinance banks though nongovernment organizations were making a concerted effort to provide microcredit in selected areas on a small scale. The poor were compelled to rely on informal markets. It was clear that a proper legal framework was needed for formal financial services for the poor.

It is in this context that the Government of Pakistan with ADB assistance formulated the Microfinance Institutions Ordinance of 2001. It allows the establishment of regulated microfinance institutions at three levels—district, provincial, and national—to integrate microfinance into the broader financial system and to create possibilities for institutional diversity. The ordinance assigns the State Bank of Pakistan authority for licensing, regulating, and supervising microfinance institutions.

Two microfinance banks with licenses to operate nationally have been established since the introduction of the ordinance, and a group of potential investors has completed a market assessment for establishing a microfinance bank to serve the urban poor. Also, the state bank has begun to play a more proactive role to develop a comprehensive system and the capacity to regulate and supervise microfinance institutions effectively.

These efforts bring most microfinance institutions that accept public deposits under legal, regulatory, and supervisory systems. Whether they will actually produce financially sound institutions remains to be seen and will depend largely on the effectiveness of the regulatory and supervisory authorities. ADB has provided technical assistance for capacity building to a number of central banks and will continue that assistance.

## INCREASED DIVERSITY OF SERVICE PROVIDERS

The poor are a highly heterogeneous group with diverse livelihoods, needs, and potential, and their requirements for financial services change in response to life cycle events, new opportunities, and external shocks. For example, the demand for financial services has completely changed for poor households

that survived the tsunami disaster. The industry must, therefore, be dynamic and must comprise a range of institutions.

A few years ago, there was little institutional diversity in the microfinance industry in most Asian countries. Formal financial institutions were only minor service providers in the microcredit market with the exception of Bangladesh and Indonesia. In Bangladesh, Grameen Bank operated side by side with NGOs, while in Indonesia, Unit Desas of Bank Rakyat Indonesia (BRI) was the major supplier of microfinance services along with many People's Credit Banks (Bank Perkreditan Rakyat). Perum Pegadaian, a state-owned pawn company, also provided microcredit to many low-income households. NGOs were the dominant suppliers of microcredit in Cambodia, Nepal, Pakistan, Philippines, and a number of Central Asian republics though there even NGOs were reaching only a very small number of low-income households. Many believed that provision of financial services to the poor could only be done by entrepreneurs with a social mission. The idea of commercial microfinance had not taken root.

This picture of microfinance is changing for a variety of reasons. Among them are the following: (i) the transformation of NGOs into regulated financial institutions in some countries and their subsequent rapid growth (see *box at right*); (ii) the entry of small existing banks into the industry and the expansion of their microfinance operations; (iii) the entry of new microfinance banks; (iv) the increased role of cooperatives including credit unions; (v) the increasing role of established, conventional commercial banks; (vi) the rapid growth of self-help groups in microfinance especially in India; and (vii) the entry of nonfinancial institutions.

In recent years, small banks have begun to penetrate the microfinance industry in several countries. In the 1990s, only a few rural banks were involved in microfinance in the Philippines, but by the end of 2004 with assistance from ADB and other funding agencies over 175 had entered the industry and were reaching over 500,000 poor households. Their share was over 40% of the total market served by microfinance institutions in the country. In Indonesia, people's credit banks have been making a concerted effort to expand their operations to cover poor and low-income households.<sup>7</sup> The cooperative rural banks in Sri Lanka have also evidently increased their role in microfinance services in recent years.<sup>8</sup> In a few Asian countries, new microfinance banks and non-banking financial institutions have appeared. In Azerbaijan, a specialized microfinance bank was established recently. In the

## THE TRANSFORMATION OF NONGOVERNMENT ORGANIZATIONS INTO REGULATED FINANCIAL INSTITUTIONS

Transforming nongovernment organizations (NGOs) into regulated financial institutions has added an element of diversity to the microfinance industry. This process started when Fundación para la Promoción y el Desarrollo de la Microempresa (PRODEM) became BancoSol in Bolivia in February 1992. Between September 1997 and the end of 2004, a total of 16 transformations were reported in Cambodia, India, Mongolia, Nepal, Pakistan, and Philippines. Although the number is small, the overall influence on the industry is great. In some countries, transformed institutions have performed much better than conventional banks both in terms of outreach and profitability, and many of these institutions have become flagship microfinance institutions. They have improved their governance and risk management, and most have begun to offer a broader range of services including deposit facilities and money transfers. To finance their growth, they tap capital from a range of sources including socially responsible investors and in a few cases the private sector and the International Finance Corporation. Some people expressed fears that transformed NGOs would move away from serving the poor; however, a 2004 study published by ADB—*Micro Success Story?*

*Transformation of Nongovernment Organizations into Regulated Financial Institutions*—concluded that transformation has not only integrated the microfinance industry into the broader financial system, but also in most cases it has had a positive effect on both the breadth and depth of their outreach. Virtually, all transformed institutions in Asia are now serving a larger number of poor households than they did previously.

Philippines, the Micro Enterprise Bank was established in October 2001 to serve poor and low-income households in Mindanao. Khushhali Bank in Pakistan is another newcomer to the industry and an interesting public-private partnership. It was established in August 2000 with a paid-up capital of \$30 million subscribed by 12 domestic private sector commercial banks, 2 foreign commercial banks, and 2 state-owned commercial banks.<sup>9</sup> Timor-Leste established the Instituição de Microfinanças de Timor-Leste as a regulated nonbank financial institution with assistance provided by ADB's Microfinance Development Project. The institution has filled a vacuum in the microfinance industry in this new nation (see box at right). Papua New Guinea also established a new microfinance bank in 2004 with ADB support. The First Microfinance Bank of Tajikistan began operations in July 2004 as the country's first full-service microfinance bank. Afghanistan also established a new microfinance bank in 2003.

## NEW MICROFINANCE INSTITUTION IN TIMOR-LESTE

The civil unrest of 1999 displaced half the population of Timor-Leste, destroyed homes and infrastructure, and increased the incidence of poverty to 80%. On 25 October 1999, the United Nations Transitional Administration in East Timor was established to ensure stability and to restore the civil service, police, and judiciary. Donors pledged money to the Trust Fund for East Timor (TFET) to finance the reconstruction of the country. ADB was given the responsibility of managing TFET microfinance interventions. In the financial sector, donors recognized the vacuum created by the departure of all Indonesian banks and the lack of other service providers, particularly to serve poor households. To address this problem, ADB extended its assistance. Technical assistance was provided to create sustainable policies and a regulatory framework and to study the feasibility of establishing a microfinance bank.

The Instituição de Microfinanças de Timor-Leste (IMFTL) was created as a regulated, quasi-banking institution in May 2002 with capital from TFET. It operates with three branches under the supervision of the Banking and Payments Authority which acts as the central bank. IMFTL has experienced rapid growth in business, especially in mobilizing savings. At the end of 2004, IMFTL had 2,694 active loan accounts, a total loan portfolio of \$907,000, and client deposits of \$873,000 in 8,627 deposit accounts.

This infant bank operates in one of the most difficult environments for microfinance and is thus confronted with severe problems. Although it has established credibility within the community as a trustworthy institution, IMFTL needs to strengthen its internal controls, improve staff skills and management, and bring in strategic partners as shareholders to improve governance. The breadth and depth of IMFTL's outreach remain limited; it is in the process of addressing these issues. IMFTL was rated by a microfinance rating agency in February 2004 and appraised by an external team of experts from the Consultative Group to Assist the Poor and Oikocredit, an international, socially responsible investor in microfinance, to determine suitability for possible equity investments by external parties. In the meantime, ADB is continuing its support to build the capacity of IMFTL to improve its internal controls and sustainability and to extend its outreach to the poor.

In most Asian countries, cooperatives were originally established to serve poor and low-income households, but they gradually dropped the poor and focused on the nonpoor. With support from ADB and other funding agencies, many cooperatives have

recently begun to make headway in the sustainable provision of microfinance services. A case in point is the growing involvement of credit unions in the microfinance industry in the Philippines. In the Kyrgyz Republic (see box below) and Viet Nam, ADB assisted in the development of credit unions and expanded their outreach to the low-income population, and in Sri Lanka, the Rural Finance Sector Development Project focuses on improving the microfinance operations of the cooperative rural banks.

The rapid growth of self-help groups and their operations since early 2000 has also contributed to the changing landscape of the microfinance industry. Although this development is primarily confined to India where they are now the dominant microfinance model, because of their vast numbers they have made a difference in the regional industry in a broader sense. At the end of March 2004, they numbered 942,000. A typical self-help group has 15–25 members and operates on the

principle of revolving members' savings. External finance is also provided to expand their credit operations.<sup>10</sup> About 70% are concentrated in three southern states: Andhra Pradesh, Tamil Nadu, and Karnataka. Andhra Pradesh alone accounts for 47% of the national total with 439,000 self-help groups, including 5.4 million women.

The increasing involvement of conventional, private, commercial banks has reinforced the changes in the microfinance industry in the region and is gradually breaking down the walls between microfinance and the formal financial sector. With few exceptions, before 2000 in the banking sector only state-owned commercial banks were involved in microfinance through directed credit and other mainly subsidized programs. While some of these banks continue their operations, private sector commercial banks are becoming increasingly involved by extending their deposit services to tap the potential of low-income

## DEVELOPING A SAVINGS AND CREDIT UNION SYSTEM IN THE KYRGYZ REPUBLIC

**When the Kyrgyz Republic became a member of ADB in 1994, the country's financial landscape was bleak. The state-owned agricultural bank, Agroprom, had inherited a large portfolio of nonperforming loans from the dissolving state farm sector and was shutting down. Newly formed commercial banks provided only the most rudimentary services. Microfinance was virtually unknown outside the capital Bishkek where some nongovernment organizations were beginning to experiment with microlending.**

ADB supported the establishment of three pilot savings and credit unions (SCUs) in 1996. Building on this experience, ADB's Rural Financial Institutions Project set out in 1997 to create a network of community-based, member-owned financial institutions that would serve all rural areas with the support of a central institution. This was an ambitious—and largely unprecedented—undertaking. The project is a good example of donor coordination. ADB provided funds mainly for onlending while the Government of

Germany funded capacity building of SCUs through grants.

There were 303 licensed SCUs operating in the Kyrgyz Republic as of July 2004, with 27,181 active members. SCUs are in every region of the country and together account for a substantial amount of total credit to agriculture and agribusiness. They are microlenders: the average loan size is Som19,241, or about \$450. The average number of members per SCU is 93, and the average asset size is Som1.5 million (about \$34,300). The SCUs had an outstanding loan portfolio (net) of \$9.4 million. Their return on assets was 8.9%.

The project has confronted a number of challenges some of which arose from the unique conditions of a country in transition to a market economy. Many of the other challenges faced by the project were similar to difficulties that have occurred in the development of credit unions in other countries. Supervision is a key area of concern. The National Bank of the Kyrgyz Republic has now assumed responsibility

for supervising the SCUs and is harmonizing this effort with its growing supervisory role over microfinance institutions. Initially the national bank adopted a very conservative attitude toward the SCUs accepting deposits. This stance was understandable in light of the fragility of the country's financial system but was softened beginning in 2003 when the first group of 10 SCUs was allowed to accept deposits on a pilot basis. With assistance from Germany, the pilot will be expanded in 2005.

The SCUs have also grown stronger since 1996 and now have more capital, experience, and loyal member bases upon which to build. The key challenge is to develop more financial products and services, starting with deposit and payment services. At the same time, it is important to further develop and integrate the network which means developing effective liquidity management. In addition, SCU managers and staff must continue to enhance their technical skills, to promote transparency, and to strengthen governance.

households, although commercial banks do not generate data to support this assertion.

More importantly, private commercial banks have increased their direct involvement in financing microfinance institutions in a number of countries. ABN-AMRO started microfinance operations in India in September 2003. ICICI Bank, also in India, figures prominently in this new trend not only because of its increasing volume of transactions with microfinance institutions but also because of its innovative approaches to increasing its participation in this market. With the help of the Indian Institute of Technology in Chennai, ICICI Bank built India's first rural automatic teller machine to serve microsavers in remote areas (see *box below*) with a view to reaching the poor for profit. This augurs well for expanding the outreach of microfinance services for the poor.

Private banks in other countries have also increased their penetration in the microfinance market. Planters Bank in the

## AN AUTOMATIC TELLER MACHINE FOR THE MASSES IN RURAL AREAS OF INDIA

**ICICI Bank, India's largest private commercial bank, uses traditional automatic teller machines (ATMs) to deliver its financial services to the rich and the middle class, mostly in urban areas. ATMs are not, however, suitable for serving poor and low-income people in remote rural areas who are the majority of the 1 billion plus population. First, ATMs involve high capital and maintenance costs. Second, and more importantly, they use crisp notes of larger denominations and so cannot process the small denominations and worn notes that are the main currency in Indian villages.**

**With the help of the Indian Institute of Technology in Chennai and others, ICICI Bank built a user-friendly, market-compatible, low-cost village ATM from home-made parts and programming. The estimated cost is about \$800. The machine can survive the extreme weather conditions and power outages that are common features of rural areas and uses fingerprint scanning to identify savers who are illiterate or who are reluctant or unable to use a personal identification number.**

**The rural ATM is being pilot-tested. Depending on the results, ICICI Bank expects to use it to mobilize savings and to provide deposit facilities to millions of poor families and, of course, to improve its bottom line.**

**Source:** ICICI Bank; Bellman, E. 2004. Cashing in on the Masses. *Far Eastern Economic Review*. 8 July.

Philippines played the lead role in establishing the Micro Enterprise Bank in Mindanao and was the major shareholder with 40% of the capital in October 2001. Hatton National Bank and Seylan Bank in Sri Lanka are gradually increasing their microfinance operations. In Mongolia, the formerly state-owned now privately owned agricultural bank (commonly known as Khan Bank) is the main player in the microfinance market with branches in more than 390 locations. In Nepal, a number of private commercial banks have invested in microfinance institutions that were formerly NGOs. These developments indicate the growing involvement of the private sector in microfinance.

AFIs in Asia and the Pacific also reach poor clients. In the People's Republic of China (PRC), some 35,000 rural credit cooperatives (RCCs) are mobilizing deposits despite their high level of nonperforming loans and other operational problems. Their borrowers and depositors include some of the country's poorest people. The post office savings banks in a number of Asian countries—Bangladesh, PRC, India, and Sri Lanka—play a major role<sup>11</sup> in providing much needed, safe deposit services while in others pawn companies provide microcredit services. This is certainly the case in Indonesia. Perum Pegadaian, a state-owned pawn company with a long history, provides services throughout the country to a wide range of clients through its 774 branches and 13 regional offices. In 2003, it provided over \$1.0 billion in 21 million loans and was the major supplier of microcredit in terms of the number of clients served.<sup>12</sup> The large infrastructure of these institutions, particularly the large number of service outlets in rural and remote areas, offers potential for scaling up services. Funding agencies and governments need to pay specific attention to harnessing this potential. With this in mind, ADB is focusing attention on AFIs. It is collaborating with the Government of the PRC to reform RCCs and is assisting the Lao People's Democratic Republic to reform the Agriculture Promotion Bank. ADB will pay increasing attention to AFIs in other countries in the future in its efforts to diversify service providers and to harness the potential of these institutions to scale up microfinance services.

Nonfinancial institutions are also gradually making inroads into the microfinance industry in Asia. Although this is not yet a significant phenomenon, their entry is obviously adding more diversity and development potential. Events in the mobile phone industry in the Philippines illustrate this potential well and may just be the beginning of a trend that is likely to gather momentum in the near future. A new, text-based remittance

service is now offered by one of the country's leading mobile telecommunications companies. The service, which started in August 2004, is reportedly the first of its kind in the world. It allows overseas Filipino workers to file their remittances with the company's partners in 17 countries. Recipients can collect their money in the Philippines at any company office or partner, including some pawnshops and gas stations. The G-cash program of another major cell phone company in the Philippines also facilitates international remittances and the low-cost transfer of funds within the country. These programs illustrate innovative ways of applying information and communication technology to reach poor and low-income households with quality financial services. Such applications have the potential to fundamentally transform the region's microfinance industry and rapidly scale up services.

## INCREASED DIVERSITY OF OPERATIONS

Until the late 1990s, the microfinance industry in many Asian countries was unimodal: microfinance institutions were largely supply driven providing mainly short-term working capital loans for income-generating activities as this was considered to be the primary mechanism for helping the poor. Most firms in the industry also used the group-liability and group-lending methodology and other approaches<sup>13</sup> tested, adopted, and popularized by the Grameen Bank. In most cases, initial loan amounts and subsequent increases for group members were fixed and were applied uniformly to all borrowers (one-size-fits-all approach). Clients were required to save fixed amounts on a weekly basis and could not access the funds until they had repaid their loans and formally discontinued their membership.

Many microfinance institutions have since changed their product and service menus. Some have adjusted repayment schedules and loan sizes to align them better with the requirements of their target markets. Others have expanded their product lines. The Grameen Bank itself fundamentally changed its 20-year-old model of financial services (which its pioneer, Professor Yunus, now calls the Grameen Classic System) in August 2002 and shifted to a new system known as Grameen II. Grameen discarded the group-liability system; now each member's loan is secured against her word. Grameen also did away with the staggered loan disbursement system (members of one group can now borrow at the same time) and drastically changed its standard products to better attract and retain clients. The new approach offers, among other things, flexible loan arrangements for terms of 3 months to 3 years and variable repayment schedules to avoid seasonal difficulties.

Grameen has also introduced new savings products. Although some fixed savings deposits are still compulsory, the weekly savings facility has been opened up to enable members to deposit and withdraw at will. More significant is the new contractual savings account called the Grameen Pension Scheme with 5- or 10-year terms for members. According to Micro-Credit Ratings International, Ltd.,<sup>14</sup> a specialized microfinance rating agency based in India, several leading microfinance institutions in that country have also started to move away from the Grameen Classic System. As a result, they are more innovative and are now providing individual loans in addition to group loans and plan to increase individual loans in the future.

Many microfinance institutions have either changed repayment schedules or have introduced new products with relatively flexible schedules. Some microfinance institutions offer monthly or quarterly repayment schedules for agricultural loans based on requests from members. Many institutions have recently adjusted the terms of their loans and are deviating from the classic system's pre-fixed initial loan size and uniform subsequent loan increments. Subject to a specified ceiling, in many cases loan sizes are flexible partly in response to high client dropout rates. They are also increasingly expanding their product lines which has increased their value to poor and low-income households. Housing finance in particular has started to figure prominently in the expanding product line. ADB has supported a number of microfinance institutions in Indonesia and the Philippines to extend housing loans to poor and low-income households (*see box at right*).

Most NGOs that were transformed into regulated financial institutions have also introduced new saving products in recent years and are now mobilizing savings not just from their borrowers in the target market but from a much broader market that includes higher income households. Many have made impressive progress. The story of the Association of Cambodian Local Economic Development Agencies (ACLEDA) Bank's savings mobilization is perhaps the most interesting (*see graph at right*). ACLEDA Bank had only 3,826 deposit accounts with a total outstanding deposit amount of \$2.0 million at the end of 2001; however, at the end of December 2004, it had 57,091 deposit accounts with \$31.6 million in outstanding deposits. Although some large companies and higher income households are among the depositors, most users of this service are small savers. BRI units increased their deposit accounts from \$25.8 million at the end of 2000 to \$29.9 million at the end of 2003, and their deposit volume increased from \$1.98 billion to \$3.24 billion during this period.

## ADB EXTENDS THE BOUNDS OF MICROFINANCE: INITIATIVES IN HOUSING

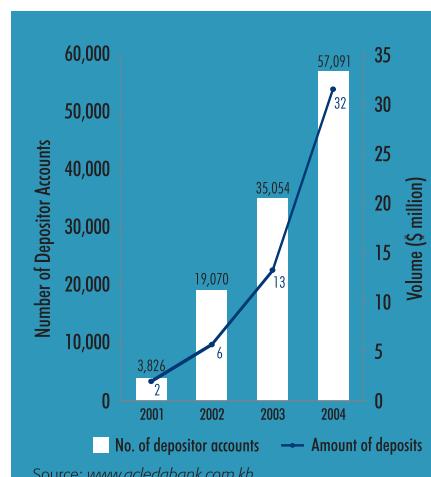
In most developing countries, the poor have no access to housing finance from formal financial institutions. In the Philippines, official data indicate that more than 40% of urban families (over 10 million people) live in makeshift dwellings in informal settlements where safe water, good sanitation, and drainage systems are grossly inadequate. Some 91 million people live in Indonesian cities; the government currently estimates a shortfall of 6 million houses for poor families.

ADB's Philippines Development of Poor Urban Communities Sector Project and the Indonesian Neighborhood Upgrading and Shelter Sector Project work with local governments and nongovernment organizations to ensure appropriate, affordable plots are available and that financial and microfinance institutions provide funds to purchase them.

The projects reflect the differences in the structure and capacity of the two governments, the sophistication of participating NGOs, and the capital market. In the Philippines, capital markets are more accepting of relationships between the formal and informal sectors, so it has been possible to enhance standard urban microfinance risk mitigation measures by linking microfinance institutions working with the project to the established partial cash flow guarantee of the Home Guaranty Corporation. In Indonesia, such an approach would have been too ambitious; the loans provided do not have collateral and are shorter term. In the Philippines, the microfinance shelter provision component will benefit over 20,000 poor urban households while in Indonesia, 180,000 households in a minimum of 30 urban local government areas will benefit.

Another aspect of the changing market is the increase since the late 1990s in other products and services such as money transfers, remittances, and micro-insurance. For example, the volume of domestic money transfers of ACLEDA Bank increased from \$7.1 million in 2001 to \$28.1 million in 2002 and \$68.5 million in 2003. The number of transactions increased from about 6,000 in 2002 to nearly 18,000 in 2003. In January 2004 with a commercial banking license, ACLEDA Bank introduced a direct international fund transfer service.<sup>15</sup> To enter the remittance market, some institutions have established partnerships with commercial banks and other established service providers while others are exploring ways to leverage remittances to provide medium-term loans for their clients. ADB and a number of other funding agencies are formulating programs to support these initiatives. ADB completed a study on remittances of overseas workers from the Philippines<sup>16</sup> to identify how to improve the flow of remittances and to maximize their development impact. The study indicates that microfinance institutions can enhance the ability of recipients to leverage their funds. In December 2004, ADB approved a regional technical assistance project for Southeast Asia to identify factors in the policy, regulatory, and institutional frameworks that have an impact on remittance flows and to propose country and regional action plans to increase flows and to channel them through the formal banking system.

Micro-insurance has also recently been added to the product lines of many Asian microfinance institutions.<sup>17</sup> Until the 1990s, the main purpose of insurance was to protect the microfinance institutions themselves. Now some have established specialized institutions to provide micro-insurance. A number of other



### ACLEDA BANK DEPOSIT MOBILIZATION 2001–2004

(position at end of each year)



microfinance institutions have established partnerships or agency arrangements with established insurance companies. However, given the complexity of developing sustainable insurance services for the poor, funding agencies have to provide considerable assistance for capacity building. To assist these agencies, CGAP's Working Group on Micro-insurance has recently produced a set of preliminary donor guidelines.<sup>18</sup>

## BROADER TARGET MARKETS

The Asian microfinance industry, perhaps with the exception of Indonesia, has traditionally focused on providing microcredit to rural women below and just above the poverty line unlike the Latin American industry which has focused on microenterprises. Recently, however, the target group in Asia has been changing, and the range of clients has become much broader.

Many of the leading Asian microfinance institutions have noted the importance of serving microenterprises in addition to their traditional clients. This appears to have been prompted by at least two factors. First, they seem to have realized that handing over their mature clients to established, conventional financial institutions does not make good business sense, particularly in an increasingly competitive and commercial market. Second, they seem to have recognized the benefits that these enterprises can generate to the poor in terms of employment, hence the link between microenterprise lending and poverty reduction. Sarvodaya Economic Enterprise Development Services in Sri Lanka and Tulay sa Pag-unlad, Inc. in the Philippines, two microfinance NGOs with which ADB has been working, have introduced a loan product to serve microenterprises with a view to creating new employment opportunities.

As was pointed out earlier, the target microfinance market is changing to include the poorest. This development is encouraging for ADB because it has supported the broadening of microfinance services since the mid-1990s. Recent developments are most visible in Bangladesh. BRAC has continued its innovative, 16-year-old income generation for vulnerable group development program for the poorest but in January 2001 introduced a new program—Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor (see box at right). BRAC's Addressing New Vulnerabilities program that started in July 2002 also illustrates how the target markets of microfinance institutions are expanding. This program focuses on women retrenched from the garment

industry who are vulnerable to exploitation. The program expects to retrain these women—about 200,000—before inviting them to join the urban groups of its rural development program. Of the first batch of 1,300 who completed training, about 70% have joined.

Broadening the target group is not limited to the asset side of the balance sheets of these institutions: it is spreading to the liability side as well. Many microfinance institutions with legal charters to provide deposit services have begun to include the nonpoor by offering deposit products, particularly term deposits with higher minimum requirements, to improve their roles as financial intermediaries and to diversify their sources of financing. This is similar to the deposit mobilization approaches followed by many Latin American microfinance institutions since the mid-1990s. The Asian microfinance institutions that are expanding their domains in this manner include ACLEDA Bank in Cambodia, Xac Bank and Khan Bank in Mongolia, and the First Microfinance Bank in Pakistan. By expanding resource mobilization through public, voluntary deposits, these institutions reduce their reliance on donor funds.

## TARGETING THE ULTRA POOR PROGRAM

**Using improved tools, BRAC's Targeting the Ultra Poor (TUP) program in Bangladesh begins by actively seeking out the very poorest women. It then offers them a special investment program in the form of a grant of productive assets worth about \$120 and a subsistence allowance (called a stipend) of about 300 taka (approximately \$6) a month for 18 months. Participants open a special savings account and are invited to save and withdraw at will, but are encouraged to build a savings balance big enough to help them reinvest in productive activities. The special investment program is only one of four special programs that are simultaneously available to participants. The others are training courses on how to exploit assets, on health care, and on social development. The microfinance element in all this is small—just the savings facility—but BRAC's goal is to graduate women from both income generation for vulnerable group development and TUP into membership in their standard microfinance scheme.**

Source: Rutherford, Stuart, et al. 2003. *Microfinance Products and Services for the Very Poor in Bangladesh: Innovations and Opportunities*. Unpublished report for Microfinance Local Consultancy Group/Department for International Development, Bangladesh ([www.adb.org/documents/TARs/PHI/tar-phi-4185](http://www.adb.org/documents/TARs/PHI/tar-phi-4185)).

## COMMERCIALIZATION

The potential market for microfinance is large and the demand for the scarce resources of funding agencies is great. ADB and others cannot, therefore, individually or collectively supply all the resources needed for scaling up services. Based on this simple fact, ADB's microfinance development strategy emphasizes the need to commercialize the industry. In 2000, ADB initiated a regional study on commercialization to improve its understanding of the process as well as its challenges, implications, and prospects.<sup>19</sup>

The study indicated a significant increase in the commercialization of the microfinance industry in a variety of ways in most countries. The policy environment has improved in general in many countries since the 1990s. The legal framework has also improved. The supervision and regulation of microfinance institutions that accept deposits have attracted greater attention, and more countries are making efforts to reform and improve the performance, regulation, and supervision of cooperatives. In addition, various support institutions have expanded in the region. The establishment and expansion of microfinance-focused credit rating institutions is a major change in the support structure. Micro-Credit Ratings International, Ltd. made 170 ratings of 123 microfinance institutions in South Asia between September 1998 and June 2003. Of those, 86 were rated once, 28 twice, 8 three times, and 1 four times. This clearly shows that the industry is commercializing.

The PRC is the only large country in the region where the microfinance industry has not yet shown signs of development, but some significant policy changes have recently been introduced. A pilot project aimed at consolidating RCC management is proceeding in eight provinces, and interest rate caps—a major policy barrier for the growth of microfinance—have been relaxed. In August 2004 based on the results of the pilot, the People's Bank of China and the China Banking Regulatory Commission announced full-scale implementation of the reform package for RCCs in 21 provinces. ADB is supporting sustainable development of RCCs in underdeveloped areas of Guizhou Province and the Inner Mongolia Autonomous Region through technical assistance. These measures are likely to gradually change the landscape of the industry in the PRC.

A small group of microfinance institutions in the region has already achieved financial sustainability and has shown that financial services can be provided to poor and low-income households profitably. This group includes large NGOs like BRAC and the Association for Social Advancement (ASA) in

Bangladesh, regulated banks like ACLEDA in Cambodia, non-bank financial institutions like Share Microfin Ltd. in India, and AMRET in Cambodia. These institutions are making a difference and giving a new face to the industry.

A growing number of microfinance institutions are

- adopting a professional, business-like approach to their operations and becoming more market oriented and demand driven;
- reporting profits and impressive returns on equity and assets;
- increasing their financial sustainability through concerted efforts;
- using commercial sources of funds to finance their growth, reducing their reliance on subsidized funds, and even contributing to government tax revenue;
- operating as for-profit, formal institutions but with a clear social mission to serve the poor and low-income groups.<sup>20</sup>

Empirical evidence from a range of countries in the region indicates that commercialization helps the poor in a variety of ways (see box next page). Microfinance institutions see commercialization and their social mission as compatible rather than as mutually exclusive. The demands from the larger funding community, especially CGAP, to improve governance and transparency and efficiency have also contributed to this process in no small measure.

Growing competition in some markets is driving commercialization. The increasing polarization of NGOs, their consolidation, and their desire to increase individual institutional market share have a bearing on the way they provide services. These institutions are also driven by a persistent desire to improve their brand names and, in some cases, their global reputations. They are adopting professional approaches to their operations and expanding their services in the manner of established private sector companies. They are improving their governance, risk management, transparency, and disclosure policies. Above all, they have developed and conveyed to their investors, clients, and potential clients that they have clear growth strategies. This together with the better organizational capability that they have built through experience and investment in human resource development is helping them to grow rapidly. Some have placed independent directors on their boards while others have included directors with banking and accounting experience. Thus, governing boards now have a better balance between social development

and financial management and banking skills. They are also adopting improved accounting practices such as loan classification and making adequate provisions for loan losses and are introducing loan write-offs and income recognition policies. More importantly, they have opened their books to external audits by reputable firms. Many also have websites that provide detailed information on their operations to the public.<sup>21</sup>

Microfinance institutions are also paying more attention to the expense side of their income statements than before. In the 1990s, the widely held assumption was that access was more important than cost to the clients, hence cost-recovery interest rates could be charged. However, the increased empowerment and improved financial literacy of clients, growing competition in some markets, and concerns that many microfinance institutions are passing on their inefficiencies to clients in terms of higher interest rates on credit are driving these microfinance institutions to contain operating costs. Recent improvements in operating efficiency have been driven mainly by these factors and less by improvements in the scale of operations.

The small group of flagship institutions that are financially sustainable is moving to commercial sources of funding, paying more attention to the liabilities in their balance sheets, and changing the structure of their liabilities. Transformed NGOs have attracted equity investments from multilateral agencies and public development banks. Flagship NGOs have also increased their retained earnings and other reserves in recent years enabling them to reduce their reliance on grants and subsidized funds. A new breed of debt and equity suppliers that operates on a commercial or semicommercial basis is now in business in the market actively seeking clients. These suppliers provide unsecured loans based on the finances of microfinance institutions. A few microfinance institutions have already started borrowing short- and medium-term funds from these sources.<sup>22</sup> To support the development of this trend, ADB made an equity investment in 2004 in ShoreCap International, an investment fund targeting financially viable and growth-oriented microfinance institutions.

Microfinance institutions are also increasingly borrowing from commercial banks which include a range of institutions from

## DOES COMMERCIALIZATION HURT THE POOR?

ADB, the Consultative Group to Assist the Poor, and many other funding agencies have advocated the commercialization of microfinance, but there is no consensus on this in the broader microfinance community. Many promoters and practitioners have expressed fears that commercialization would shift microfinance institutions away from the poor, but it appears that such fears are not well supported by empirical evidence.

In general, if commercialization is to hurt the poor it has to move microfinance institutions away from serving poor clients, or result in poor quality products and services for them, or increase the prices of their products and services. Commercialization of microfinance does not necessarily lead to any of these outcomes. First, commercialization increases the ability of microfinance institutions to obtain funds from both

semincommercial and commercial sources. Microfinance institutions that build their capital over time through commercial approaches have a greater ability to leverage funds in the market. More importantly, commercial approaches ensure that microfinance institutions become the more robust, permanent institutions that poor people need. Moreover, the efficiency gained by commercializing enables them to offer competitive prices and better quality products and services to their clients.

Empirical evidence shows that commercialization helps the poor. The Association for Social Advancement (ASA) in Bangladesh has a commercial approach to its operations and is one of the most efficient microfinance institutions in the world. It has a strong capital base, and its outreach grew from 1.08 million active borrowers at the end

of 1999 to 2.77 million at the end of 2004. The average outstanding loan of ASA was only \$75 at the end of 2004. Similarly, Share Microfin Ltd. in India increased its active borrowers from about 15,000 in March 1999 to 437,000 at the end of 2004 at which time the average outstanding loan was only \$83. AMRET (formerly EMT) uses commercial approaches and now serves over 100,000 clients. At the end of 2003, its average outstanding loan was \$61. With its commercial approach, Unit Desas of Bank Rakyat Indonesia expanded its deposit services substantially to over 29 million rural deposit accounts at the end of 2004. In all these cases, the number of poor clients served increased dramatically. In addition, commercial institutions are not only providing services to more poor clients than most noncommercial institutions, they are also providing a wider scope of services of better quality.

state-owned to domestic medium-sized private to large private sector. ICICI Bank and Samruddhi, a rapidly growing but still small-scale microfinance institution in Andhra Pradesh, India finalized the first microfinance securitization deal in November 2003. In January 2004, Share Microfin Ltd. sold a portfolio of 42,500 loans from its books to ICICI Bank for \$4.2 million. ICICI Bank, ABN-AMRO, and Citibank in India; Planters Bank in the Philippines; and Mongolia's Khan Bank, for example, are not in the microfinance market for altruistic reasons. They have recognized the business opportunities there and have sought to take advantage of them.<sup>23</sup> Although their involvement is motivated by profit, the operations of these banks in effect lead to the improvement of services for poor and low-income households. More importantly, they have the infrastructure, resources, and capability to scale up services relatively quickly and to manage growth more efficiently and effectively than most of the specialized microfinance institutions.

## MEETING FUTURE CHALLENGES

The once almost exclusively donor-dependent Asian microfinance industry has evolved to become an industry with a diverse set of institutions offering an increasingly wide range of products and services, not just microcredit. However in most countries, the industry is led by a small group of niche market microfinance institutions that vary in vision, strategy, character, operational style, and qualities. Most of them are flagship institutions in their respective countries while some are global success stories. The rapid growth of their operations is leading to increasing polarization; some of them are already market leaders and others are on the way to consolidating their positions. This group includes not only regulated banking institutions but also regulated nonbank financial institutions and NGOs. They operate like most other established, profit-seeking, private companies but with a social mission to serve the poor. This group will continue to grow leaving behind the institutions with lackluster performances and a lack of drive to achieve scale and sustainability. Not only their efficiency but also their greater access to semicommercial and commercial sources of funds will fuel their rapid growth. The operations of these institutions will reinforce the integration of microfinance into the broader financial system.

Although potentially sustainable and already sustainable small microfinance institutions need support to expand their operations, it is unlikely that they will provide the scale of financial services necessary for the poor in countries such as the PRC and India. If microfinance services are to be relatively

quickly scaled up on a sustainable basis in countries with large potential markets, established private sector financial institutions with large infrastructure need to be encouraged to enter the market. For this to occur, financial systems must be more competitive to drive such institutions to look at the bottom of the market pyramid as a potential source of profit. ICICI Bank's entry into microfinance has set an example in India. However, in countries with large unserved and underserved markets, many such banks must enter, not just one.

At the same time, it may also be essential to look at the opportunities presented by AFIs with extensive branch networks and to take action to reform and restructure them to provide financial services for the poor. The transformation of Unit Desas of BRI and of the state-owned Agricultural Bank of Mongolia deserves more attention in this respect. In both cases, reforms enabled rapid scaling-up of services on a profitable basis. It is also necessary to unleash the untapped potential of national savings banks and postal savings institutions in a similar manner.

Although the changes that are taking place in the industry as a whole seem to point to brighter prospects for financial systems for the poor, all stakeholders have to work hard to ensure that poor and low-income households have permanent access to financial services. Governments have a critical and constructive role to play. Experience shows that financial services for the poor are sustainable and expand rapidly when governments develop sound policy and legal frameworks, ensure macroeconomic stability, and encourage competition in financial markets instead of directly providing financial services to target groups.

Governments can make a significant contribution to developing financial services for the poor by maintaining macroeconomic stability. Nothing is more harmful for microfinance than high inflation. Consistently low inflation rates help the microfinance industry to achieve high growth rates; high inflation rates erode the capital of microfinance institutions and retard their growth. Governments should allow the private sector and NGOs to play a dynamic role in microfinance. An effective way to do this is to avoid direct service provision by government agencies and interest rate caps that reduce the attractiveness of microfinance to the private sector. Governments should improve legal and regulatory frameworks to encourage private sector investment in microfinance institutions and to ensure institutional diversity in microfinance markets and should also make sure that agencies responsible for supervising financial

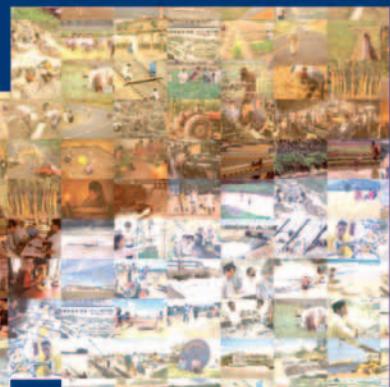
institutions are capable of doing so. Furthermore, it is important that governments increase investments in rural infrastructure and improve law and order to reduce both the risks and transaction costs of providing financial services. Currently most institutional microfinance is confined to areas with relatively better facilities.

Finance ministries, central banks, and other government institutions need to recognize that services for poor and low-income households are an integral part of the financial system. A system that serves only a minority of the population of a

country is unacceptable. Inclusive financial systems should be a central goal of every developing member country government of ADB. Giving prominence to this goal and working toward it will help governments to end financial exclusion, reduce poverty, and achieve the Millennium Development Goals. However, the most powerful forces that may lead to a quantum jump in the scale of financial services for the poor will most likely come from the technological changes that reduce risk and transaction costs and from market liberalization and product and process innovations that increase competition in domestic financial markets.

## ENDNOTES

- 1 ADB. 2004. *Report on Poverty in Asia*. Manila.
- 2 Consultative Group to Assist the Poor (CGAP). 2004. Financial Institutions with a “Double Bottom Line”: Implications for the Future of Microfinance. *Occasional Paper No. 8*. Washington, DC: CGAP.
- 3 Cambodia’s Association of Cambodian Local Economic Development Agencies (ACLEDA) Bank, Bangladesh’s Association for Social Advancement (ASA), Philippines’ Center for Agriculture and Rural Development (CARD) NGO, and Nepal’s Nirdhan Utthan Bank Limited have focused on providing short-term working capital loans without collateral for income-generating activities and have mainly targeted women.
- 4 CGAP. 2003. *CGAP Phase III Strategy 2003–2008*. Washington, DC: CGAP.
- 5 Prahalad, C.K. 2004. *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. New Jersey: Wharton School Publishing.
- 6 ADB. 2000. *The Role of Central Banks in Microfinance in Asia and the Pacific: Overview*. Manila and ADB. 2000. *The Role of Central Banks in Microfinance in Asia and the Pacific: Country Studies*. Manila.
- 7 At the end of September 2002 according to a research study financed by ADB, 2,143 of them had 1.9 million loan accounts and 5.2 million deposit accounts. ADB. 2003. Charitonenko, S. and Ismah Afwan. *Commercialization of Microfinance: Indonesia*. Manila.
- 8 The number of deposit accounts grew from 4.76 million at the end of 1998 to 5.91 million at the end of 2003, an increase of 24%. The small average account size (about \$35) of the cooperative rural banks suggests that most of their clients are poor; ADB is now assisting them to improve their governance, sustainability, and service quality.
- 9 ADB Institute is carrying out a study to evaluate the poverty impact of Khushhali Bank’s operations.
- 10 Through the National Bank for Agriculture and Rural Development (NABARD), the Government of India has facilitated the extensive expansion of self-help groups by direct, unsecured lending by commercial banks and by refinancing the loans of those banks. According to NABARD, self-help groups comprised 16 million families and an estimated 90 million poor in rural areas at the end of March. [www.NABARD.org](http://www.NABARD.org). However, the sustainability of many of these groups is an open question.
- 11 Nagarajan, G. 2003. Going Postal to Deliver Financial Services to Microclients. *Finance for the Poor*. 4(1).
- 12 Most of its loans are small: in 2003 about 56% were less than \$60. This, together with the range of items that Perum Pegadaian accepts for pledges (used clothes, clothing materials, and small electrical appliances like rice cookers and irons) suggests that most of its clients are from poor and low-income households. Fernando, Nimal A. 2003. Pawnshops and Microlending: A Fresh Look is Needed. *Finance for the Poor*. 4(1).
- 13 There were notable exceptions, however. Unit Desa system of BRI (Indonesia) and ASA (Bangladesh), for example, did not use group liability or group-lending methodology.
- 14 Micro-Credit Ratings International Ltd. (M-Crill). 2002. *Improving Microfinance Practice*. Gurgaon, India: M-Crill.
- 15 [www.acledabank.com.kh](http://www.acledabank.com.kh)
- 16 [www.adb.org/documents/TARs/PHI/tar-phi-4185](http://www.adb.org/documents/TARs/PHI/tar-phi-4185)
- 17 It appears that some well-known microfinance academics and researchers consider micro-insurance as the “next revolution” in microfinance, e.g., Morduch, J. (2004) *Microinsurance: the Next Revolution?* [www.nyu.edu/fas/institute/dri/DRIP12.pdf](http://www.nyu.edu/fas/institute/dri/DRIP12.pdf)
- 18 The guidelines can be accessed from [www.microfinancegateway.org/files/13836\\_Draft\\_Donor\\_Guidelines.pdf](http://www.microfinancegateway.org/files/13836_Draft_Donor_Guidelines.pdf)
- 19 The results of the regional study are reported in ADB. 2004. Charitonenko, et al. *Commercialization of Microfinance: Perspectives from South and Southeast Asia*. Manila.
- 20 For country evidence and discussion see ADB. 2002. Charitonenko and Rahman. *Commercialization of Microfinance: Bangladesh*. Manila. ADB. 2002. Charitonenko and Afwan. *Commercialization of Microfinance: Indonesia*. Manila. ADB. 2003. Charitonenko. *Commercialization of Microfinance: Philippines*. Manila. ADB. 2002. Charitonenko and de Silva. *Commercialization of Microfinance: Sri Lanka*. Manila.
- 21 The website of ACLEDA Bank (Cambodia)—[www.acledabank.com.kh](http://www.acledabank.com.kh)—is an excellent example that illustrates how far the high flyers have improved information disclosure in recent years. Other microfinance institutions also have websites that provide a great deal of information on their operations.
- 22 Share Microfin Ltd. in India, CARD Rural Bank in the Philippines, AMRET in Cambodia, and Xac Bank in Mongolia have borrowed from the Dexia Micro-Credit Fund, one of the few funds dedicated to commercial financing of microfinance institutions in the world. It was incorporated in Luxembourg. For details, see [www.blueorchard.ch](http://www.blueorchard.ch).
- 23 Prahalad and Hammond (2002) discuss the profit opportunities in this market and how a number of companies have strategically tapped the potential profitability. Prahalad’s new book (2004) provides more examples on the same.



## PART 1: INSTITUTIONAL EFFECTIVENESS

ADB made significant progress in 2004 in its efforts to maximize the effectiveness of its products, services, outcomes, operations, and resources. The recommendations in the review of the poverty reduction strategy (PRS) were instrumental in formulating the Reform Agenda adopted in June that sets out 19 interrelated initiatives that together will make ADB more responsive, accountable, and effective. Mainstreaming managing for development results (MfDR) throughout ADB operations is a high priority. The accountability mechanism adopted at the end of 2003 became fully operational and provides a venue and process for people or groups who perceive themselves as adversely affected by ADB-assisted projects or who allege noncompliance with ADB policies and procedures to voice their grievances and seek redress.

The knowledge management framework set out a structure and time frame for making ADB an effective knowledge bank as well as a development bank. To that end, capacity development was added as a fifth thematic priority. To enhance ADB's credibility and to achieve greater development impact, the Operations Evaluation Department (OED) began reporting to the Board of Directors through the Development Effectiveness Committee (DEC), and for the first time, the Board appointed the Director General of OED on the recommendation of the committee and the President.

The President approved the new human resource (HR) strategy following external independent studies, internal assessments, and consultations with the Board of Directors, Management, and staff. The new strategy supports ADB's Long-Term Strategic Framework 2001–2015 (LTSF), PRS, MfDR, the knowledge management framework, and the new information systems and technology strategy (ISTS II) (see *box on page 36*). It identifies 20 actions some of which are ready for implementation.

The Board of Directors approved two major special capital budget projects to improve security and renovate headquarters. The security projects—including application of shatter-resistant film, protection of outside air intake for the air-conditioning system, and fencing—started in mid-2004 and are expected to be completed in 2006.

The Business Continuity Management Working Group led by the Office of Administrative Services (OAS) and assisted by external consultants began work on a strategy to mitigate risks to business operations and to reduce their impact by timely responses to disruptions in procedures. The review of new business processes completed in the first half of 2004 made

recommendations for improving efficiency and quality assurance. ADB also continued to form and strengthen partnerships with nongovernment organizations (NGOs) and with other multilateral development banks (MDBs) and agencies.

## MANAGING FOR DEVELOPMENT RESULTS

During the last 5 years, the development community has shifted its emphasis toward achieving the Millennium Development Goals (MDGs). A series of multilateral forums have helped focus this agenda. Key events included the International Conference on Financing for Development (Monterrey, 2002), the High-Level Forum on Harmonization (Rome, 2003), and the Second International Roundtable on MfDR (Marrakech, 2004).

In Marrakech, the heads of MDBs and the chairman of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) affirmed their commitment to fostering a global partnership on MfDR. They pledged to implement this commitment by aligning cooperation programs with desired results and strengthening country monitoring and evaluation systems to track progress and assess outcomes. The commitments made by development partners in these important forums have improved alignment of

---

## PERFORMANCE-BASED ALLOCATION OF ASIAN DEVELOPMENT FUND RESOURCES

Management's recommendations for strengthening the policy on the performance-based allocation of Asian Development Fund (ADF) resources were approved by the Board of Directors in December 2004. These recommendations were based on an extensive review of lessons learned in implementing the policy from 2001 to 2004 and on the experiences of other multilateral development banks. The revised policy will strengthen the link between country performance and the allocation of ADF resources, will elevate the role that governance plays in evaluating performance, and will require close engagement with borrowing countries. Shifting the allocation of ADF resources to a biennial cycle and providing greater operational flexibility in the timing of the use of ADF resources will ensure a better alignment of performance-based allocations with other business processes, particularly country programming. The revised policy will guide the allocation of resources from 2005 onward and now includes explicit eligibility and assessment criteria for allocations for postconflict countries and subregional projects. The policy also provides for limited allocations for poorly performing countries to be judged on a case-by-case basis.

---

development assistance with developing countries' strategies, supported harmonization of donor policies and procedures, and clarified best practices in delivering development assistance.

During the Asian Development Fund (ADF) IX negotiations (2003–2004), ADB committed itself to an MfDR framework consisting of three pillars: MfDR at the country level, MfDR at the institutional level, and MfDR in the context of global partnership. The ultimate goal of MfDR is to ensure the continued relevance and effectiveness of ADB as a development institution committed to reducing poverty in Asia and the Pacific.

## MfDR at the Country Level

Country ownership and capacity to manage for results are of primary importance for the success of the ADB MfDR agenda. At the country level, ADB's efforts have focused primarily on capacity development and introduction of new tools and processes to better define, measure, and monitor results "on the ground."

- An important dimension relating to the capacity of developing member countries (DMCs) is the development of their own MfDR agenda. Awareness raising and "demonstration of success" through focused technical assistance have been the preferred approaches to MfDR capacity development. Two regional technical assistance projects introduced MfDR techniques into sector agencies in specific DMCs. ADB also provided technical assistance to help build domestic statistical capacity for data collection, reporting, and monitoring of development results.
- MfDR is an important new area for active collaboration among various ADB departments and the ADB Institute. A development management course for DMC executives was designed in this framework. ADB also collaborated with the Asian Institute of Management on a seminar series on results-based management.
- A cooperation fund in support of MfDR, with contributions from the governments of Canada and the Netherlands, was established in July 2004 to support pilot DMC initiatives aimed at promoting the adoption of results-based approaches and techniques in public sector management.

## MfDR at the Institutional Level

The institutional pillar encompasses a variety of internal efforts to streamline and enhance the results orientation of ADB's management systems and business processes.

- Some major initiatives undertaken as part of ADB's reform agenda reflect its increased results orientation, including the new HR strategy and the staff performance development plan, the knowledge management framework, and institutional reporting mechanisms under the enhanced PRS.
- A critical short-term priority is to enhance the results orientation of ADB's budgeting and planning instruments and processes. The preparation of ADB's next medium-term strategy will provide an opportunity to advance in this area.
- As an initial and important step of MfDR implementation, ADB created the Results Management Unit (SPRU) within the Strategy and Policy Department to effectively lead the effort to introduce improved systems, procedures, and techniques for better measuring, monitoring, and managing for development results in ADB and among DMCs.
- ADB is preparing results-oriented country strategies and programs (CSPs) in selected pilot countries. The increased results orientation of CSPs encompasses mechanisms to ensure (i) alignment with DMC priorities and systems, (ii) prioritization and selectivity of ADB interventions, and (iii) measurement of ADB's contribution to relevant country outcomes. Notably, ADB's first results-based CSP pilot in Nepal was endorsed in 2004 by the Board of Directors. Further pilots are being prepared or planned for Bangladesh, Fiji Islands, Indonesia, Philippines, and Viet Nam. ADB is also preparing results-based regional cooperation strategies and programs.
- An enhanced project performance management system developed in 2004 emphasizes more systematic use of logical frameworks and provides a results-oriented approach to project management. It includes specific measures to improve the design and the use of logical frameworks as a basis for both quality at entry assessment during project preparation and results management and performance assessment during project implementation.
- SPRU conducted extended consultations with development partners on various aspects of ADB's MfDR agenda, with an emphasis on achieving country-level results. SPRU also worked with other units throughout ADB to increase results orientation in its corporate strategies and policies, strengthen knowledge management, and establish support mechanisms for a learning culture.
- The *Results Matter* newsletter and the MfDR websites were established as vehicles to facilitate knowledge acquisition and sharing among ADB staff and to promote the MfDR agenda internally.

## Participation in Global Partnership

At the global level, ADB supports the participation of its DMCs in international events on MfDR and participates in international alliances and partnerships on MfDR to acquire, adapt, and disseminate knowledge on results and development effectiveness for the benefit of its DMCs.

- ADB cosponsored the Second International Roundtable on Managing for Development Results in Marrakech in February, leading to the endorsement of the MfDR Core Principles and Action Plan.
- ADB was also heavily involved in the preparations for the Second High-Level Forum on Harmonization, Alignment, and Results (to be convened in 2005). In this context, ADB organized and cosponsored the two preparatory regional workshops in Bangkok (cosponsored with the Government of Japan) and Bishkek (cosponsored with the European Bank for Reconstruction and Development and the United Kingdom's Department for International Development). The workshops stimulated discussion and the sharing of best practices among DMCs on harmonization, alignment, and MfDR.
- ADB holds the inaugural chair of the MDB Working Group on MfDR and also cochairs the OECD-DAC Joint Venture on MfDR.
- ADB actively promotes the harmonization of operational policies and procedures among its development partners and the coordination of support to its DMCs to help them manage for development results.

## ACCOUNTABILITY

### Accountability Mechanism

ADB's new accountability mechanism was approved in May 2003 and became effective on 12 December of that year. It replaced the Inspection Function. The aim was to improve development effectiveness, project quality, and transparency in operations. Its two functions—consultation and compliance review—provide for problem solving and for investigating alleged violations of ADB's policies and procedures, respectively.

People who are directly, materially, and adversely affected by an ADB-assisted project in the course of its formulation, processing, or implementation can file a complaint with the Office of the Special Project Facilitator (OSPF) headed by the Special Project Facilitator (SPF) who reports directly to the President of ADB. This initiates the consultation function of the mechanism, the goal of which is to seek agreement among all

parties involved on solutions to the problems identified in the complaint. After determining whether a complaint is eligible for consultation, OSPF provides a venue and process for problem solving that can include fact-finding reviews, meetings, roundtable discussions, stakeholder consultations, and other means appropriate to the situation. Consultations are successful when remedial actions are agreed. The SPF is responsible for monitoring and reporting implementation of any agreement. The SPF's functions do not supplant the project administration and problem-solving functions of the operations departments and will not interfere in the internal matters of a DMC.

In 2004, the OSPF finalized its operational procedures and established office procedures, systems, and a website ([www.adb.org/spf](http://www.adb.org/spf)). OSPF met with a wide range of civil society groups and government representatives at headquarters and in Australia, Germany, Indonesia, the Netherlands, the Pacific, and Sri Lanka to create awareness on the consultation phase and to discuss stakeholders' roles and responsibilities in dealing with complaints.

OSPF received three complaints: (i) Melamchi Water Supply project (MWSP) in Nepal on 3 May 2004, (ii) Southern Transport Development project (STDP) in Sri Lanka on 9 June 2004, and (iii) Sixth Road Project in the Philippines on 27 September 2004. Both the MWSP and STDP complaints were declared eligible. The complaint on the Sixth Road Project was ineligible. The review and assessment of MWSP was completed. SPF arranged with the executing agency to attend to the grievances of the complainants; however, they withdrew from the consultation phase and filed for compliance review on 8 October 2004. SPF then closed the consultation phase. After review and assessment and agreement on a course of action of the parties involved, the STDP complaint is in an intensive phase of conflict resolution/problem solving with an independent facilitator. The complainants have also filed for compliance review as allowed under the accountability mechanism.

The Compliance Review Panel (CRP), supported by the Office of the Compliance Review Panel (OCRP), carries out the compliance review phase. It is a three-member independent body that investigates whether any harm suffered by people in a project area was caused by a violation of ADB policies and procedures. CRP reports directly to the Board of Directors except for two matters when it reports through the Board Compliance Review Committee, a standing Board committee that clears its terms of reference and time frame and reviews

its draft monitoring reports before they are finalized by the panel. CRP determines whether a request is eligible and with the Board's authorization carries out an investigation. If there is any violation of ADB's policies and procedures, CRP recommends remedial actions to the Board to ensure compliance.

In August 2004, the Board of Directors mandated CRP to monitor the implementation of remedial actions for the Chashma Right Bank Irrigation Project (Stage III) in Pakistan approved by the Board of Directors under the inspection function. In addition to annual reporting under this Board mandate, CRP provides the Board of Directors with progress reports on implementation. In December 2004, CRP carried out eligibility review missions for the STDP and MWSP requests; it determined that the STDP request was eligible but that the MWSP request was not. The Board of Directors authorized the CRP to carry out a compliance review of the STDP request in January 2005.

CRP finalized its operating procedures in 2004 after inviting comments from interested parties. CRP members, OCRP, and OSPF attended the Meeting of Accountability Mechanisms in May 2004 hosted by the World Bank and agreed that ADB would host the second meeting in Manila in April 2005. A separate database of consultants was created to assist CRP. Information dissemination and outreach activities included translating the accountability mechanism information brochure into Bahasa Indonesia, Bangla, Chinese, Hindi, Khmer, Lao, Nepali, Russian, Sinhala, Pilipino, Tamil, and Urdu and translating the CRP's operating procedures into Bahasa Indonesia, Chinese, Hindi, Khmer, Nepali, Russian, Sinhala, Tamil, and Urdu. The OCRP developed and launched an independent CRP website ([www.compliance.adb.org](http://www.compliance.adb.org)) to ensure transparency in its operations, including making reports, publications, and information materials accessible to the public.

## Audit and Anticorruption

The Office of the Auditor General (OAG) conducts periodic, independent, and objective appraisals of ADB activities to ensure that internal controls are adequate and effective and to improve economy and efficiency in the use of resources. OAG also addresses alleged incidents of corruption or fraud in ADB projects or by its staff. OAG reports directly to the President; the Audit Committee of the Board of Directors reviews OAG's activities.

OAG undertook 20 audits in 2004 that resulted in recommendations for strengthening internal controls and for

improving effectiveness and efficiency, in regard to (i) project contract awards/commitments and disbursements, (ii) staff retirement fund bond issues, (iii) investment decisions, (iv) interregional technical assistance projects, and (v) financial and administrative operations of resident missions (RMs) and a representative office. Information technology (IT) audits recommended (i) modifying system setups, redefining system authorities, and activating alerts and audit trails; (ii) comprehensive testing of systems under development; and (iii) setting priorities for the systems to be recovered in case of disaster.

OAG also reviewed eight randomly selected consultants' contracts, a function previously conducted by the external auditors, to confirm the authenticity of documentation submitted during negotiations. These audits resulted in recovery of overpayments and led to strengthening ADB's internal control procedures. ADB took the initiative of reviewing and adopting best practices as recommended by the Sarbanes-Oxley Act of the United States Congress, even though ADB is not required to comply with provisions therein.

OAG assisted PricewaterhouseCoopers, ADB's external auditors, in its audit of ADB's annual financial statements including the review of selected transactions on loan disbursements, investments, borrowings, and administrative expenses. OAG also provided administrative support in processing management representation letters related to the audit and bond offerings. The selection of ADB's external auditors for fiscal year 2005–2008 was coordinated by OAG and followed the prescribed procedure for inviting and reviewing technical and financial proposals of accounting firms of international reputation (four accounting firms were invited; however, only two submitted proposals). PricewaterhouseCoopers was again appointed for 4 years.

The Anticorruption Unit (the Integrity Division effective 1 January 2005) is the contact point for reporting allegations of fraud and corruption in ADB projects or among its staff members. In 2004, the unit opened 99 investigations for a total of 463 investigations since the adoption of the Anticorruption Policy in 1998. ADB reprimanded 2 firms and declared 59 firms and 66 individuals ineligible to participate in ADB-financed activities. A cumulative total of 108 firms and 116 individuals was declared ineligible through 2004, but 20 firms and 14 individuals upon expiration of their sanction periods and with the approval of the oversight committee regained eligibility, leaving 88 firms and 102 individuals ineligible at the end of the year.

The Anticorruption Unit conducted procurement audits of two road projects, one each in South Asia and Southeast Asia, and increased awareness of the Anticorruption Policy and its functions through presentations, workshops, publications, and a series of presentations to all staff members on ADB's principles of behavior and conduct.

OAG completed a technical assistance project for strengthening the training capability of the Asian Organisation of Supreme Audit Institutions. This project produced regional guidelines on fraud and corruption and 25 new training specialists in DMCs. In addition, a workshop in the People's Republic of China (PRC) on public debt and one in Papua New Guinea on ADB requirements on submission of audited project accounts and financial statements were conducted, including a module on fraud awareness and anticorruption. OAG publishes an annual report on its anticorruption activities, which is posted on its website, [www.adb.org/anticorruption](http://www.adb.org/anticorruption).

## **KNOWLEDGE MANAGEMENT**

ADB has accumulated extensive knowledge in its nearly 4 decades of development work in Asia and the Pacific and recognizes the importance of this institutional asset. The LTSF 2001–2015 spells out ADB's commitment to become a learning institution and a primary source of development knowledge in the region drawing upon resources, skills, and expertise both inside and outside the organization; learning quickly from its own experiences and those of its partners; and sharing knowledge with those partners, with DMCs, and with ADB staff to effectively solve development challenges. To realize this commitment, ADB adopted a knowledge management framework in June that specifies five goals to achieve in the next 4 years.

- The organizational culture of ADB will support knowledge sharing. Staff will be empowered and encouraged to fully participate in implementing the framework with assistance from the new HR strategy, training, and improved IT infrastructure and services.
- Knowledge products and services will be managed more effectively to ensure their quality and timely dissemination. ADB will take a more strategic approach to planning and delivering to DMCs its knowledge services and products that are generated from its own studies, through its lending operations, and through staff participation in conferences and seminars.
- Business processes and IT will be updated. Improved storage processes and systems will make data searches less

cumbersome. Another initiative is mapping expertise within ADB through a skills and knowledge database of staff and enhanced consultant profiles. Tapping the knowledge of experienced colleagues will promote efficiency and add value to all ADB operations.

- ADB staff will actively share knowledge through communities of practice i.e., professional networks that act as think tanks and provide advice in sector or thematic areas. IT tools were introduced in November to support this knowledge exchange.
- Knowledge sharing with external stakeholders and other parties will be expanded. ADB will proactively strengthen partnerships with like-minded organizations and networks to exchange ideas, insights, and lessons learned.

A knowledge management center was established to implement the framework. ADB also joined the Most Admired Knowledge Enterprises (MAKE) network. Progress in implementing the framework will be closely monitored, assessed, and published in MAKE reports.

## **Asian Development Bank Institute**

It is the Institute's policy to respond positively to requests for assistance and cooperation from stakeholders wherever possible. In considering requests, priority is given to work that fits into the four strategic themes of the Institute's 3-year rolling work plan: poverty reduction, regional cooperation, private sector

---

## **INFORMATION SYSTEMS AND TECHNOLOGY STRATEGY 2004–2009**

The vision of ADB for its information technology (IT) services is to provide access to knowledge and information any time, any place, in support of ADB's goals. The objectives of the information systems and technology strategy for 2004–2009 which was approved by the Board of Directors in June, are to (i) provide information systems that support ADB's core business activities, (ii) deliver a knowledge management framework, (iii) institutionalize the partnership between ADB operations and IT, and (iv) develop IT services that are secure and reliable. To ensure that these objectives are met, an internal business sponsor will be required for each IT project, every IT investment will be based on the outcome of a business process review and proper justification, and systems will be developed with due regard to the public communications policy. The capital expenditure budget includes funds for information systems development, technology infrastructure, and IT governance.

---

development, and governance. In addition, the Institute is working to strengthen its capacity to use information and communication technology (ICT) (such as Internet outreach, virtual meetings, CD-ROMs, and videolinked training) in support of ADB's overall approach to knowledge management. As part of a commitment to align its work with ADB's mission, ADB Institute actively looks for ways to cooperate in activities with both ADB headquarters and resident missions. Numerous joint activities and staff exchanges have been arranged, as well as mutual use of facilities for conferences and meetings.

Capacity building and training (CBT) activities expanded considerably during 2004. A total of 16 courses were conducted in the areas of poverty reduction, regional cooperation, private sector development, and governance. Six of these courses were directly related to ICT and "e-topics." Around 600 participants from DMCs were trained, a quarter of them women. Over 20 CD-ROMs (CD-Rs) were produced from the course materials, including 8 interactive or lecture CD-Rs and 15 covering proceedings. Country-specific CBT programs were initiated in the PRC, India, and Indonesia to meet the growing demand for tailor-made training programs in local languages. (Viet Nam and other transition countries will be served by the separate Japan Fund for Public Policy Training which is administered by a unit of ADB Institute (see page 5). As part of an ongoing knowledge management activity, almost 20 reviews of development-oriented CD-Rs produced by various organizations (similar in nature to book reviews) were posted on the Institute's expanded website ([www.adbi.org](http://www.adbi.org)). ADB Institute appears to be the only institution in the world regularly reviewing developmental CD-Rs.

Research activities were concentrated around three of the priority areas. A major output in the poverty reduction theme was the completion of country studies on the effectiveness of poverty targeting measures in a number of DMCs. In governance, a series of country studies was completed that surveyed the current state of corporate governance. Evaluating these measures and identifying current challenges are essential for the further improvement of corporate performance where the private sector is becoming increasingly important for development. Eight other in-house research studies were formally published, as well as an important survey of postconflict reconstruction of Afghanistan's economy. In addition to its own research program, ADB Institute supports visiting researchers (mainly from the region) who work on one of the strategic themes. Five visiting researchers were received at the Institute in 2004.

The Institute is also the implementing agency for the ADB and Inter-American Development Bank agreement on the Latin America/Caribbean and Asia/Pacific Economics and Business Association. As part of this collaborative research initiative, two conferences were organized in Manila and Beijing. New ideas in knowledge management are being piloted including easy-to-read research summaries and a daily e-letter of news and analysis, which includes a roundup of development blogs from civil society.

## ACHIEVING DEVELOPMENT IMPACT

### **Emphasizing Integrity, Impartiality, and Independence**

The credibility of evaluation depends on the quality and integrity of analysis, the degree of transparency, and the independence of the evaluation unit. The dimensions of independence include (i) behavioral autonomy, (ii) avoidance of conflict of interest, (iii) insulation from external influence, and (iv) organizational independence. The autonomy of OED is evident from its project, sector, and country evaluation studies. OED both recognizes positive achievements and points out shortcomings. OED has maintained a high degree of transparency and openness in reporting and publicly disclosing its findings. To enhance its independence from Management, effective 1 January 2004, OED reported to the Board of Directors through the Development Effectiveness Committee (DEC). For the first time in 2004, the Board appointed the Director General of OED under the new procedures on the recommendation of DEC and the President.

The focus of OED's work shifted to cover (i) the broader developmental agenda, and (ii) project and program evaluations feeding into country assistance program evaluations (CAPEs). The shift requires closer links between the CAPE and the CSP and between sector assistance program evaluations and other evaluation studies (impact, special, and thematic). The alignment of OED's work in these areas will ensure that its products are timed to feed into the preparation of CSPs, sector policies, and development strategies.

Consistent with the redefined role of OED, the section of the *Operations Manual* on evaluation was reissued in September 2004 to reflect changes in OED's reporting structure and organizational arrangements and in the way in which private sector operations are evaluated. In coordination with the Private Sector Operations Department, OED is preparing new

guidelines for project performance audit reports on private sector operations that incorporate the Good Practice Standards for Evaluation of Private Sector Investment Operations agreed upon among the members of the Evaluation Cooperation Group (ECG) of MDBs. The guidelines will also form the basis for preparing project completion reports (PCRs). OED also began to review existing evaluation guidelines for individual public sector operations (projects, programs, and technical assistance) to harmonize them with the good practice standards prepared by the ECG.

OED continued to participate in the ECG, including (i) developing good practices for policy-based lending, (ii) benchmarking private sector good practice standards, (iii) capacity building for evaluation, and (iv) strengthening and promoting the dissemination of lessons learned and of feedback. OED prepared a report on good practices for evaluating policy-based lending and an addendum to the ECG's good practice standards for MDB-supported public sector operations, both adopted by the ECG in 2004. To enhance in-house expertise and to improve the quality of its evaluation studies, OED introduced a seminar series, the OED Colloquium on Evaluation. Open to all ADB staff, the colloquium provides a forum for free exchange of methodological and empirical concerns on the effectiveness of development.

## **Country Assistance Program Evaluations**

CAPEs are designed to assess the development effectiveness of ADB's strategy and assistance programs in a country over an extended period, to derive lessons learned, to put forth recommendations for more effective future assistance, and to improve coordination among aid agencies. CAPEs have generally focused on the quality of ADB's strategies and programs, their implementation and outcomes, and their perceived contribution to overall development. Eight CAPEs have been done since 1998—Bangladesh, Cambodia, PRC, Mongolia, Nepal, Papua New Guinea, Philippines, and Viet Nam—with the current rate usually two per year. CAPEs have used varied methodologies including focus group interviews, formal and informal surveys, detailed desk reviews of existing data, statistical analyses, field visits, and case studies.

CAPEs revealed problems with the former country operational strategies (COSSs) and country assistance plans (CAPs) and thus contributed to the decision to switch to the CSP as COSSs and CAPs tended to address the formal, internal needs of ADB rather than providing new insights for ADB operations. COSSs were too vague and general; they should instead have been

more operational. CAPs should have been more focused and selective. The eight CAPEs consistently pointed to the need for a standard methodology for evaluations which will be developed in 2005.

The CAPE for Nepal done in 2004 was prepared in parallel with the CSP, ADB's first results-oriented CSP. The two processes fed into each other. Overall, the Nepal CAPE concluded that the ratings of completed projects were generally within the level of success achieved by other countries in the region. The evaluation found that the government and ADB were able to improve performance and capitalize on successes. Another major strength was the willingness of the government and ADB to tackle difficult policy and institutional issues in the major productive sectors. Shortcomings included an overestimation by ADB of the ability of government agencies to resolve institutional and policy issues, which resulted in slow project/program implementation. Recommendations in the CAPE that were incorporated in the CSP include (i) development of a more focused program, (ii) flexibility in responses to in-country conditions, and (iii) sector focus that can enhance successful investments based on proven achievements in management.

## **Development Results of ADB's Lending Operations**

The performance of ADB's lending operations is assessed through evaluation of completed projects and programs, self-evaluation by operations departments in the PCR, and independent evaluation by OED in the project/program performance audit report (PPAR). PCRs are prepared for all public sector projects/programs 1–2 years after their completion but have contained a rating only from 1995 onward. The target 25% PCR average for private sector projects has not been achieved. PPARs are typically prepared 3 years after project/program completion. Until 1984, PPARs were prepared for all projects and programs. Thereafter there has been 100% coverage for program loans, but coverage of projects was reduced to 70% and then to 35%.

Both PCRs and PPARs use the same methodology for rating a project/program. A three-category system—generally successful, partly successful, and unsuccessful—was used prior to 2000. As part of harmonizing the evaluation methodologies of MDBs, a four-category system—highly successful, successful, partly successful, and unsuccessful—has been used since 2000. The rating is derived on the basis of five criteria: relevance, efficacy, efficiency, sustainability, and institutional development

and other impacts. Work started in 2004 to develop guidelines for private sector operations evaluation that, among other things, will broaden coverage of assessing development results.

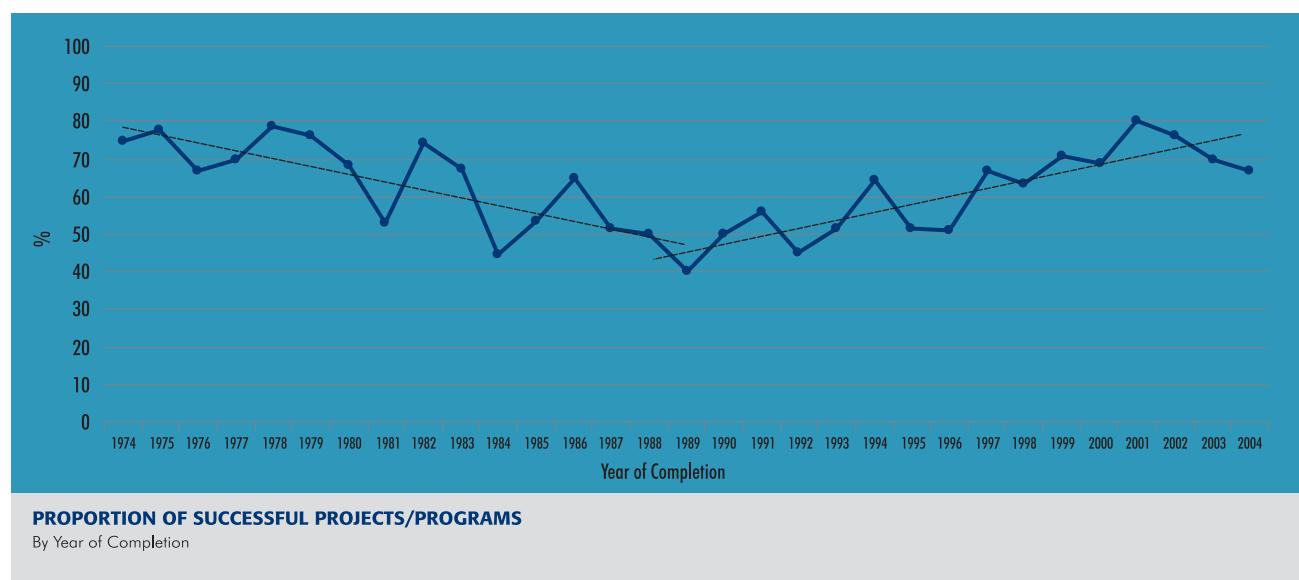
PCR and PPAR results are aggregated by using PPAR ratings in all cases where both PCR and PPAR ratings are available. To provide a “success rate” for all rated individual operations, projects/programs rated generally successful under the three-category system and either highly successful or successful under the four-category system are added together. During 1974–2004, 1,048 public sector projects/programs were completed and rated through PCRs and/or PPARs. Of these, 654 (62%) were rated successful, 311 (30%) partly successful, and 83 (8%) unsuccessful.

The figure below shows the trend by year of completion for projects/programs rated successful. Due to the relatively small number of projects completed each year, there are wide fluctuations from year to year; however, two distinct trends can be discerned. From 1974 to 1989, there was a declining trend in the proportion of programs and projects rated successful. The downward trend was reversed in 1990, which may be explained by the combined effect of efforts to improve project quality covering both project preparation and project administration and by changes in the composition of operations. An analysis of project design and formulation carried out for 201 projects comprising all PPARs prepared from 1994 to 2003 revealed that the design of ADB-funded projects improved over the last decade. The ratio of projects with major design issues fell from 50% of approvals during

1976–1980 to 12% during 1991–1995. In terms of composition, an improvement in ratings for South Asia was reinforced by higher success rates in large, new borrowing DMCs, e.g., India. A slow improvement in ratings for agriculture and social infrastructure was strengthened by the higher success rate and higher proportion of energy and of transport operations.

Of the 1,227 completed public and private sector projects/programs with PCRs, 689 have been independently evaluated. The PPARs rated 59% of these projects/programs as successful, 31% as partly successful, and 10% as unsuccessful. PPAR ratings by sector (see *table on page 42*) show continuing high success rates for transport and communications and for energy projects/programs. These results confirm that financing infrastructure projects is one of ADB’s strengths.

On the other hand, there is a significantly lower probability of success for agriculture and natural resource projects/programs, although a small improvement has been achieved for those evaluated over the past 10 years with half rated successful. Agriculture projects/programs have often been adversely affected by weaknesses in formulation and design, ineffective policy environment, institutional weaknesses, and declining commodity prices. Changes have been made by ADB in some of its approaches in the sector, but it appears that they are not working well enough. The special evaluation study (SES) on *Effectiveness of Participatory Approaches in Rural Development Projects* found that participatory or bottom-up approaches do



## EFFECTIVENESS OF PARTICIPATORY APPROACHES IN RURAL DEVELOPMENT PROJECTS

The study found that participatory approaches improved information flow but did not lead to increased empowerment in resource control and decision making or to increased motivation to care for and maintain project facilities. The application of standardized packages of participatory approaches did not make project interventions more relevant or sustainable. The report recommends that project interventions be based on a thorough understanding of local conditions in a project area. Adequate fieldwork is needed during project design to identify potential local opportunities and solutions to address local development issues and challenges. (*For the full report, see [www.adb.org/Evaluation](http://www.adb.org/Evaluation).*)

not necessarily offer an effective solution to problems encountered in earlier projects (see *box above*). A further serious review of ADB approaches for the agriculture sector is needed to develop the right business models for the current environment as about two thirds of the region's 3 billion people live in rural areas and depend on agriculture. The SES *Small-Scale Freshwater Rural Aquaculture for Poverty Reduction* recommended steps to make ADB operations in aquaculture development more relevant for poverty reduction (see *box at right*).

ADB's operations in the financial sector have also performed relatively poorly (see *table on page 42*), mainly due to the poor performance of development finance institution (DFI) projects, which comprise 88% of the total evaluated in the sector. Excluding those in the Republic of Korea and Singapore, the success rate for DFI projects declined to 32%. Areas of concern in the sector include (i) the institutions through which funds are channeled since experience with state-owned institutions has been less than successful, particularly in the Pacific; (ii) poor assessment of demand for credit resulting in lower than anticipated disbursements in a number of cases; (iii) ADB lagging behind commercial banks in developing a broader range of suitable products for DFIs; and (iv) inadequate monitoring and records of key impacts (e.g., jobs created, exports) making evaluation of outcomes difficult. As with the agriculture sector, ADB's business model is not working well enough for the financial sector. Further serious review is needed to get the right business models to improve the performance of projects in the sector.

## SMALL-SCALE FRESHWATER RURAL AQUACULTURE FOR POVERTY REDUCTION

The report covers the main factors that enable fish farmers to generate sustainable livelihoods and reduce poverty and steps that can be taken to overcome binding constraints. It highlights the importance of access to capital assets (human, social, natural, physical, and financial) and to a range of services including markets, institutions, facilities, and infrastructure. The roles of legal frameworks, development policies, resource management, biosafety, and aquatic health are also emphasized. Case studies in Bangladesh, Philippines, and Thailand analyzed various aspects of freshwater aquaculture in diverse settings. The study offers many lessons and an analytical framework for researchers and development practitioners and concludes that ADB's interventions in this area were generally successful. There is growing recognition of the importance of small-scale freshwater aquaculture to household food security and human nutrition, as freshwater aquaculture contributes to rural livelihoods, improves food supply, and makes low-cost fish available in domestic markets. (*For the full report, see [www.adb.org/Evaluation](http://www.adb.org/Evaluation).*)

The results of PPARs done in 2004 confirm the continuing success of ADB lending operations in the energy and transport sectors as well as modest improvements in the agriculture and social sectors. All four infrastructure projects evaluated were rated successful. Among those, the trans-basin Nam Leuk Hydropower Project in the Lao People's Democratic Republic (Lao PDR) exceeded the targeted output of providing 215 gigawatt-hours per year. With diligent operation and maintenance, the plant can be sustained for more than its 40-year designed economic life. Project-related relocation issues were carried out well; some follow-up actions were recommended on a few resettlement issues. In the agriculture and social sectors, only five of nine projects/programs evaluated were rated successful. The successful rural enterprise credit project in Thailand provided small loans to farmers and operators who used them productively. Project clients included women who were full business partners in their enterprises. The successful education development project in the Cook Islands enabled schools to mobilize funding from the government, parents, and their communities to enhance the quality of education and to improve school facilities and infrastructure. Parents and communities became proactively involved in school management and became aware of the importance of educational standards.

## Portfolio Performance

### Annual Report on Loan and Technical Assistance

OED's third annual report on portfolio performance represented a significant move to a more evaluative format. Special investigations were conducted into projects delegated to RMs, project performance management, cancellation of surplus loan proceeds, and the country portfolio review mission.

Based on project performance report (PPR) ratings, there was little change in portfolio performance year to year. Evidence shows that the PPR system fails to identify all projects at risk. The report points out the incompatibility of the dual purposes served by the PPR and recommends that it be used only for its intended purpose of identifying the bottom quartile of projects in terms of performance. Key performance issues include the following: (i) over the last 5 years, 84% of the projects closed required extensions, and fully 65% required multiple extensions; (ii) net resource transfer from ADB to DMCs was a negative \$5.3 billion in 2003, heavily influenced by \$5.6 billion of voluntary prepayments from large borrowers that refinanced their loans elsewhere; (iii) many loans were approved before project readiness criteria were met; (iv) disbursements were at their lowest level in 5 years; and (v) cancellation of surplus loan proceeds remains a significant issue. The principal recommendation of the report is to pilot-test annual reporting on generating project outputs.

### Project Cost Estimates

An analysis of projects completed after 1995 found that 35% had major cost underruns, while 9% had overruns. The study was designed to determine the principal causes of both and to recommend ways to improve cost estimation.

Significant positive correlations were found between the level of cost underruns and the number of scope changes, the proportion of local costs to the total cost, the proportion of the local currency component, and the proportion of costs other than civil works. In analyzing variations between expected and actual cost estimates, PCRs cited price-related reasons most frequently (71%), scope changes (35%), and inaccurate estimation of base costs (33%). Other reasons for underruns included natural calamities and events related to peace and order (38%).

Key factors for major overruns or underruns were poor cost estimates in feasibility studies, poor project design, major delays in implementation, and predetermined loan amounts. A survey of ADB staff ranked inadequate or difficult-to-collect

information and inadequate resources and time for feasibility studies as the most important factors in poor project cost estimation. Recommendations of the study include (i) realistic time and resource allocations to improve project design; (ii) more rigorous consideration of inflation and depreciation factors in cost estimates; (iii) more realistic estimation of civil works and their operation and maintenance costs; (iv) consideration of two-part loans for projects, one for base costs and one for contingencies and minor overruns; (v) more attention and resources for project administration; and (vi) periodic updating of cost estimates.

### Project Frameworks

As part of the focus on MfDR, OED promoted the use and improved the quality of project frameworks. Since the introduction of the project performance management system (PPMS) in the 1990s, OED has played a leading role in its development. The project framework is a core element of the PPMS and a principal tool for ensuring sound project design as it establishes the basis for monitoring and evaluating performance. OED staff presented briefing sessions attended by more than 300 headquarters staff on what to look for when assessing the quality of project frameworks. The group sessions generated a large demand for one-on-one guidance. To meet the needs of RM staff and those unable to attend the briefing sessions, a video presentation was recorded. The briefing material and a checklist have been included in the operations tool kit. OED assessed the quality of all frameworks for loans and technical assistance approved in 2004. The quality of loan frameworks showed a statistically significant improvement compared with 2002, with the average 2004 score in the satisfactory range (it was partly satisfactory in 2002). However, the quality of advisory technical assistance showed almost no improvement, and the average rating remained partly satisfactory. Regional technical assistance showed significant improvement but overall remained partly satisfactory.

## Development Results of ADB's Technical Assistance Operations

ADB must provide knowledge and innovation to complement its lending operations. Technical assistance is an important strategic tool for ADB, particularly in enhancing institutional development in DMCs.

As with lending operations, technical assistance is evaluated through a combination of self-evaluation by the responsible department and independent evaluation by OED. Independent technical assistance evaluation by OED started

in 1990; self-evaluation through completion reports by responsible departments began in 1993. The two methods have yielded different results. Completion reports, which focus on outputs, have reported consistently high success rates of over 80%. Independent performance audits, which focus on achievement of results and sustainability of outcomes, have shown much lower success rates averaging 49%–62% (see *tables below*).

The results of technical assistance are mixed. Successful technical assistance contributed significantly to institutional development in a number of DMCs and played a catalytic role in some sectors. For example, ADB-financed technical assistance for the development of genetically improved farmed tilapia served as a major impetus in associated research and development investments (see *box at right*). ADB's interventions through technical assistance on nutrition and food fortification played a catalytic role in nutrition development in Asian countries (see *box on next page*).

On the other hand, ADB encountered some problems with the performance of its knowledge-based products. The SES on capacity development assistance to the Lao PDR concluded that the overall impact on the country was scattered; the report suggests that ADB systematically review its approach to capacity development (see *box on next page*). The results of technical assistance activities evaluated in 2004 showed that considerable improvement is needed so that DMCs get the full potential benefits of ADB's knowledge-based products. Only 5 of the 17 evaluated were rated successful, and 11 were partly successful. Nearly two thirds did not fully achieve their objectives

## DEVELOPMENT OF GENETICALLY IMPROVED FARMED TILAPIA AND THEIR DISSEMINATION IN SELECTED COUNTRIES

The report assesses (i) the relevance of genetic improvement research to tilapia farming; (ii) how genetically improved farmed tilapia (GIFT) research and development have improved breeds; (iii) the development and dissemination of breeding methods and protocols; and (iv) the institutional, socioeconomic, and environmental impacts of GIFT. Experience in Bangladesh, Philippines, Thailand, and Viet Nam is assessed. The overall conclusion is that the ADB-financed technical assistance was successful and played a catalytic role in GIFT development in diverse institutional and socioeconomic environments. Fish are important in the diet of people in the poorest countries, supplying more than 50% of their animal protein intake. Attention to fish production and consumption will help to achieve the Millennium Development Goal of eradicating hunger and reducing malnutrition. The growing use of GIFT indicates the important contribution of tilapia to nutrition among the poor. The evaluation concluded that this was a successful case of aid coordination as ADB worked with other development partners (including the WorldFish Center and the United Nations Development Programme) to achieve these good results. (*For the full report, see [www.adb.org/Evaluation](http://www.adb.org/Evaluation).*)

and/or experienced problems with effectiveness, efficiency, sustainability, or impact. The findings of key technical assistance performance audit reports done in 2004 follow.

### Fiscal Management and Tax Reform

This study evaluated six technical assistance operations in India

Sector	Total No. of Rated Projects/Programs	Proportion (%)		
		HS/GS/S	PS	US
Transport and Communications	107	82	9	9
Energy	113	81	17	2
Industry and Trade	26	77	11	12
Multisector/Others	18	61	22	17
Social Infrastructure	123	54	41	5
Finance	76	46	46	8
Agriculture and Natural Resources	217	40	43	17
Private Sector	9	89	11	0
<b>TOTAL</b>	<b>689</b>	<b>59</b>	<b>31</b>	<b>10</b>

GS=generally successful, HS=highly successful, PS=partly successful, S=successful, US=unsuccessful.

Type of Evaluation	Total No. of Rated TA	Proportion (%)		
		HS/GS/S	PS	US
Self-Evaluation				
TCRs	1,178	82	16	2
Independent Evaluation				
TPARs	168	62	32	6
Attached ADTAs <sup>a</sup>	109	49	36	15
<b>TOTAL</b>	<b>277</b>	<b>57</b>	<b>33</b>	<b>10</b>

ADTA=advisory technical assistance, GS=generally successful, HS=highly successful, PS=partly successful, S=successful, TA=technical assistance, TCR=technical assistance completion report, TPAR=technical assistance performance audit report, US=unsuccessful.  
<sup>a</sup> Evaluations as part of project/program performance audit reports to which they are attached.  
Sources: TCRs and TPARs circulated as of 31 December 2004.

### PROJECT PERFORMANCE AUDIT REPORT RESULTS BY SECTOR

### EVALUATION RESULTS FOR TECHNICAL ASSISTANCE OPERATIONS

approved during 1995–2003. Three were successful and three partly successful. Three focused on capacity building as part of the fiscal management programs in Gujarat, Madhya Pradesh, and Kerala. The report concludes that technical assistance in Gujarat was partly successful and was successful in Madhya Pradesh and Kerala. The report notes the importance of political will to reduce budget deficits and to improve governance as prerequisites for effective fiscal management. Another focus of technical assistance was building capacity to administer value-added taxes that the government decided in 1999 to introduce nationwide by 2002 but subsequently

postponed until 2005. The report concludes that capacity building in a large country like India requires more work, a sustained commitment by ADB, and the involvement of high-level staff.

### **Institutional Strengthening in the Power Sector in Viet Nam**

Five technical assistance operations aimed to strengthen power sector institutions by (i) developing financial accounting and managerial systems, (ii) improving the managerial and technical skills of staff, and (iii) formulating tariff policies and

## **NUTRITION AND FOOD FORTIFICATION**

Nutrition is integral to achieving the Millennium Development Goal (MDG) on eradicating extreme poverty and hunger and is instrumental in achieving the MDGs on primary education, gender equality, child mortality, maternal health, and combating diseases. Research shows that infant malnutrition plays an important role in perpetuating poverty and malnutrition across generations. The evaluation identified four lessons.

- Recommendations should be commensurate with the level of nutritional risks and the capacity of government agencies and

- ADB can play a catalytic role in promoting good nutrition in the region.
- ADB-financed regional technical assistance is a more cost-effective intervention than determining activities for a specific country, although there are limitations to this approach because of local dietary patterns and other conditions.
- Food fortification has great promise for improving nutrition, but it has to be combined with household food security and community nutrition initiatives.

The study found that capital costs in food

stakeholders in the country involved. fortification programs supporting quality assurance and standardization are often neglected. Weaknesses in the scope of some technical assistance activities and inadequate participation of some recipient countries during the design stage reduced their impact on the development of an effective nutrition policy for Asia and the Pacific. However, the overall conclusion is that ADB, in coordination with other development partners, contributed positively to promoting nutrition and food fortification. (For the full report, see [www.adb.org/Evaluation](http://www.adb.org/Evaluation).)

## **CAPACITY DEVELOPMENT ASSISTANCE TO THE LAO PEOPLE'S DEMOCRATIC REPUBLIC**

The evaluation concluded that the different capacity development (CD) approaches used in each sector were relevant and effective in their contexts; however, the overall impacts were diffused. Local institutions still require external assistance. Identified lessons and key issues highlight the need for rethinking the CD concept, a lesson that has been identified in other Operations Evaluation Department reports. The lack of comprehensive and systematic diagnostics affected the design (choices, scope, priorities, and sequencing of activities), implementation, and results of CD assistance. Several key areas lacked attention: (i) functions, clients, and

services; (ii) human resource management; (iii) finance, including recurrent expenditure and financial management skills; and (iv) relationships among organizations.

For ADB, improvements should entail developing a definition, a working framework, and tool kits that can change the approach to diagnosis, design, and implementation and move CD beyond the project level. For the government, the focus must move from project management to the ministry level and to building capacities for independent, self-sustained operations. Systemic issues require attention at the country level.

Rigorous application of design standards and principles for CD are needed to develop clearly stated goals and objectives. These include organizational performance criteria, baseline information, and time-bound targets to monitor progress and assess outcomes. A review by the government, ADB, and development partners of the financial dimension of CD must identify options for long-term, sustainable solutions. Implementation plans should provide for phased assistance and an exit strategy for sectors and agencies as they become more independent. (For the full report, see [www.adb.org/Evaluation](http://www.adb.org/Evaluation).)

structures. By and large, their impact was limited. Four were rated partly successful, and one was not rated because it had been only recently completed and its full impact was not clear at the time of evaluation. Important findings of the report are that (i) key recommendations were dismissed as irrelevant because they could not be implemented readily and more practical recommendations were overlooked; (ii) the executing agencies did not demonstrate strong ownership and proactive involvement, and outputs were regarded more as a reference than as an agreed upon course of future action; and (iii) results were not adequately disseminated to relevant participants, and most stakeholders and the government agencies concerned were in fact generally unaware of them. To increase the involvement of recipients and to help ensure that the design of subsequent projects can achieve the desired outcomes and impact, the report recommends that ADB request executing agencies to evaluate the performance of technical assistance activities within 2 years of completion.

A broad lesson learned to date is that capacity building is a long-term process requiring comprehensive support, training, monitoring, and strong supervision, and cannot be achieved within the short duration of a single technical assistance activity. ADB needs a strategic focus for technical assistance operations in a given country and not just for particular sectors or themes.

## HUMAN RESOURCES AND BUDGET

The President approved the new HR strategy following external independent studies, internal assessments, and consultations with the Board of Directors, Management, and staff. The new strategy is an integral part of ADB's overall strategic framework and is positioned to support ADB's other strategic initiatives including LTSF, PRS, MfDR, the knowledge management framework, and ISTS II. It identifies 20 actions. Implementation commenced in 2004 and will continue in 2005 with the delivery of several initiatives.

An ADB-wide competency framework was completed and serves as the foundation for the design and improvement of all HR systems at ADB. The framework consists of five core competencies (i.e., client orientation, achieving results, working together, learning and knowledge sharing, and application of technical knowledge and skills) and three managerial competencies (i.e., managing staff, leadership and strategic thinking, and inspiring trust and integrity).

A review of ADB's recruitment and selection process was also completed and recommendations have been outlined. The planning and design phase is now under way concentrating on integrating the competency framework, identifying options for reducing time to hire, improving applicant management, and removing unnecessary variations.

Mainstreaming gender into the HR policies and processes continued during 2004. The launching of the Women's Education Network, new gender-based training programs, and meetings with senior staff to discuss gender equality were the highlights for the Gender Action Program II. The working group focusing on local staff gender issues finalized its action plan for implementation in 2005.

Training and development programs were reviewed in 2004 to ensure alignment with business processes, new initiatives, and future developments. Leadership and training programs were strengthened to support the implementation of the HR strategy. OAS staff received training on developing measurements for reducing variation and waste in business processes. An extensively revamped project team leadership program was launched. The development of a learning strategy based on the

---

## REVIEWING THE REORGANIZATION

In 2004, an independent panel of external experts reviewed the effectiveness of ADB's reorganization in 2002. The panel concluded that the goals and guiding principles of the reorganization were appropriate and that ADB had made satisfactory progress in improving country focus and expanding regional cooperation. The final report provided recommendations and options for ADB's consideration for further improvement of development effectiveness in four areas: (i) strategic focus, (ii) sector strength and resources, (iii) quality assurance, and (iv) operational effectiveness.

The President decided to take immediate action on most recommendations that could be implemented in the short term and approved an action plan that stipulates the principal implementing unit, mechanism, time frame, and methodology. For options and recommendations that would require detailed study or careful analysis for a balanced solution for the medium term, Management designated lead units to undertake further study and analysis and in consultation with departments and offices concerned. The results will be submitted to Management for consideration as soon as possible. Follow-up actions will be integrated into ongoing strategic and reform initiatives.

---

competency framework and the business needs of ADB was completed and released for managers and staff to use with the new performance management system's learning and development plan. Initial steps were taken to strengthen the evaluation of learning within the organization.

The planning and design phase of the new performance management system was completed for implementation in early 2005. The new system is based on the competency framework and includes the definition of job families, job profiles, required experience and qualifications for each job, output indicators, and learning plans.

Benchmarking research of comparable organizations was completed on legal and policy development issues, on disciplinary measures and procedures, on administrative review and appeal procedures, on recruitment and appointment, and on separation. The key findings were included as part of the review of existing policies and processes.

At the end of 2004, ADB had a staff of 2,394 coming from 53 of its 63 member countries. The total comprised 860 professional staff members<sup>1</sup> and 1,534 local staff members,<sup>2</sup> of which 388 staff members<sup>3</sup> or about 16.2% are located in the field offices. During the year, there were 85 appointments and 61 departures of professional staff members, while 128 local staff members joined ADB, and 69 left. The number of women professional staff members increased from 241 or 28.8% at the end of 2003, to 255 or 29.8% of total professional staff at the end of 2004.

## **Compensation**

Consistent with ADB's market-driven compensation system, a 4.3% weighted average increase in professional staff salaries was approved in 2004 (effective 1 January 2005). For local staff at headquarters, the salary survey for 2004 resulted in a 9.1% weighted average salary increase effective 1 January 2004. An overall weighted average salary increase of 8.3% for local staff in 21 field offices was also implemented. A comprehensive review of professional staff salaries and benefits is under way, expected to be completed by July 2005.

The compensation and benefits package of local staff in the field offices was monitored and revised as necessary. A major review of the terms and conditions of assignment of professional staff in the field offices was undertaken and changes were implemented effective 22 November 2004. Group life, accidental death and disability, and worker's compensation

insurance plans were renewed for another 3 years at existing terms and conditions. The pension and discretionary benefits self-service feature of the HR management information system was rolled out in mid-2004, providing staff online access to their own retirement and discretionary benefits based on assumed retirement dates and salary increases.

## **Internal Administrative Budget**

Actual internal administrative expenses (IAE) for 2004 amounted to \$275.0 million, a savings of \$4.5 million against the original budget of \$279.5 million. The savings mainly came from lower-than-expected expenses related to the Thirty-Seventh Annual Meeting and not using the 1% general contingency. Under the budget category operational expenses, there were overruns in the budget items for consultants and relocation, mainly due to the need to absorb resource requirements for some initiatives under the reform agenda that were not anticipated at the time the 2004 budget was prepared, and because of higher-than-anticipated inter-office movements of staff. These overruns were offset by savings in salaries due to a favorable exchange rate and slower-than-expected recruitment, particularly in the earlier part of the year, and less business travel.

The IAE budget for 2005 amounts to \$299.8 million including a general contingency of 1% (*summarized in Appendix 8*). The increase over the 2004 revised estimate is 7.3% consisting of a net volume increase of 2.5% and an overall price increase of 4.8%. Major cost drivers for 2005 include implementation of various initiatives under MfDR and the reform agenda, establishment of new and expanded RMs, an expanded accountability mechanism and strengthened anticorruption capability, the cost for expanded use of trust funds, increased contributions to the staff retirement plan and rising costs of medical insurance, and depreciation associated with critical IT upgrades.

Budgetary resources in 2005 will fund a prioritized work program including (i) support to lending operations and enhanced portfolio supervision at regional departments; (ii) expanded private sector operations; (iii) MfDR and the reform agenda (including implementation of the new HR strategy); (iv) knowledge management initiatives and a review of several policies and strategies; (v) increased delegation of project implementation and other functions to RMs; (vi) strengthened anticorruption initiatives; and (vii) more evaluation of private sector operations and broader evaluations at policy as well as at sector and country assistance program levels.

In addition to IAE, the 2005 budget also includes an annual capital budget of \$3.85 million, mainly to fund cyclical capital expenditures for headquarters facilities and IT equipment, and to meet replacement and acquisition requirements of field offices. The overall annual capital budget for 2005 is decreased by \$1.0 million as compared with the \$4.85 million allocation in 2004.

## **ADMINISTRATION**

### **Special Capital Budget Projects**

ADB's headquarters and its facilities were designed in the late 1980s. Normal wear and tear compounded by harsh weather have gradually increased maintenance and repair costs, and its security features were not designed to address current threats and risks like terrorist attacks or bombings. The Board of Directors therefore approved two major special capital budget projects (SCBPs): (i) improved daylight access for ADB atria and adjacent staff offices with an allocation of nearly \$1.6 million in November 2003, and (ii) rehabilitation of ADB's headquarters building and enhancement of security with an allocation of \$14.8 million in April 2004. In total there are 12 projects, but the priorities are security and safety. The security projects started in mid-2004 and are expected to be completed by 2006. An SCBP steering committee was formed comprising heads of departments and chaired by the vice-president for finance and administration.

### **Field Offices Projects**

In 2004 ADB approved two new funding sources to enhance security and safety in the field. One was an annual capital budget for the procurement of security and safety related equipment in the field. The other was an administrative budget to assist the field offices to comply with the United Nations (UN) minimum security standards in accordance with our memorandum of understanding with the UN on security arrangements.

ADB also provided technical assistance and assessments to several field offices such as the Bangladesh Resident Mission regarding the need for new or expanded office space.

### **Managing Business Continuity**

In 2004, the Business Continuity Management (BCM) Steering Committee was established. The BCM Working Group led by OAS and assisted by external consultants completed the first part of a strategy to mitigate the probability of a risk to

business functions and to reduce its impact by timely responses to disruptions in critical business functions. The first phase improved existing recovery site facilities and established an in-country business continuity facility. The next phase covers other business functions and the possible establishment of an offshore recovery facility.

Continuity plans covering all critical aspects of ADB's business functions will be developed and tested by departments concerned in coordination with OAS in 2005. The plans will cover arrangements and procedures for ADB to respond to any disruption to ensure safety and security of personnel and that critical business functions will continue in a timely and effective manner. This will include the organizational structures and delegation of authority needed to deal with all emergencies. The plans will guide ADB from the initial declaration of a disaster or crisis through crisis management to recovery and restoration of processes and systems. OAS will ensure the plans and procedures are evaluated and adjusted on a regular basis.

### **Streamlining Business Processes**

During 2004, business processes were refined and consolidated throughout ADB including actions and initiatives to enhance development effectiveness especially in the areas of client orientation and responsiveness, efficiency, and product quality.

### **Client Orientation and Responsiveness**

ADB worked with governments and its development partners to identify development objectives, to formulate plans for achieving them, and to specify time-bound indicators to monitor implementation. ADB is committed to aligning its CSPs to DMCs' own national poverty reduction strategies to efficiently channel resources to match priorities identified in CSPs and to deliver high-quality assistance while minimizing transaction costs and response time for DMCs.

Acknowledging the key role of RMs, ADB continued to delegate responsibilities for project administration and management, for preparing CSPs and CSP updates, and for conducting country portfolio reviews. This further strengthened the capacity of RMs to use their close contacts with DMC governments and development partners to improve project implementation, coordination, and collaboration.

### **Efficiency**

The review of new business processes completed in the first half of 2004 identified additional areas for their enhancement and

reinforcement by rationalizing CSP preparation and processing technical assistance and reducing and streamlining document circulation. The actions to streamline business processes for private sector operations were initiated to better support the various facets of due diligence and to be more responsive to clients. The review concluded that better ways and bolder changes at the project, sector, and country levels need to be explored to further streamline procedures, increase efficiency, and improve the quality of products. To eliminate redundancies, a review of instructions and guidelines on operational procedures was conducted.

Several initiatives were started. The ordinary capital resources (OCR) partnership aims to strategically reposition ADB for greater relevance, responsiveness, and quality of OCR-financed operations. An innovation and efficiency initiative aims to reduce the cost of doing business with ADB, to raise its productivity, and to boost innovations for OCR and ADF borrowers. ADB is also reviewing strategic orientation and management of its technical assistance program to improve its quality and relevance.

### **Product Quality**

ADB is amending its business processes to ensure (i) a greater focus on the overall quality of country assessments and the

introduction of a results framework in each CSP; (ii) improved thematic and sector assessments by involving experienced thematic and sector staff in CSP preparation; and (iii) the introduction of a biennial stocktaking of CSPs and their lending and nonlending operations to examine if they are results-based and demonstrate improved quality at entry. To improve the quality of project design, regional departments initiated quality enhancement measures. In particular, quality assessment and facilitation teams were created in the South Asia Department, and the Economics and Research Department reviewed the quality of economic analysis of ADB-financed policy-based operations approved in 2003.

ADB continued to focus attention on improving project quality through better implementation, monitoring, and portfolio management. In March 2004, the technical assistance performance report (TPR) system became operational. Both the TPR and PPR are being enhanced to allow web access and more information on design changes and action taken on project implementation issues. An action plan was approved in 2004 to improve the quality of project and technical assistance frameworks, to enhance monitoring through PPRs and TPRs, and to revise PPMS procedures and guidelines to achieve better effectiveness and efficiency.

### **ENDNOTES**

- 1 Includes Management i.e. the President and Vice-Presidents, Director's Advisors, staff on secondment and special leave without pay, and staff on loan to ADB Institute.
- 2 Includes staff on special leave without pay.
- 3 Includes 76 professional staff members and 312 national officers and administrative staff members.



## PART 2: POVERTY REDUCTION

Improving economic conditions in many developing member countries (DMCs) and high economic growth rates in the People's Republic of China (PRC), India, and elsewhere have been important contributors to a reduction in overall poverty rates in Asia and the Pacific, but achieving the Millennium Development Goals (MDGs) (see *box below*) by 2015 remains a challenge. The devastation caused by the Indian Ocean tsunami has added a new dimension to this challenge.

The MDGs are clearly reflected in ADB's Long-Term Strategic Framework (LTSF) 2001–2015 and in its poverty reduction strategy (PRS) adopted in 1999. ADB's work program is guided by the PRS. In July 2004, ADB completed a comprehensive review of the PRS to obtain feedback on its implementation and to examine its relevance in the context of the major changes that have occurred both within the region and globally. The PRS review confirmed that the three pillars of the strategy—pro-poor, sustainable economic growth; inclusive social development; and good governance—are still relevant. To achieve greater effectiveness, however, the review recommended refinements in strategic directions including a greater country focus to align ADB operations with national poverty reduction strategies and to foster partnerships. It also called for increased attention to results, monitoring, and evaluation, including that monitoring of performance be shifted to managing for development results closely linked to the MDGs. The review also recommended that capacity development be added to ADB's thematic priorities of private sector development, environmental sustainability, gender and development, and regional cooperation.

## MILLENNIUM DEVELOPMENT GOALS

Eight Millennium Development Goals were set out in the 2002 United Nations Millennium Declaration. ADB formally adopted them into its operations in April of that year. They are

- eradicate extreme poverty and hunger;
- achieve universal primary education;
- promote gender equality and empower women;
- reduce child mortality;
- improve maternal health;
- combat HIV/AIDS, malaria and other diseases;
- ensure environmental stability;
- develop a global partnership for development.

A further 18 targets and 48 indicators were specified as guides to their achievement.

Acting on the review's recommendations, ADB implemented several initiatives in 2004 including new guidelines and instructions on project classification and on sector and thematic monitoring and modifications of relevant sections of the operations manual. This work will continue in 2005 and will include implementing changes to the project classification system, guidelines to improve the quality of country poverty analyses, and the introduction of results-based country strategies and programs (CSPs) (see *box below*). Work to develop a comprehensive monitoring and evaluation framework

## ENHANCED POVERTY REDUCTION STRATEGY

National poverty reduction strategies (NPRS) prepared by developing member countries (DMCs) in cooperation with ADB and other development partners will be closely aligned with ADB's country strategies and programs (CSPs). The CSP will translate the substance and priorities of the NPRS into specific activities and a program of loans and technical assistance. Partnerships with nongovernment organizations—both national and international—are crucial. Resident missions will play key roles in this process.

Monitoring performance will shift to managing for development results (MfDR) closely linked to achieving the Millennium Development Goals (MDGs). All new CSPs will have a results framework that includes monitoring and that links constraints to poverty reduction with the proposed program, desired outputs and expected outcomes. The CSP will indicate how desired outcomes can be met by linking each lending, technical assistance, or knowledge product to one or more country outcome indicators. To complement the framework, links between project outputs and sector outcomes will be emphasized in sector road maps. Management reforms will be enacted to enhance openness, accountability, and responsiveness.

Monitoring and evaluation will be integrated into ADB's MfDR framework. The traditional project-focused monitoring and evaluation system will be enlarged to include monitoring at the country, sector, theme, and institutional levels also. The overall impact on poverty reduction at the institutional level will be monitored through achievement of the MDGs. An annual report will assess improvements in DMC policy and institutional capacity for poverty reduction, improvements in CSPs and project implementation, the quality of knowledge products, and the effectiveness of partnerships.

for the PRS and to improve financial and organizational capacity also commenced in 2004.

An important feature of the enhanced PRS is a stronger emphasis on the MDGs in recognition of the generally weak performance in the region on the nonincome dimensions of poverty. It also responds to growing international efforts to eliminate extreme poverty in all its dimensions and to ensure the basic human rights set out in the Millennium Declaration.

The impact of the PRS on poverty reduction is monitored through achievement of the MDGs at the regional level. Preparations for publishing a regional report on the MDGs with the United Nations Development Programme (UNDP) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) began in 2004. The report will be finalized in 2005 along with the global UN MDG report to emphasize actions needed in the region by policymakers, the international community, and other stakeholders.

## STRATEGIC PRIORITIES

### Pro-Poor, Sustainable Economic Growth

In 2004 ADB continued to support sustainable, inclusive, pro-poor economic growth that fully integrates the environmental and social considerations of each of its DMCs. ADB also continued to work with its development partners to create conditions for growth, such as achieving and maintaining macroeconomic stability, improving fiscal management, aiding financial sector restructuring, and developing the institutional and regulatory frameworks for private sector development. ADB provided as much as \$2.5 billion in assistance in 2004 through 17 projects supporting pro-poor, sustainable economic growth.

One of the main bottlenecks facing growth prospects in the region has been the lack of infrastructure. In fact, it is estimated that the infrastructure requirements of the region are approximately \$250 billion per year. ADB places high priority on investing in physical and technological infrastructure and provided support in 2004 for projects in transport and communications and in energy.

## NONGOVERNMENT ORGANIZATION COLLABORATION

ADB strengthened its cooperation with nongovernment organizations (NGOs) in 2004. For the second year in a row, NGOs participated in nearly two thirds of ADB-approved loan projects and programs by giving input on project design, conducting surveys and assessments, facilitating consultations, and contributing to implementation. NGO involvement was also envisioned in nearly half of the country and regional technical assistance activities approved in 2004 as well as in many activities financed by the Japan Fund for Poverty Reduction. Representatives of hundreds of NGOs participated in consultations on several ADB policies and strategies including those on anticorruption, governance, public communications, and water.

The year also witnessed the launch of a new network promoting NGO-private sector partnerships for poverty reduction in Asia and the Pacific. The network grew out of a workshop organized by ADB, and

hosted in March 2004 by the Population and Community Development Association, a Thai NGO. The network offers an opportunity for private sector enterprises and NGOs to exchange experiences, share knowledge and best practices, pool talents, combine energies, and ultimately forge partnerships for socially and environmentally beneficial causes across the region. A secretariat was established at the Bangkok-based Kenan Institute Asia to coordinate the network's activities.

ADB approved grants for 45 small-scale NGO-led initiatives in 13 developing member countries with the regional technical assistance project, NGO Partnerships for Poverty Reduction. Launched in 2003 with \$500,000 from the Poverty Reduction Cooperation Fund (PRF), the grant supports promising community projects identified by resident missions. Interest in the facility led to a doubling of funding to \$1 million in 2004.

In another PRF-supported grant, ADB explored how to increase civil society involvement in regional programming. In particular, representatives of governments and NGOs from the six Greater Mekong Subregion countries met with ADB staff in Bangkok, Thailand in January 2004 to discuss multistakeholder participation in the development of the draft regional cooperation strategy and program. Workshop recommendations were taken into consideration in finalizing it. World Vision Australia, a development NGO, served as the implementing agency.

In addition to these activities, ADB's NGO Center provided advice and support on engaging NGOs in formulating country strategies and programs and in developing projects. Also during the year, ADB signed a memorandum of understanding with IUCN—the World Conservation Union and carried out joint activities with WWF.

The region's vibrant private sector is an important partner in efforts to expand its growth potential. Lessons from regional development indicate that those countries that encouraged private sector participation were successful in increasing economic growth. In 2004, private investment contributed strongly to growth in Hong Kong, China and Taipei, China in East Asia. A revival of private investment in Southeast Asian countries in 2004 played a role in strengthening long-term growth prospects. Private investment activities also played a critical role in supporting growth in other subregions. In support of private sector development, ADB assisted DMCs in 2004 in their efforts to develop their financial sectors, capital markets, and small and medium-sized enterprises (SMEs).

## Inclusive Social Development

While economic growth is essential in reducing poverty, it must be accompanied by effective social development programs to enable disadvantaged groups to benefit from the expanding opportunities that growth offers. In 2004, ADB continued to support efforts of DMCs in planning for their human capital

development and in developing the policies, institutions, and infrastructure necessary to effectively deliver basic social services to the poor. Loans in the education sector in 2004 included support for the rehabilitation of schools in conflict areas, for basic education, for sector development programs, and for developing the skills of postsecondary school beneficiaries. Health sector support was provided through projects addressing improvements in the health of the poor and the disadvantaged as well as financing of reforms for better delivery of health care services. ADB also assisted urban water supply and sanitation projects (see box on pages 52–54). Specific attention was paid to gender and development, social protection, indigenous people, involuntary resettlement, and participatory development.

ADB support for inclusive social development contributes to the attainment of the nonincome MDGs. UNESCAP's report, *Promoting the Millennium Development Goals in Asia and the Pacific: Meeting the Challenges of Poverty Reduction*, notes that given current trends, the region is unlikely to meet some

## POVERTY FUNDS

ADB administers three regional poverty reduction grant facilities in addition to country-specific ones. These funds help ADB and its developing member countries better understand how to formulate, implement, and monitor policies and projects that accelerate poverty reduction. Activities financed by these funds often play complementary roles to ADB's core lending operations by ensuring benefits reach the poor and vulnerable.

The Japan Fund for Poverty Reduction, financed by the Government of Japan, was established in May 2000. The fund now stands at well over \$326.9 million of which \$146 million have been committed to 53 poverty reduction projects widely involving civil society. In 2004, 15 projects amounting to \$29.87 million were approved. The project by Uzbekistan's business women's association on vocational training and microcredit was a noteworthy success in creating job opportunities for women from low-income households in Karakalpakstan. The project received the

**UN-HABITAT Dubai International Award for Best Practices for 2004.**

The Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies, financed by the Government of the Netherlands, has been in operation since November 2001 and has supported 19 projects amounting to \$6.2 million. The projects endorsed in 2004 include reformulation of a national poverty reduction strategy better aligned with the Millennium Development Goals in Azerbaijan; support for monitoring poverty in Kazakhstan and Mongolia; and formulation of a local government poverty reduction strategy in Balochistan, Pakistan.

The Poverty Reduction Cooperation Fund financed by the Government of the United Kingdom has supported a range of poverty reduction activities since July 2002 including policy support, research, capacity development, and knowledge dissemination. Out of a total of \$74 million, \$46 million have been

committed to 87 projects. In 2004, 37 projects were endorsed. In the People's Republic of China new technical assistance is helping the government of Liaoning Province provide adequate, affordable heating for the urban poor through programs designed and monitored by the poor themselves. In Pakistan, it is increasingly acknowledged that poor and vulnerable people and women are disproportionately subjected to police harassment and extortion when they try to access public services or security. The fund is supporting a project in four pilot districts in Punjab Province to help improve the quality of police services as part of a larger access to justice program.

In May 2004, the Government of the People's Republic of China announced support for the establishment of the People's Republic of China Regional Cooperation and Poverty Reduction Fund. The initial donation of \$20 million will support regional initiatives from 2005 through 2009.

nonincome MDGs such as in achieving universal primary education, reducing child mortality, improving maternal health, and ensuring environmental sustainability. ADB's support in these areas is critical.

### **Gender and Development**

Women comprise two thirds of the poor in the region; improving their status is central to any strategy for poverty reduction. ADB mainstreams gender and development in its economic and sector work and in its operational activities. As part of the analytical and background studies for its CSPs, in 2004 ADB prepared and published country gender assessments

for Bangladesh, Lao People's Democratic Republic (Lao PDR), and Philippines.

ADB's 2004 loan portfolio included several loans directed to improve women's livelihoods and to provide them with better access to basic and essential services such as health care, education, safe water, and income-earning opportunities. Sectors covered include health, nutrition, and social protection; education; water supply, sanitation, and waste management; agriculture and natural resources; and law, economic management, and public policy. ADB also approved several technical assistance projects directed at (i) securing essential

## **SECTOR ACTIVITIES IN 2004**

### **Agriculture and Natural Resources**

Seven projects totaling \$199 million were approved for (i) agriculture in Afghanistan; (ii) irrigation projects in Lao People's Democratic Republic (Lao PDR), Nepal, and Tajikistan; (iii) decentralized rural infrastructure and livelihood in Nepal; (iv) gender equality and empowerment of women in Nepal; and (v) sustainable livelihoods in Pakistan. In addition, 46 technical assistance grants totaling \$27 million were approved. Regional technical assistance supported the Water for the Poor-Partnership for Action pilot test in six provinces in the central region of Viet Nam. A ninth umbrella regional technical assistance project for \$3 million was approved for research to reduce postharvest losses of vegetables, to improve staple crop yields, and to address water shortages and land degradation.

ADB continued its partnerships and networking with international research centers. In addition, two regional workshops were held to improve the effectiveness of agricultural research in Central and South Asia. In Bangkok, ADB, the United Nations (UN) Food and Agriculture Organization, and the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) hosted a regional roundtable on eradicating poverty and promoting food security. ADB also organized the International Year of Rice with the Government of the Philippines.

### **Education**

Loans of \$278 million funded 9 projects in 8 countries, and 3 multisector projects totaling \$39 million were funded to rehabilitate schools in conflict areas. A \$45 million loan to Cambodia supported a sector-wide approach for educational reforms with the donor community. Loans totaling \$184 million supported teacher education in Bangladesh, school modernization in Sri Lanka, textbook development in

Uzbekistan, and school reform in Viet Nam. Loans totaling \$47 million upgraded the skills of postsecondary young adults in rural Nepal and provided technical education, especially to women's polytechnics in Balochistan and North-West Frontier Province in Pakistan.

ADB supported programs in the Mekong to raise awareness on HIV/AIDS and focused on the need for human resource development in Central Asia to make the subregion internationally competitive. ADB worked closely in Bangkok with the United Nations Educational, Scientific and Cultural Organization (UNESCO) and UNESCAP and with the Southeast Asian Ministers of Education Organization to plan the direction of basic education programs, cooperated with United Nations Children's Fund (UNICEF) in Bangkok in promoting program-based approaches, and worked with the World Bank to strengthen Education for All fast-track initiatives. ADB will assist ADB Institute with e-learning technologies to improve school quality especially in rural communities.

### **Energy**

Six projects totaling \$857.4 million in loans, equity investments, and partial credit guarantees were approved for electricity, natural gas, and coal mine methane capture in the People's Republic of China (PRC), India, and Viet Nam. A \$400 million loan for upgrading India's national power grid will help provide electricity to all households by 2012. A private sector loan and equity investment in a 1,095-megawatt gas-fired combined-cycle power plant will provide additional electricity to the state of Gujarat in India at a competitive price and in an environmentally and financially sustainable manner. With a \$120 million loan, the expansion and upgrading of 500 and 220 kilovolt transmission systems will be implemented in Hanoi, Haiphong, and Quang Ninh to help mitigate power shortages in Viet Nam.

workers' rights for women, (ii) building capacity for inclusive citizenship and participatory governance, (iii) improving women's reproductive health, (iv) increasing literacy, (v) developing skills as entrepreneurs, and (vi) institutional reforms to improve women's status in the public sector. (*For more details refer to Gender and Development section on page 60.*)

### Social Protection

In its 2001 strategy on social protection, ADB defines social protection as a set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their

capacity to protect themselves against hazards and interruption/loss of income. In 2004 social protection activities focused on gaining a deeper understanding of country activities and on creating new knowledge. Social protection studies were started in Bangladesh, Indonesia, Lao PDR, Nepal, and Pakistan. In addition, two regional studies focused on Central Asia and selected Pacific DMCs. Concerning knowledge creation, ADB provided technical assistance to develop social protection indexes in Bangladesh, Indonesia, Mongolia, Nepal, Pakistan, and Viet Nam.

The components of social protection are complex and broad.

### Finance

ADB approved six loans for a total of \$337.5 million for five projects. A \$200 million financing facility without government guarantee will provide long-term peso-denominated loans to private sector borrowers via mainly international banks in the Philippines. In Sri Lanka, a program loan supports policy reforms that develop financial markets and strengthen the banking system. ADB also continued its support for the Government of Viet Nam's efforts to develop nonbank financial intermediation channels.

ADB invested a total of \$15.6 million in four financial institutions: Trade and Development Bank of Mongolia, the Afghanistan International Bank, the Shenzhen Orienwise Guarantee and Investment Co. Ltd. in the PRC, and the Local Government Unit Guarantee Corporation in the Philippines. In addition, ADB'S first-ever equity investment in the microfinance industry was \$2.5 million in ShoreCap International Fund, an investment fund targeting financially viable and growth-oriented microfinance institutions. Investments of up to \$135 million in four private equity funds were also approved as were 22 technical assistance grants totaling \$12.6 million, six of which were regional totaling \$2.6 million. These grants include assistance for strengthening the payment and settlement system in Bhutan, for establishing a well-functioning, secured transaction framework in Vanuatu, for strengthening governance of the securities trading market in the Philippines, for strengthening microfinance operations in Timor-Leste, for developing a framework and microfinance regulations in Azerbaijan, and for a Southeast Asian workers' remittance study.

### Health, Nutrition, and Social Protection

Three projects totaling \$273 million were approved. Loans to the Philippines support comprehensive reforms in health care financing and health governance with investments in selected

provinces. Loans to Uzbekistan and Viet Nam focused on improving services and access to primary health care. Multisector projects in Pakistan supported rehabilitating and improving health services and in Sri Lanka included restoration of basic health infrastructure in conflict areas. In addition, technical assistance funds supported 12 new projects including food safety in the PRC, urban nutrition in Indonesia, psychosocial health in Sri Lanka, strengthening ADB's response to HIV/AIDS, decentralization in health, and the fight against severe acute respiratory syndrome (SARS) and other emerging diseases.

ADB maintained its partnership with WHO to deal with SARS and other infectious diseases. On HIV/AIDS, ADB collaborated with the Joint United Nations Programme on HIV/AIDS (UNAIDS) to assess the economic impact of the epidemic in the region. The results were presented in the International AIDS Conference in Bangkok. ADB also worked with the Swedish International Development Agency on a special fund expected to be functioning in 2005.

### Industry and Trade

Five loans for small and medium-sized enterprise (SME) development for a total of \$130 million will expand access to resources and international markets in Bangladesh and will facilitate reforms of business registration and licensing systems and the overall SME policy framework in Cambodia and Viet Nam. ADB also approved an equity investment of up to \$10 million in the Shenzhen Orienwise Guarantee and Investment Co. Ltd. for SME loans and 11 technical assistance grants totaling \$6.8 million for SME development.

In 2004, ADB trade assistance included two loans amounting to \$18.2 million for regional customs modernization and infrastructure development in the Kyrgyz Republic and

To gain a better understanding of the benefits and challenges of integrated social protection policies and programs, ADB works in close cooperation with other development partners and agencies. The areas of special concern include social protection in the informal sector, social insurance, labor issues in enterprise restructuring, and migration as a safe employment creation activity (see [www.adb.org/socialprotection](http://www.adb.org/socialprotection)).

### **Indigenous Peoples**

ADB continued to strengthen the implementation of its 1998 policy on indigenous peoples (see [www.adb.org/Documents/Policies/Indigenous\\_Peoples/](http://www.adb.org/Documents/Policies/Indigenous_Peoples/)). ADB reviewed 73 projects and

Tajikistan. In addition, four technical assistance grants supported capacity building and institutional strengthening for customs modernization in the Kyrgyz Republic and Tajikistan, for trade and investment creation in India, and for developing industrial standards in the Lao PDR.

### **Law, Economic Management, and Public Policy**

Eleven loans to India, Indonesia, Pakistan, Sri Lanka, and Viet Nam totaled \$584.4 million in 2004. Programs funded included public resource management in Assam, India; reform of the state audit sector in Indonesia; resource management in Balochistan, Pakistan; fiscal management reform in Sri Lanka; and support for poverty reduction in Viet Nam. An additional \$57.1 million was provided for technical assistance.

### **Transport and Communications**

Eighteen loans totaling \$2.0 billion were approved for 17 projects. In India, a \$400 million loan supported the second national highway project, provided capacity building, and implemented a road safety zone and a program to raise awareness of the risk of HIV/AIDS and human trafficking. A \$301.2 million loan developed roads in North-West Frontier Province in Pakistan as part of an integrated program of institutional and policy reforms. In the PRC, three road projects and one railway project will help less-developed, poor areas get better access to markets, services, and jobs.

Loans also supported airport rehabilitation and improvement of the Andkhoy-Qaisar road in Afghanistan; the Chittagong Port trade facilitation project in Bangladesh; road projects in Kyrgyz Republic, Lao PDR, and Mongolia; and the community water transport project in Papua New Guinea. A \$15 million technical assistance loan for the road project preparatory facility in Sri Lanka was also approved. Thirty-four technical assistance projects totaling \$18.6 million were approved including five for regional technical assistance. A grant of \$2.2 million for

equity investments approved in 2004 for compliance with the policy. Twenty (27%) of the projects and equity investments actively applied the policy; eight (11%) projects were found to have significant impact (category A) and required the preparation of a development plan/framework for indigenous peoples. Five of those were infrastructure projects in the PRC and India, two were health sector projects in the Philippines and Viet Nam, and one was a community-managed irrigation project in the Lao PDR.

Twelve (16%) out of the 73 projects were found to have limited impact (category B) requiring specific actions to mitigate

---

Cambodia will support the introduction of labor-based technologies for maintenance of the national road network. ADB also loaned \$50 million for two private sector projects to support the expansion of telecommunication services in the Grameen phone project in Bangladesh and to improve access to mobile and rural community phone services in Afghanistan.

### **Water Supply, Sanitation, and Waste Management**

One project in Azerbaijan on urban water supply and sanitation was financed through a \$30 million loan that will benefit 147 residential users, industries, and the business sector in three secondary towns. A multisector project in Bangladesh combines river protection with drainage and basic sanitation services in nine secondary towns. A multisector project in the PRC on soil conservation and rural development supported rural water supply, and two multisector projects in India and Pakistan for Jammu and Kashmir supported urban water supply and sanitation. In addition to these loans, technical assistance supported 17 new projects in urban water supply, wastewater, solid waste management, storm water/flood management, and drainage.

ADB Water Week 2004 was held in Manila, and President Chino presented the 2004 Water Prize to the Phnom Penh Water Supply Authority in Cambodia for excellence in governance and financing. ADB's water awareness program continued its outreach to the media with five workshops for journalists in India, Indonesia, Kazakhstan, and Malaysia.

The Water for Asian Cities program with UN-HABITAT supported capacity building. ADB maintained its membership in the Cities Alliance to allow access to resources for development strategies and to key decision makers. In 2004, membership facilitated the approval of a Philippine project proposal amounting to \$500,000; three additional project proposals are in the pipeline.

negative impacts or to ensure that benefits will accrue to indigenous peoples. Six of the category B projects were related to education in Bangladesh, Cambodia, Nepal, Sri Lanka, Uzbekistan, and Viet Nam. Three projects involved infrastructure in PRC, Lao PDR, and Nepal. The three remaining were an agriculture sector project in Afghanistan, an environmental improvement project in the PRC, and a women's empowerment project in Nepal.

To strengthen the implementation of the policy and to reflect its new business processes, ADB approved a new section on indigenous peoples in its operations manual and continued to provide regular in-house orientation workshops for ADB staff and for DMC officials on the policy's implementation. ADB also began drafting a handbook on indigenous peoples to guide the implementation of the policy at ADB and to harmonize its approach with that of the World Bank.

To commemorate the end of the International Decade for Indigenous Peoples (1994–2004), ADB conducted the regional workshop Indigenous Peoples and Communal Land Management in Asia in December. The workshop discussed issues such as the challenge of defining the term "indigenous peoples" in the context of Asia, the development interventions that displace indigenous peoples, recognition of their rights by the state, and inclusive development.

ADB continued to actively participate in global discussions on safeguarding the interests of indigenous peoples. Together with the Alaska Federation of Natives, the World Bank, the Inter-American Development Bank, and several other development agencies, ADB cosponsored the Leadership Forum for Building Knowledge-Based Economies in Alaska in June.

### **Involuntary Resettlement**

In 2004, ADB reviewed 73 projects and equity investments for compliance with its policy on involuntary resettlement (see [www.adb.org/Documents/Policies /Involuntary\\_Resettlement](http://www.adb.org/Documents/Policies /Involuntary_Resettlement)). The review supported early screening of projects to assess and manage risks and to set standards for resettlement planning and implementation. Twenty-six (36%) of the projects had involuntary resettlement impacts and required resettlement plans/frameworks. Of those 26 projects, 16 had significant resettlement impacts. In the 10 remaining the impact was not significant. Resettlement frameworks, assurances, or other safeguards were incorporated in a further 9 projects to address potential resettlement impacts during project implementation. The remaining 38 (52%) projects were not expected to have

any resettlement impacts. ADB held nine orientation sessions on involuntary resettlement to familiarize staff with safeguards.

ADB assisted DMCs to develop and implement national resettlement policies and helped strengthen the capacity of executing agencies to implement them. Six workshops and orientation sessions helped build the capacity of ADB resident mission, executing agency, and project management staff in Lao PDR, Sri Lanka, and Viet Nam. A regional technical assistance project on capacity building for resettlement risk management in Cambodia, PRC, and India was implemented. In addition, ADB approved three new technical assistance grants to enhance legal frameworks, to develop national policies, and to build institutional capacity in Bangladesh, Cambodia, and Nepal. ADB continued to enhance national resettlement policy standards in Sri Lanka and Viet Nam through technical assistance and through a program loan in the Lao PDR (see [www.adb.org/resettlement/activities.asp](http://www.adb.org/resettlement/activities.asp)). Support for developing and implementing national policies complements ADB's efforts to implement the involuntary resettlement policy. ADB provides updated information on resettlement on its website (see [www.adb.org/resettlement](http://www.adb.org/resettlement)).

### **Participatory Development**

A series of workshops held in Dhaka, Bangladesh; Chengdu, Sichuan, PRC; Jakarta, Indonesia; and at ADB headquarters attended by a wide range of stakeholders from central, intermediate, and local government and civil society focused on two projects in each country illustrating the range of participation and how it might be optimized in projects sponsored by ADB and other organizations. In-depth discussions provided an opportunity for learning among groups that rarely communicate and generated recommendations for ADB to promote participatory development in its operations.

*Modes of Participation*, a collection of short ADB case studies that illustrate the distinctions among information sharing, consultation, collaboration or shared decision making, and empowerment or shared control were translated, printed, and disseminated in Chinese, Indonesian, Khmer, Lao, and Russian. The participation network continued to share reference materials and training announcements with staff members in resident missions and at ADB headquarters, and held a small number of lunchtime presentations. ADB approved a regional technical assistance project to support training for groups of stakeholders on specific ADB projects throughout Asia and the Pacific and to support trials of participation in strategy

formulation and implementation. Work continued on developing training and reference materials.

## **Governance for Effective Policies and Institutions**

The policy Governance: Sound Development Management adopted in 1995 committed ADB to support DMC efforts to institutionalize good governance. The policy defines four aspects of sound governance: accountability (that officials are answerable to the entity from which they derive their authority, that work has been conducted according to agreed rules and standards, and that work is reported fairly and accurately); participation (allowing public employees a role in decision making; empowering citizens, especially the poor, by promoting their rights to access and to secure control over basic entitlements that allow them to earn a living); predictability (fair and consistent application of laws, regulations, and policies); and transparency (low cost, understandable, relevant information made available to citizens to promote effective accountability and clarity about laws, regulations, and policies). ADB's medium-term agenda and action plan for 2000–2004 is the basis for the implementation of the governance policy. A cluster of policies approved since 1995 further broadened ADB's governance work to include the participation of civil society (1997), law and policy reform (1998), anticorruption policies (1998), procurement (1999), and anti-money laundering (2003).

ADB began a comprehensive review of the governance policy in 2004 that will continue in 2005. As part of this, a review of the anticorruption policy is being conducted in conjunction with the Office of the Auditor General. A desk study and internal and external consultations were done in 2004 and a medium-term agenda and action plan for 2005–2009 will be prepared based on the review's recommendations.

### **Law and Policy Reform and the Rule of Law**

In 2004, ADB continued its program of technical assistance and loans in support of law and policy reform and the rule of law. This program focused on access to justice for the poor, judicial reform, administrative law, corporate governance, anti-money laundering, secured transactions and insolvency law reform, and legal training. Toolkits developed in 2004 help to mainstream law and policy reform through CSPs and CSP updates (CSPUs).

### **Country Governance Assessments**

Country governance assessments (CGAs) were carried out in cooperation with individual DMCs to systematically assess the

quality of governance and to strengthen the link between the quality of governance and the levels and composition of assistance. During 2004, assessments were initiated for Afghanistan, Azerbaijan, India, Lao PDR, Nepal, Palau, Sri Lanka, and Uzbekistan. CGAs were published for Indonesia, Mongolia, and the Pacific. CGAs improve CSPs and the contents of loan and technical assistance pipelines. In 2004, attention was given to operationalizing CGAs in CSP/CSPUs, particularly by supporting governance as an area of strategic focus.

### **Governance Portfolio**

In 2004, 10 loans were classified as law, economic management, and public policy (core governance) for a total of \$578.0 million (compared with \$299.5 million in 2003). Also, 39 advisory technical assistance projects were approved totaling \$22.7 million (\$20.3 million in 2003). Some advisory technical assistance projects were funded by the Governance Cooperation Fund that was established by the governments of Canada, Denmark, and Norway, and administered by ADB. In addition, 15 loans were classified as thematic governance (financial and economic governance, public governance, civil society participation, and anticorruption).

### **ADB—Organisation for Economic Co-operation and Development (OECD) Anticorruption Action Plan for Asia and the Pacific**

Since 1999, the ADB-OECD anticorruption initiative has promoted regional cooperation in the fight against corruption. The initiative aims to foster both regional and country-specific policy reforms tailored to policy priorities identified by the endorsing countries and provides the means by which governments, international organizations, and other partners can review progress. It further assists participating countries in building sustainable legal and institutional frameworks to combat corruption by implementing the standards and principles in its action plans. In 2004, the following occurred.

- (i) The fifth meeting of the steering group of the initiative was held at ADB headquarters in July in conjunction with the second master training seminar on curbing corruption in public procurement.
- (ii) Palau and Viet Nam became the 22<sup>nd</sup> and 23<sup>rd</sup> members of the steering group.
- (iii) The medium-term strategy and work plan for 2004–2006 were approved.
- (iv) A book comparing the legal and institutional frameworks of anticorruption policies of endorsing countries was published.

### **Local Governance and Service Delivery to the Poor**

A technical assistance project (i) studied the policies and practices adopted by local governments in participating DMCs to improve responsiveness in delivering services and to share the findings, good practices, and lessons in the region and (ii) gave local governments the opportunity to learn from international good practices at the Regional Seminar and Learning Event on Local Governance and Pro-Poor Service Delivery held in February. It was a unique learning opportunity for national and local government practitioners and civil society advocates to share experiences and to improve the quality of and access to public services in their localities. ADB Institute and the United Nations Capital Development Fund helped with the event. The seminar produced case studies on international good practices and a practical learning guide for local government practitioners involved in continuous service improvement (see [www.adb.org/Documents/Events/2003/Reg\\_Seminar\\_Loc\\_Gov\\_Service\\_Delivery\\_Poor/](http://www.adb.org/Documents/Events/2003/Reg_Seminar_Loc_Gov_Service_Delivery_Poor/)).

### **Public Administration Networks**

ADB supports the establishment of a network of schools and institutes of public administration in Asia and the Pacific to build and enhance their capacities and those of research organizations and think tanks to enable them to transform their governments into agents of good governance. In December 2004, the Network of Asia-Pacific Schools and Institutes of Public Administration and Governance was launched at an international conference in Kuala Lumpur, Malaysia. The conference provided a venue for educators and practitioners to share expertise and experiences on the role public administration plays in promoting good governance and alleviating poverty. It was conducted in partnership with the National Institute of Public Administration in Malaysia and brought together 234 public administration experts, civil servants, academics, trainers, and researchers from Asia and the Pacific and beyond. Further, a total of 110 individuals representing 92 institutions from 25 different countries attended the network's first business meeting where an interim steering committee was established.

### **Cambodia Public Financial Management Reform Program**

In 2004, ADB and the World Bank facilitated preparation of a public financial management reform program to be operationalized through a consolidated action plan and phased over 3–5 years based on four realistic and achievable reform platforms. The program builds on the findings of the 2003 joint Government of Cambodia/ADB/World Bank public

expenditure review. The objective of the review was to assist the government to assess public service performance and the efficiency of public expenditure planning. A second feature was to facilitate assessment of performance in finance and line ministries and to formulate capacity development action plans. Government leadership is provided through the national reform committee and secretariat chaired by the minister of economy and finance. A donor secretariat ensures well-coordinated external assistance, including pooled funding for technical assistance. Joint performance reviews and follow-up actions are based on well-defined capacity development outcomes at each phase of reform.

### **THEMATIC PRIORITIES**

ADB's thematic priorities are capacity development, environmental sustainability, gender and development, private sector development, and regional cooperation.

### **Promoting Capacity Development**

The review of the PRS recommended that capacity development be adopted as a new thematic priority. As a first response, the Capacity Development Working Group was established and given the task of formulating a medium-term strategic framework and action plan for improving the effectiveness, efficiency, and sustainability of ADB's capacity development. The group also proposed updates for related business processes in ADB and agreed on a definition of capacity development and a classification system to be applied to projects starting in 2005. A draft report from the working group will be provided to Management in the third quarter of 2005.

As part of its capacity-building activities, ADB participated in the Multilateral Development Bank Technical Working Group on Financial Management Harmonization and the OECD's Development Assistance Committee's Joint Venture on Public Financial Management and reviewed and contributed to the proposed International Public Sector Accounting Standard on Disclosure Requirements for Recipients of External Assistance. As harmonization proceeds, it may be possible to shift some financial due diligence to DMCs to reduce the cost of project management and implementation and to simplify disbursement and monitoring. Such a shift will require increased internal capacity in the areas of financial management and accounting.

In addition, ADB continued to provide support to the International Federation of Accountants, the Confederation of

Asia and Pacific Accountants, the International Organization of Supreme Audit Institutions, the Asian Organisation of Supreme Audit Institutions, and the South Pacific Association of Supreme Audit Institutions. The purpose of this support was to strengthen accounting and auditing capacity in the public and private sectors at the regional and country levels.

## **Addressing Environmental Sustainability**

### **Promoting Environmental Interventions to Reduce Poverty**

Out of 58 approved public sector projects, 8 had environmental elements supporting the seventh MDG to ensure environmental sustainability. The total combined loans of \$569 million represents 12% of total public sector lending—an increase from 9% in 2002 and 5% in 2003 (see *box at right*). Five of these projects will support the development of water supply and/or sanitation systems including wastewater and solid waste management systems mostly in urban areas of Azerbaijan, Bangladesh, Federated States of Micronesia, and Tajikistan. A project in the PRC will address continued land degradation in Fujian Province and will promote rural development through market mechanisms that incorporate conservation and poverty reduction in integrated agricultural systems. Two other projects in the PRC involve coal bed methane and coal mine methane production in Shanxi and Liaoning provinces. The increased removal, capture, and use of methane will reduce greenhouse gas (GHG) emissions, increase clean fuel use, improve air quality, and improve coal mine safety and efficiency. Through the clean development mechanism (CDM) facility, ADB assisted in developing the CDM component of the Liaoning project. Taking into account a private sector loan to India for a combined-cycle power plant using liquefied natural gas, all three energy sector development projects involved the use of clean fuel and GHG abatement technologies. In combined loan amounts, the three “green” energy sector development projects (the other two are transmission and distribution projects) represented 32% of the total energy sector loan portfolio in 2004—an increase from 5% in 2003.

ADB also provided technical assistance to prepare loans to improve managing natural resources such as water, coastal fisheries, and wetlands; to develop or improve water supply and sanitation; and to improve environmental quality. Grants were awarded to strengthen national institutions and build capacities for environmental and natural resource management, to explore alternative energy sources, to combat land degradation, and to develop environmental monitoring and

management information systems. ADB will assist the PRC in evaluating the national environment policy, in formulating environmental legislation, and in implementing a national strategy for soil and water conservation that focuses on the Ministry of Water Resources. Likewise, ADB will assist Afghanistan with air quality management, Indonesia in establishing the feasibility of gas generation from waste, and Tajikistan in developing a community-based micro-hydropower project. At the subregional level, ADB will promote effective water management policies and practices, build capacity for sustainable development, and promote biodiversity conservation in the Greater Mekong Subregion.

The Poverty and Environment Program enhanced institutional learning on ways to integrate the environment into poverty reduction projects with the approval of eight subprojects amounting to \$1.6 million focused on poverty, conservation, and health; sustainable alternative livelihoods; biodiversity conservation; disaster management; rehabilitation of degraded forestlands; rehabilitation of polluted sites; and combating desertification. The program is funded by the \$3.6 million Poverty and Environment Fund jointly established by ADB and the governments of Norway and Sweden and finances pilot environmental interventions in three main areas: protection, conservation, and sustainable use of natural resources and ecosystem services; reduction of air and water pollution; and disaster prevention and reduction of vulnerability to natural hazards.

Through strategic partnerships with key development agencies, ADB addresses regional and global environmental problems and tackles the challenges of environmental problems caused by poverty. ADB's active partnership with the Global Environment Facility (GEF) and its direct access to GEF project resources have generated additional cofinancing opportunities and strengthened the program pipeline. In 2004, two projects on land management in Indonesia and Central Asia entered the pipeline; and two projects (integrated coastal resource management for the Philippines and Sanjiang plains wetland protection for the PRC) were approved by the GEF Council. ADB also obtained endorsement from the GEF chief executive officer of the PRC/GEF partnership on land degradation in dryland ecosystems in the western region.

The Renewable Energy, Energy Efficiency, and Climate Change program that brought together trust funds from Canada, Denmark, and the Netherlands continued to mainstream renewable energy and energy efficiency initiatives in its lending

programs, many in conjunction with incentives available through the GEF and CDM (see box at bottom right). Moreover, through the joint ADB-World Bank Clean Air Initiative (CAI)-Asia—a regional, multisector network with over 100 members—ADB continued to support several studies and regional dialogues in Asia on the impact on health of air pollution, benchmarking air quality management capacity, and policy formulation. CAI-Asia hosted a meeting in India on better air quality attended by over 600 participants, mostly key decision makers from the public and private sectors, to improve awareness on integrating air quality considerations in environmental and sector policy making and implementation, and to enhance networking. ADB also signed a memorandum of understanding with the International Union for the Conservation of Nature (the World Conservation Union), and participated in the World Conservation Congress. It also engaged with the multilateral finance institution Working Group on Environment and contributed to harmonizing the environmental assessment framework. Together with the United Nations Environment Programme (UNEP) and the World Health Organization (WHO), ADB organized a high-level meeting on health and environment. It also participated in the Asia-Pacific Forum for Environment and Development to address key regional development and environmental issues. ADB interacted with nongovernment organizations (NGOs) on environmental safeguards and on related issues. To promote good corporate environmental performance in the region, ADB also began work on the publication, *Making Profits, Protecting Our Planet: Corporate Responsibility for Environmental Performance in Asia and the Pacific*.

### **Integrating Environmental Considerations in ADB Operations**

Multilateral and bilateral development agencies have recognized the need to strengthen country analytical work and priority setting exercises to improve environmental sustainability in country strategies and in technical assistance and lending programs. One tool to achieve this is the country environment analysis (CEA) report that describes ADB's role in helping remove environmental constraints. In 2004, ADB finalized CEAs for Kazakhstan and Tajikistan, reviewed eight draft CEAs, and approved a regional technical assistance project to help prepare CEAs for eight Pacific DMCs.

To comply with environmental safeguards, all 73 projects and equity investments approved by the Board of Directors were reviewed to ensure the adequacy of measures to mitigate and manage potential impacts and to contribute to improving

---

### **PUBLIC SECTOR LOAN PROJECTS WITH ENVIRONMENTAL ELEMENTS**

In the PRC, the Fujian Soil Conservation and Rural Development II project incorporates conservation and poverty reduction into integrated agricultural systems. A project in southern Shanxi Province covers all aspects of effective and efficient coal mine methane and coal bed methane production, capture, and utilization using all the latest technologies. A project in Liaoning Province will use those same technologies to improve gas distribution and central heating supplies.

In Central Asia, the urban and water supply and sanitation project in Azerbaijan will improve the quality, reliability, and sustainability of water and sanitation in three secondary towns and will pilot approaches for reforms in others. In South Asia, assistance to Bangladesh will implement flood protection and improve slums, drainage systems, and solid waste management. In Pakistan, assistance will support critical reforms; strengthen institutions; and build capacity and partnerships in health, education, and water supply and sanitation.

---

### **ENERGY INITIATIVES**

ADB and the Dutch Cooperation Fund for Promotion of Renewable Energy and Energy Efficiency cofinanced a regional technical assistance grant that has developed country assessments and feasibility studies on cogeneration using biomass in Bangladesh, Indonesia, Philippines, Sri Lanka, and Viet Nam; on micro hydropower in Indonesia, Uzbekistan, and Viet Nam; on the use of solid waste to generate electricity in Bangladesh and Indonesia; on electric trolley lines in Nepal; and on wind farms in the People's Republic of China (PRC) and Indonesia.

The Canadian Cooperation Fund on Climate Change financed through the Canadian International Development Agency supported a program for adapting to climate change in the Pacific, for carbon sequestration through the clean development mechanism (CDM), for generating gas from waste in Indonesia, and for CDM capacity building in India and the PRC.

The Danish Cooperation Fund for Renewable Energy and Energy Efficiency in Rural Areas financed projects in the PRC, Indonesia, Mongolia, Pakistan, Philippines, Uzbekistan, and the Pacific. The initiatives financed from these funds have brought in additional revenue from carbon markets for projects that would not otherwise be financially viable.

project performance outcomes. ADB engaged with stakeholders, and reviewed environmental assessment reports required of 53 projects. In compliance with ADB's environment policy, summary assessment reports of nine environmentally sensitive projects in the transport and energy sectors were circulated 120 days in advance of the Board of Directors' consideration. Safeguard review missions in Bangladesh, PRC, Lao PDR, and Sri Lanka provided insights on factors critical to improved performance outcomes. Three orientation courses increased the awareness and understanding of 120 staff members on ADB's three safeguard policies. Also, ADB developed checklists, prepared best practice papers, and developed or improved safeguard tools to supplement the resources in the *Environment Assessment Guidelines* (2003) (see [www.adb.org/documents/Guidelines/Environmental\\_Assessment/](http://www.adb.org/documents/Guidelines/Environmental_Assessment/)).

## Gender and Development

The enhanced PRS reaffirmed gender equality as one of ADB's five thematic priorities. As women comprise the bulk of the poor in the region, the pursuit of gender equality and the empowerment of women are recognized as central for poverty reduction and for achieving the MDGs. ADB continued to strengthen its overall loan portfolio addressing gender issues. Significant gender mainstreaming was evident in 38% of loans in 2004. Of these 18% (13 loans) were classified with a gender theme while 20% (15 loans) were classified with significant gender mainstreaming. A further 22% (16 loans) were classified as having some gender benefits. Loans addressing gender equality objectives were represented in all three core strategic areas of ADB operations—pro-poor, sustainable economic growth; inclusive social development; and good governance. While they tend to be concentrated in the health, education, and water supply sectors, some loans were for irrigation, rural development, agriculture and natural resources, SMEs, public resource management, and rural infrastructure.

ADB also continued to improve addressing gender issues in large infrastructure projects, especially road projects. Nine loans in the transport sector included the prevention of HIV/AIDS and trafficking of women and children in the project design. In fact, a review of 2004 loans indicates that prevention of HIV/AIDS and trafficking of women and children are becoming standard mitigation measures in ADB-supported road projects.

In 2004, ADB approved the stand-alone, targeted loan project Nepal Gender Equality and Empowerment of Women to correct gender disparities and accelerate improvements in women's

economic, social, and legal status (see *box at right*). Likewise, a project in women's and children's health in Uzbekistan was approved to reduce infant and maternal mortality rates. Special features of the project include improving the status of midwives and nurses through targets in education and training, improving antenatal care, and increasing deliveries by health professionals. Other good examples of projects approved in 2004 aimed at enhancing women's access to decision making and to economic benefits include the secondary towns integrated flood protection project in Bangladesh and the community-managed irrigated agriculture sector project in Nepal. These loans include targets and indicators to ensure (i) women's employment in project activities, (ii) equal pay for equal work, (iii) representation in decision-making bodies, (iv) access to project resources, and (v) provision for female field staff.

ADB approved a range of technical assistance projects to promote gender equality and women's empowerment. Country-specific technical assistance focused on building the gender capacity of sector agencies to promote improved service delivery and integration of gender issues primarily in agriculture and rural development.

ADB piloted a learning initiative designed to promote peer training as part of its DMC gender capacity-building efforts. A regional seminar on gender, poverty, and rural development was organized for executing agency project directors from Bangladesh, Cambodia, Indonesia, Nepal, Pakistan, Sri Lanka, Uzbekistan, and Viet Nam. Directors who had successful gender-inclusive loan projects presented case studies describing the development of their gender action plans (GAPs) highlighting improved results and contributions to meeting project goals and achieving sustainability. Presentations by peers rather than gender specialists proved to be a powerful tool for convincing directors of the benefits and value of gender-inclusive loans. A follow-up, country-specific workshop was requested by Sri Lanka and three directors from Bangladesh were invited to present cases of gender mainstreaming in loans in rural infrastructure, water management, and education projects. ADB also organized an exchange visit between Cambodia and Viet Nam to enable four members of the Gender Working Group of the Cambodian Ministry of Agriculture, Forestry and Fisheries to learn how Viet Nam developed a gender strategy and plan for the agriculture sector.

To obtain timely feedback and learn lessons from the implementation of ongoing loan projects, ADB conducted rapid gender assessments of three loans each in Bangladesh,

Cambodia, Nepal, and Pakistan. The aim was to assess whether the introduction of project-specific GAPs had any impact on implementation, outreach, and results for women. Results were assessed in the following areas: participation in project activities; access to resources; practical benefits delivered by the project including any differences in benefits for males and females; and changes in gender relations at individual, household, or community levels. Loans reviewed were in agriculture, infrastructure, education, governance, livestock, and health. Initial findings of the assessments indicate that including GAPs in loan designs results in a more systematic approach to implementing gender mainstreaming and to improved participation and benefits for women.

Building partnerships and coordinating with other development agencies was strengthened in 2004. Since both ADB and the World Bank require preparation of country gender assessments (CGAs) for CSPs, a joint CGA was prepared for Mongolia. This

positive experience was replicated and broadened to include other agencies resulting in commencement of multidonor CGAs for Indonesia (Canadian International Development Agency, UNDP, World Bank), an ADB/United Nations Development Fund for Women CGA for Timor-Leste, and an ADB/World Bank CGA for the PRC. Cooperation with civil society organizations was also pursued in 2004. Activities commenced under the Gender in Water Partnership Agreement between ADB and the Gender and Water Alliance, a global network of organizations.

The multidonor gender and development cooperation fund established in 2003 continued to support gender equality and women's empowerment through regional and national technical assistance projects. Twelve projects were endorsed for funding to (i) enhance gender design features in ADB loans, (ii) support innovative and strategic approaches to empower women and girls, and (iii) promote regional awareness and cooperation on gender issues. ADB began preliminary work on a review of the

## NEPAL: THE GENDER EQUALITY AND EMPOWERMENT OF WOMEN PROJECT

**The low economic, social, and political status of women in Nepal is due to economic, legal, sociocultural, political, and institutional factors. Women's poverty is further exacerbated by caste and ethnic discrimination. While Nepal's constitution guarantees equal treatment, discrimination against women persists.**

The project aims to improve the socioeconomic conditions of poor, rural women, including those of low caste and from ethnic minorities through economic, social, legal, and political empowerment. Provisions include (i) strengthening individual capabilities to improve access to and control over assets, (ii) building group support to influence and hold institutions accountable, and (iii) reforming government institutions and processes to become gender responsive and to integrate previously marginalized women into development.

**Economic Empowerment.** This component focuses on increasing income, assets, and employment

opportunities by starting viable microenterprises. The project will provide training, will assess the comparative advantage of such enterprises, and will assist in meeting women's credit needs. About 30,000 women are expected to benefit.

**Legal Empowerment.** Activities will increase the knowledge and awareness of poor rural women about their legal and administrative rights and obligations and will also help to build an enabling environment to implement those rights. Support will also be provided to Tribhuvan University to prepare a specialized course and syllabus on the rights of women and other vulnerable groups, and training will be given to judges and prosecutors. Likewise, women's issues will be included in the curricula of secondary schools. Implementing legal activities will also be strengthened through alternative dispute resolution and by designating one female lawyer per district to provide legal advice and assistance to women and to the community.

**Social Empowerment.** The project will provide community-based literacy courses and activities to strengthen group cohesion. Support will be provided for establishing multipurpose women's centers to serve as venues for social activities and training. A household technology fund will be established to provide appropriate time-saving devices, and a demand-driven infrastructure fund will support community-based social infrastructure to reduce the time and energy women spend on menial tasks.

**Institutional Strengthening and Project Management.** To ensure smooth and effective implementation of activities in the three components, government institutions and processes must be more gender responsive. This component will support activities to strengthen the Department of Women's Development, the Women's Development Office, and local bodies to adopt and implement gender mainstreaming programs. An organizational audit of the department and district line agencies will be carried out together with intensive training and capacity-building activities.

implementation of its gender and development policy to assess progress and effectiveness since its adoption in 1998.

## Promoting the Role of the Private Sector in Development

ADB plays an important role in facilitating private sector development to support sustainable economic growth and poverty reduction in Asia and the Pacific because of its capacity to provide both public and private sector operations in a complementary way. This enables ADB to work with governments to increase opportunities for private sector involvement in the economy in an integrated manner. ADB supports private sector development through policy dialogue; by support for institutional, legal, and regulatory reforms; by increasing the availability of financial services; by creating opportunities for private sector participation in projects; by catalyzing private investment through direct financing and risk mitigation under guarantee schemes; and by improving corporate governance.

Access to finance and related services is an important concern in the region. Much of the private sector in developing countries consists of SMEs that create jobs and develop local technology. ADB support to SMEs in 2004 included policy interventions for Bangladesh, Cambodia, and Viet Nam to assist governments in establishing the institutional framework for SME development and to improve governance, regulatory reforms, and access to credit. ADB also catalyzed private investments by providing loans and equity to institutions and funds that facilitate access to finance for SMEs. In addition, financial sector program loans were approved for Sri Lanka and Viet Nam to reform and strengthen financial markets and to increase the availability of financial products and services, especially long-term funds to the private sector. In the Lao PDR, ADB and the government began reforming aspects of commercial and financial legislation that impede private sector development. Similarly, ADB and the government reviewed the framework for industrial standards to support the implementation of consistent quality standards.

In line with ADB's strategic objective to increase and broaden the flow of capital into more countries, equity investments and private sector loans were approved for six countries compared with three in 2003. Key projects in 2004 included commitments to support telecommunication facilities in Afghanistan and a newly privatized state-owned bank in Mongolia as well as support to the Philippines' Local Government Unit (LGU) Guarantee Corporation that provides protection against default to private financial institutions and other investors in LGUs.

ADB also has an important role to play in facilitating public-private partnerships particularly at a time when the investment community lacks confidence in developing countries. For Pakistan, ADB approved technical assistance for facilitating public-private partnerships in national highway development. ADB continues to take the lead in developing innovative solutions and measures to mitigate risks and encourage private sector investments in its DMCs. An example of risk mitigation is the Afghanistan Investment Guarantee Facility approved in 2004 to provide political risk guarantees to eligible investors and financiers to facilitate private sector investment into Afghanistan.

The magnitude and complexity of regional cooperation for development have led the public sector to realize that private sector resources, both intellectual and financial, need to be tapped to supply the demand for regional capacity building and infrastructure development. ADB devoted significant efforts

## PRIVATE SECTOR DEVELOPMENT IN THE PACIFIC

**The private sector development strategy for the Pacific** examined some of the factors underpinning its disappointing economic growth. Some of the reasons were (i) the pervasive role of the state in all aspects of economic activity, (ii) an inadequate commercial and legal framework for modern business transactions, (iii) ongoing land tenure issues that remain significant barriers to new investment, and (iv) failure of financial markets to intermediate efficiently between savers and borrowers. Addressing these challenges requires a substantial commitment to re-orienting government activities that contribute to the high costs of doing business in the region.

ADB is committed to continued support of private sector development in the Pacific as a matter of priority. The newly established Pacific Liaison and Coordination Office in Sydney, Australia will be instrumental for promoting the reform agenda, both vis-à-vis Pacific developing member countries (DMCs) and in coordination with other development partners.

In 2004, Pacific DMCs made some progress in formulating and implementing the private sector development reform agenda. Initiatives dealing with the productive and economic uses of land are ongoing in Federated States of Micronesia, Fiji Islands, Marshall Islands, Samoa, and Vanuatu. Fiji Islands, Marshall Islands, and Solomon Islands are initiating reforms of their legal business environments. Samoa and Tonga are pursuing the rationalization of their respective state-owned enterprise portfolios, and other DMCs are considering similar steps. Continued efforts can be expected in 2005 and beyond.

to catalyze private sector interest in the regional cooperation programs it supports by organizing public-private sector consultations, approving technical assistance for facilitating cross-border trade and investment in the Greater Mekong Subregion and by endorsing a regional trade facilitation and customs cooperation program for East and Central Asia.

## **Supporting Regional Cooperation and Integration for Development**

Since the early 1990s, the rationale for supporting regional cooperation has rested on two main factors: the imperative need for DMCs to respond to common transboundary problems and the opportunities for greater access to external trade, investment, expertise, information, and technology. The PRS and LTSF formally identify regional cooperation as a core component for reducing poverty. Based on project pipelines for 2004–2007, regional investments will increase to 20% of total ADF concessional lending, representing a sharp increase from 1998–2003 levels of 6%. To advance poverty reduction, preparations began in 2004 on a strategic approach to regional cooperation that will outline how ADB will coordinate support among the five subregions, namely East and Central Asia, Mekong, the Pacific, South Asia, and Southeast Asia (see *box on next page*). The goal is to prepare innovative interventions for the 2006–2010 medium-term strategy.

ADB supports cooperation between and among countries in addressing trade, maritime safety, prevention of infectious diseases, air pollution, financial contagion, terrorism, money laundering, trafficking, and other crimes. Trade, financial, and monetary shocks, risks to the environment, and infectious diseases are particularly important. Among other initiatives, ADB promoted an improved trade environment by supporting customs harmonization and streamlining, combating money laundering, and other measures in coordination with organizations such as the Asia-Pacific Economic Cooperation and the Asia-Pacific Group of the Financial Action Task Force on Money Laundering.

Creating a corruption-free business environment is the aim of the global UN Convention Against Corruption and is key to improving trade throughout the region. In an effort to address this critical issue, the Asia-Pacific Anticorruption Initiative supported by ADB and OECD brought together 23 countries to design and undertake effective programs. Increased trade and integration can help countries in many ways. Export-oriented firms and those with some foreign ownership are more competitive than domestically oriented firms by 40% in Indonesia and the Philippines and by 15–20% in the Republic

of Korea and Thailand. Firms also boost productivity by linking up across borders to integrate production networks that supply raw materials, manufacture components, assemble finished goods, and move them through regional and global distribution chains to consumers. With assistance from ADB, developing Asian countries are trying to promote similar production networks by improving their regulatory environments and freeing up trade and transactions.

The growth arising from increased competitiveness and productivity helps to enhance human and social capital, and to reduce poverty. The same can be said of meeting the requirements of trade agreements. For example, as the PRC has started meeting its World Trade Organization (WTO) commitments on agricultural liberalization, agricultural incomes have risen as farmers shift to value-added crops. It is expected that further improvements will occur as the PRC addresses issues such as rural education and labor mobility.

The environmental challenges facing Asia and the Pacific include problems of water allocation, habitat and species conservation, and air pollution. Intergovernmental organizations are the key players, including the Association of Southeast Asian Nations (ASEAN), the Mekong River Commission, and the Clean Air Initiative for Asian Cities. Although these organizations are making progress, the overall institutional framework to address transboundary environmental governance is incomplete. Decisions at the local, national, and regional levels need to be more synchronized.

The outbreak of Avian flu in 2004 and the rapid spread of HIV/AIDS along new economic corridors have severely affected the poor. ADB is working in partnership with WHO to quickly assess country readiness to react effectively to contain disease outbreaks and to mobilize financial support. ADB's Community Action for Preventing HIV/AIDS, funded by the Japan Fund for Poverty Reduction, focuses on source and destination areas of mobile populations in Cambodia, Lao PDR, and Viet Nam. ADB is also actively facilitating the provision of regional public goods in combating HIV/AIDS by providing access to information about the epidemiology of HIV/AIDS and about the ways to successfully prevent the disease. Although proactive regional approaches are making headway, more resources and commitments from regional governments are needed.

In collaboration with UNICEF and other partners, ADB worked with five countries—PRC, Indonesia, Pakistan, Thailand, and Viet Nam—on national country investment plans for food

## REGIONAL COOPERATION

### **Strengthening Connectivity for Sustainable, Pro-Poor Growth**

Improving connectivity will not only increase the volume of trade, it can also affect the pattern of trade in a way that increases competitiveness.

Connectivity will facilitate trade by bringing down transaction costs and making neighboring markets more accessible.

From 1972 to 2004, ADB funded 18 regional investment projects totaling \$3,926 million with ADB providing \$1,361.3 million, and cofinancing of \$962.4 million had been mobilized for 8 of these projects. ADB has also provided 95 technical assistance grants totaling \$57.8 million for the Greater Mekong Subregion (GMS) program's priority areas.

### **Central Asia Regional Economic Cooperation (CAREC)**

ADB initiated the Central Asia Regional Economic Cooperation (CAREC) program in 1997. CAREC is also an alliance of institutions that support regional cooperation including the European Bank for Reconstruction and Development, the International Monetary Fund, the Islamic Development Bank, the United Nations Development Programme, and the World Bank.

The primary objective of the CAREC program is to promote economic growth and raise living standards by encouraging economic cooperation. The program focuses on financing infrastructure projects and improving the region's policy environment in the priority areas of water and energy, trade facilitation, and transport. The goal is to lessen Central Asia's economic isolation;

maximize the potential benefits of available natural resources such as water, coal, and natural gas; and support the development of policy frameworks that enable trade within and beyond the region.

### **Greater Mekong Subregion**

ADB's strategy for 2004–2008 supports sustainable pro-poor growth by strengthening connectivity and facilitating cross-border movements and tourism in the GMS. This will be implemented through priority subregional projects in transport, energy, telecommunications, and trade facilitation identified in the plan of action endorsed by the 30<sup>th</sup> GMS ministerial meeting in Vientiane, Lao People's Democratic Republic in December 2004 to enhance connectivity, competitiveness, and community. The strategy also proposes developing an updated and integrated master plan beyond 2006 for the transport and energy sectors, and extending assistance in implementing key sector reforms to foster the development of information and communication technology, particularly in the delivery of services to the poor. Measures are also in place to mitigate the negative impact of greater connectivity, e.g., transmission of communicable diseases, environmental degradation, and trafficking in people and wildlife.

### **Southeast Asia**

Building connectivity in the archipelagic geography of Indonesia, Malaysia, and Philippines is a major undertaking requiring carefully coordinated planning of infrastructure links. In the more remote islands of the Association of Southeast Asian Nations region this enhanced connectivity is an essential

precondition for improving the livelihood of local populations. ADB is currently working with stakeholders to finalize its first Regional Cooperation Strategy and Program for Southeast Asia, in which strengthened regional transport and energy linkages are two of the core areas of activity. Actual investments in infrastructure are being complemented by technical assistance to facilitate trade through improved logistics, capacity building in multimodal transport planning, and harmonization.

### **South Asia**

ADB promotes economic cooperation and integration within South Asia and beyond. In 2004, under the South Asia Subregional Economic Cooperation program, a transport loan was approved, and several technical projects were implemented or processed in six priority areas: transport; energy; tourism; environment; trade, investment, and private sector cooperation; and information and communication technology. The Subregional Economic Cooperation in South and Central Asia program includes Afghanistan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan, and Iran as an observer. Its objective is to promote cooperation in transport, transit, and trade. ADB is also working with the South Asian Association for Regional Cooperation to explore ways in which it can assist with the regional cooperation agenda.

### **The Pacific**

Two of the most critically needed regional public goods are specialized knowledge and technology that address common needs in the Pacific, including regional institutional capacity in transport and communications.

fortification to tackle the critical and persistent problem of micronutrient malnutrition. The project included four regional forums and workshops with sessions devoted to flour and oil

fortification; improving the micronutrient content of complementary foods for young children; and regulation, quality assurance, surveillance, and trade in fortified processed foods.

## MONETARY AND FINANCIAL COOPERATION IN EAST ASIA

Monetary and financial cooperation in East Asia has gained considerable momentum since the 1997 financial crisis especially under the Association of Southeast Asian Nations (ASEAN)+3 Finance Ministers' Process established in November 1999. Cooperation has proceeded in four main areas: economic review and policy dialogue, the Chiang Mai Initiative, the Asian Bond Market Initiative (ABMI), and the ASEAN+3 research group.

The ASEAN+3 finance ministers meet annually and their ministry and central bank deputies meet semiannually for economic review and policy dialogue to discuss, among others, major economic policy challenges facing the region and to conduct reviews of one another's policies. Under the Chiang Mai Initiative of May 2000, 16 bilateral swap agreements have been signed for a total of \$36 billion.

A more recent initiative of the ASEAN+3 finance ministers is the ABMI of December 2002. An ABMI focal group and six working groups have been established. The ASEAN+3 research group is a network of some 30 regional think tanks that conduct research to support the various components of the ASEAN+3 Finance Ministers' Process.

The Regional Economic Monitoring Unit (REMU)<sup>1</sup> was established by ADB in early 1999 in the wake of the 1997 Asian financial crisis. It supports all of these components in various ways. REMU prepares the semiannual Asia Economic Monitor and the Asia Bond Monitor reports and provides technical assistance to build developing member countries' regional economic policy-making and associated institutional capacities and supports activities of various ABMI working groups. It also conducts research on regional cooperation and integration and recently has started extending support for ongoing efforts to promote Asian economic integration by helping build bridges between various Asian regions. REMU develops and maintains the Asia Regional Information Center ([aric.adb.org/index.asp](http://aric.adb.org/index.asp)) and the AsianBondsOnline ([asianbondsonline.adb.org/regional/regional.php](http://asianbondsonline.adb.org/regional/regional.php)) websites.

<sup>1</sup> Effective 1 April 2005, the Office of Regional Economic Integration (OREI) was established to replace REMU. The mandate of OREI is to promote economic cooperation and integration of the developing member countries of ADB among themselves and to contribute to the harmonious economic growth of the region as a whole.

## CLASSIFICATION OF ADB'S DEVELOPING MEMBERS

Per capita gross national product and debt repayment capacity are the criteria used to determine the classification of borrowing developing members and eligibility to borrow from the Asian Development Fund (ADF). Group A (ADF only) countries include Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Lao People's Democratic Republic, Maldives, Mongolia, Myanmar,<sup>1</sup> Nepal, Samoa, Solomon Islands, Tajikistan, Timor-Leste, Tuvalu, and Vanuatu.

Group B1, ADF with limited amounts of ordinary capital resources (OCR), includes Azerbaijan, Bangladesh, Cook Islands,<sup>2</sup> Marshall Islands, Federated States of Micronesia, Pakistan, Sri Lanka, Tonga, and Viet Nam. Group B2 (OCR with limited amounts of ADF) includes People's Republic of China,<sup>1</sup> India,<sup>1</sup> Indonesia,<sup>3</sup> Nauru,<sup>1</sup> Papua New Guinea, and Uzbekistan.

Group C (OCR only) includes Fiji Islands, Kazakhstan, Malaysia, Philippines, Thailand, and Turkmenistan.

In 2004, cost-sharing limits for project loans were 80% for Group A,<sup>4</sup> 75% for B1, 70% for B2, and 65% for C. Government contributions to technical assistance should be at least 15% of total costs for Group A, 20% for B1 and B2, and 30% for C. The contribution will be subject to the limit of total technical assistance costs minus foreign exchange costs and costs of domestic consultants.

Criteria for graduation from regular ADB assistance have also been established. Hong Kong, China; Republic of Korea; Singapore; and Taipei, China have graduated from regular ADB assistance (see [www.adb.org/documents/policies/graduation](http://www.adb.org/documents/policies/graduation)).

<sup>1</sup> Currently no access to ADF.

<sup>2</sup> Limited eligibility for OCR will be applied only after the external debt situation improves.

<sup>3</sup> On a watch list for graduation from the ADF.

<sup>4</sup> As per the Board of Directors' paper, "Review of Afghanistan's Classification under ADB's Graduation Policy," 28 June 2002, the cost-sharing limit for loans and technical assistance operations for Afghanistan was waived for 2002–2004.

- 
- 66 EAST AND CENTRAL ASIA  
 67 Azerbaijan  
 67 China, People's Republic of  
 68 Kazakhstan  
 69 Kyrgyz Republic  
 70 Mongolia  
 71 Tajikistan  
 71 Turkmenistan  
 72 Uzbekistan  
  
 72 MEKONG  
 73 Cambodia  
 74 Lao People's Democratic Republic  
 74 Myanmar  
 74 Thailand  
 75 Viet Nam  
  
 76 THE PACIFIC  
 77 Cook Islands  
 78 Fiji Islands  
 78 Kiribati  
 79 Marshall Islands  
 79 Micronesia, Federated States of  
 80 Nauru  
 80 Palau  
 80 Papua New Guinea  
 81 Samoa  
 82 Solomon Islands  
 82 Timor-Leste  
 83 Tonga  
 83 Tuvalu  
 84 Vanuatu  
  
 85 SOUTH ASIA  
 86 Afghanistan  
 86 Bangladesh  
 87 Bhutan  
 88 India  
 89 Maldives  
 90 Nepal  
 90 Pakistan  
 91 Sri Lanka  
  
 92 SOUTHEAST ASIA  
 93 Indonesia  
 93 Malaysia  
 94 Philippines

## REGIONAL PERSPECTIVES

### East and Central Asia

The region comprises Azerbaijan, People's Republic of China (PRC), Mongolia, and five Central Asian republics, namely Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. It has significant natural resources including oil, natural gas, gold, and other metals, so its economic prospects are largely determined by international commodity prices. The PRC is a notable exception with a diversified manufacturing sector and a growing service sector. The region's total population of just over 1.4 billion and gross domestic product (GDP) of about \$1.5 trillion make for a large market and offer considerable potential for trade, investment, and economic growth.

These eight economies span a vast geographical area with varying natural conditions. Many have harsh climatic conditions and are landlocked which imposes high economic transaction costs. In addition, all have a legacy of socialist economic policies though most have embarked on market-oriented reforms emphasizing macroeconomic stabilization, open trade, and private sector development. As a consequence, many are also developing new institutions including reformed judiciaries, private business associations, and new accounting standards.

The region is still in the midst of an economic boom that began in the late 1990s. GDP growth for the region as a whole was 8.5-9.5% in 2004 though country performance varied. High commodity prices (especially for oil, natural gas, and

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade (\$ million)	International Reserves (\$ million)
Azerbaijan	10.2	6.7	44	1,904
China, People's Rep. of	9.5	3.9	31,950	...
Kazakhstan	9.4	6.9	7,006	9,281
Kyrgyz Republic	7.1	4.0	(171)	565
Mongolia	10.6	10.6	(158)	205
Tajikistan	10.6	6.8	(290)	193
Turkmenistan	21.0	5.0	546	...
Uzbekistan	7.7	3.7	878	2,100

... Data not available.  
 ( ) Negative.

NOTE: In the tables in this section, Agriculture refers to Agriculture and Natural Resources; Health is Health, Nutrition, and Social Protection; Law is Law, Economic Management, and Public Policy; Transport is Transport and Communications; and Water is Water Supply, Sanitation, and Waste Management.

### EAST AND CENTRAL ASIA: ECONOMIC INDICATORS, 2004

gold), increased production of key commodities, the inflow of foreign direct investment, and buoyant demand in export markets were responsible for this impressive performance. In the PRC, manufactured exports to international markets were sustained by technological upgrading and aggressive marketing driven by foreign direct investment and investments in infrastructure and skills.

ADB's efforts to promote cooperation in the region were strengthened by its Central Asia Regional Economic Cooperation (CAREC) program. With strong ownership from member countries and strategic alliances with development partners, CAREC has evolved into a full-fledged, extensive regional cooperation program in transport, energy, trade facilitation, and trade policy. CAREC also promotes private sector participation and greater cooperation with neighboring countries in the south, particularly Afghanistan. At the third ministerial conference in Astana, Kazakhstan in November, members reaffirmed their commitment to working together and agreed to prepare a comprehensive action plan up to 2007. ADB completed its regional cooperation strategy and program (RCSP) for CAREC member countries for 2004–2007.

### Azerbaijan

**Strategy and Policy Dialogue.** The strategic thrusts of the interim operational strategy as reaffirmed in the country strategy and program update (CSPU) for 2005–2006 are assistance for internally displaced persons, agriculture and rural development, social infrastructure, and roads are in line with the national poverty reduction strategy. ADB provided support to coordinate the implementation of the national strategy and

began analytical work in environment, governance, gender, and private sector development in preparation for the 2005 CSP. ADB's resident mission opened in November coinciding with the government signing the private sector framework agreement.

**Loans and Technical Assistance.** ADB approved two loans for one project in 2004 for \$30.0 million—\$20.0 million from the Asian Development Fund (ADF) and \$10.0 million from ordinary capital resources (OCR)—to improve water supply and sanitation services in secondary towns. In addition, five technical assistance grants totaling \$2.6 million were approved.

### People's Republic of China

**Strategy and Policy Dialogue.** ADB's strategy in the PRC is to support the government's development to maintain steady and equitable growth and improve the living conditions of its population. In 2004, ADB worked with the government to strengthen ADB's effectiveness and relevance particularly in (i) reducing project preparation time, (ii) exploring new areas for operations, and (iii) improving the effectiveness of advisory technical assistance. A joint task force identified ways to streamline project processing. Dialogue with the government identified innovative lending approaches and explored new areas for future loans including agriculture and rural development, energy conservation, financial sector reform, and social development. The government and ADB agreed to develop a sharper focus for advisory technical assistance, to allocate more of these funds to strategically important areas, to provide more training to executing agencies, to set up a quarterly operational review system, and to establish an annual award for advisory technical assistance projects.



AZERBAIJAN Project Implementation				AZERBAIJAN Cumulative ADB Lending (as of 31 December 2004)			
Sector	No. of Loans	\$ Million	%				
Water	2	30.0	57.7				
Agriculture	1	22.0	42.3				
<b>TOTAL</b>	<b>3</b>	<b>52.0</b>	<b>100.0</b>				

Policy studies were done on the impacts of global oil price hikes, establishing a rural minimum living standard support system, promoting underdeveloped sectors during the macroeconomic control period, strengthening agroprocessing growth and credit guarantees to rural households, and formulating development strategies for Hebei Province. In financial reform, policy dialogue focused on social security, banking reform, and rural finance. While continuing support for social security reforms, ADB also assisted the National Development and Reform Commission with a performance evaluation system for state-owned enterprises and the China Banking Regulatory Committee with foreign bank rating and risk management. Three new technical assistance projects in 2004 addressed establishing a comprehensive statistical reporting system for commercial banks, improving rural financial services in Guizhou Province and the Inner Mongolia Autonomous Region through policy and institutional support and capacity building, and formulating agriculture taxation systems.

ADB continued to provide assistance on economic legislation, honoring the commitments to the World Trade Organization (WTO), developing the rule of law, and formulating policies and laws on competition. ADB provided technical assistance for (i) training senior judges in WTO rules; (ii) reviewing and planning for the development of the legal and judicial system; and (iii) finalizing the draft of the bankruptcy law. A new technical assistance project to develop the legal and regulatory framework of a policy on competition was also approved.

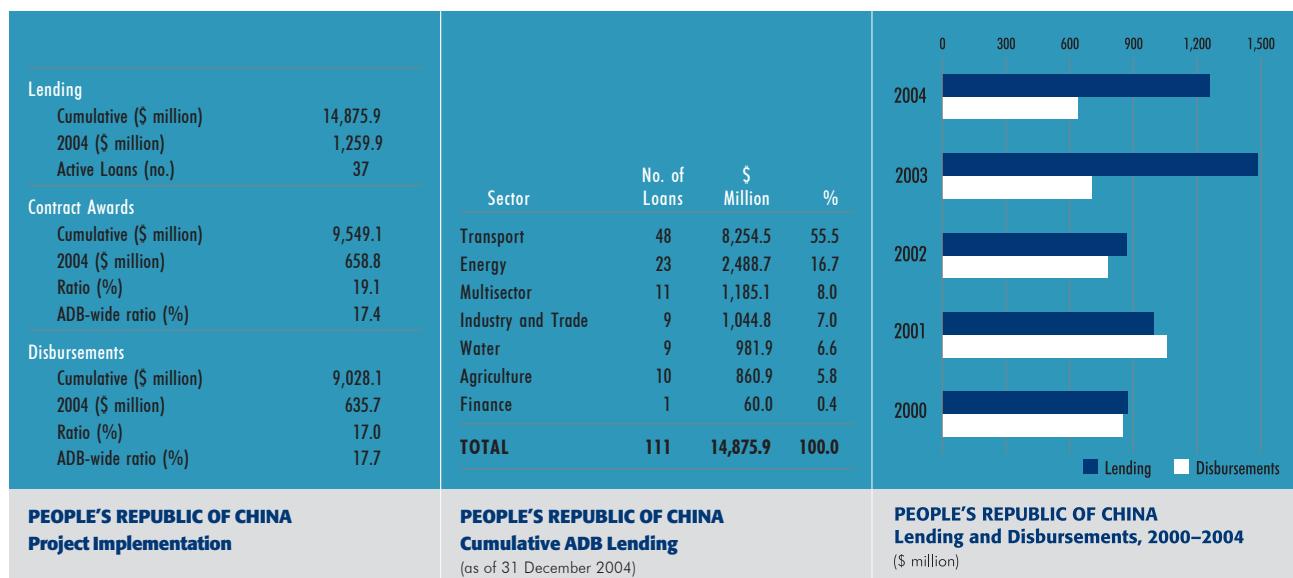
The partnership between the PRC and ADB in supporting development and poverty reduction in Asia and the Pacific

strengthened in 2004. The PRC became a first-time donor to the ADF with a contribution of \$30 million (2005–2008). In May 2004, the government also announced a \$20 million grant to establish a PRC poverty reduction and regional cooperation fund (2005–2009) at ADB.

**Loans and Technical Assistance.** ADB approved seven loans totaling \$1.3 billion. These included a soil conservation and rural development project in Fujian Province; a coal mine methane development project in Shanxi Province; an environmental improvement project in Liaoning; three road projects in Hunan, Guangxi, and Gansu provinces; and a railway project connecting Dali and Lijiang in Yunnan. Thirty-two technical assistance activities were approved totaling \$16.7 million.

### Kazakhstan

**Strategy and Policy Dialogue.** In 2004, policy dialogue focused on poverty reduction in rural areas by supporting the implementation of the rural development program, the drinking water program, and the poverty reduction program. Technical assistance was provided for regional rural development and for monitoring and evaluating poverty reduction. Loans for rural water supply and sanitation and water resource management and land improvement were ongoing. A study helped to develop the state education reform program through 2010. ADB also strengthened policy dialogue on transport through the rural road development strategy and preparation of the follow-on national road development strategy and supported the implementation of the innovative industrial development strategy through a workshop on competitiveness and small and



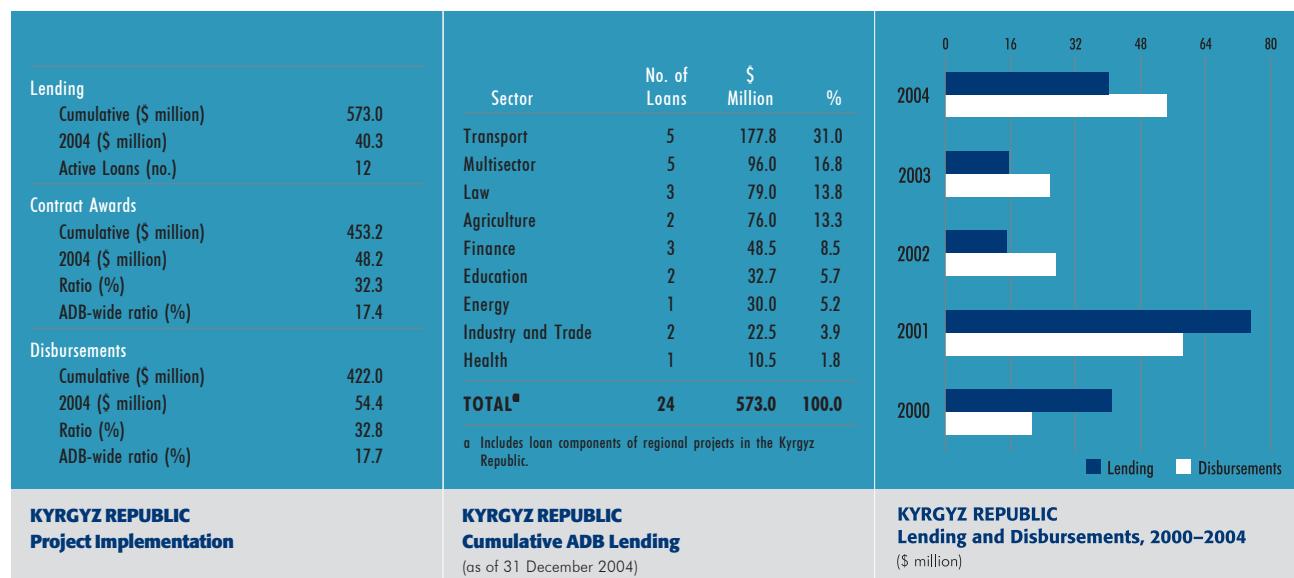
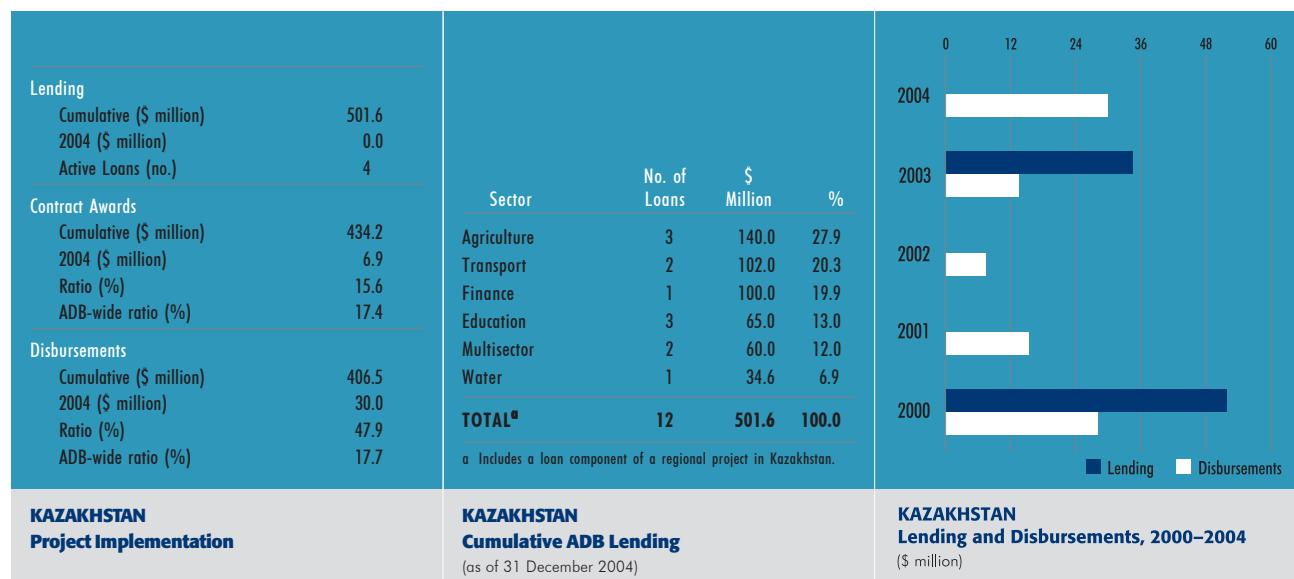
medium-sized enterprise (SME) development.

ADB also provided technical assistance to improve financial sector governance, including adoption of international accounting standards and capacity building for integrated financial sector supervision. The resident mission played a pivotal role in facilitating the signing of the private sector agreement in November 2004 thereby enabling ADB to start private sector operations. Knowledge transfer was also a key feature of ADB assistance.

**Loans and Technical Assistance.** No loans were approved in 2004. Four technical assistance activities totaling \$1.7 million were approved to support the financial sector and government capacity building.

### Kyrgyz Republic

**Strategy and Policy Dialogue.** The overall objective of the country strategy and program (CSP) for 2004–2006 is to reduce poverty. This will be addressed primarily by promoting private sector-led economic growth and support for human development. The CSP emphasizes (i) agriculture as a key sector for achieving pro-poor growth; (ii) the financial sector to stimulate domestic savings and investment; (iii) improving trade and road links with regional markets; and (iv) providing primarily basic education and early childhood development. The CSP is based on the development objectives and strategy in the comprehensive development framework to 2010 and the national poverty reduction strategy for 2003–2005, the Millennium Development Goals (MDGs), the strategic focus and ongoing and planned programs and projects of other



external agencies, and ADB's knowledge and experience in the country.

ADB's policy dialogue focused on reforming customs, the judicial system, and management of external assistance. Under the regional trade facilitation and customs cooperation program, the government revised the customs code to bring it in line with international standards and conventions for simplifying procedures and introduced modern controls. Coordination between customs and other revenue collection agencies was improved.

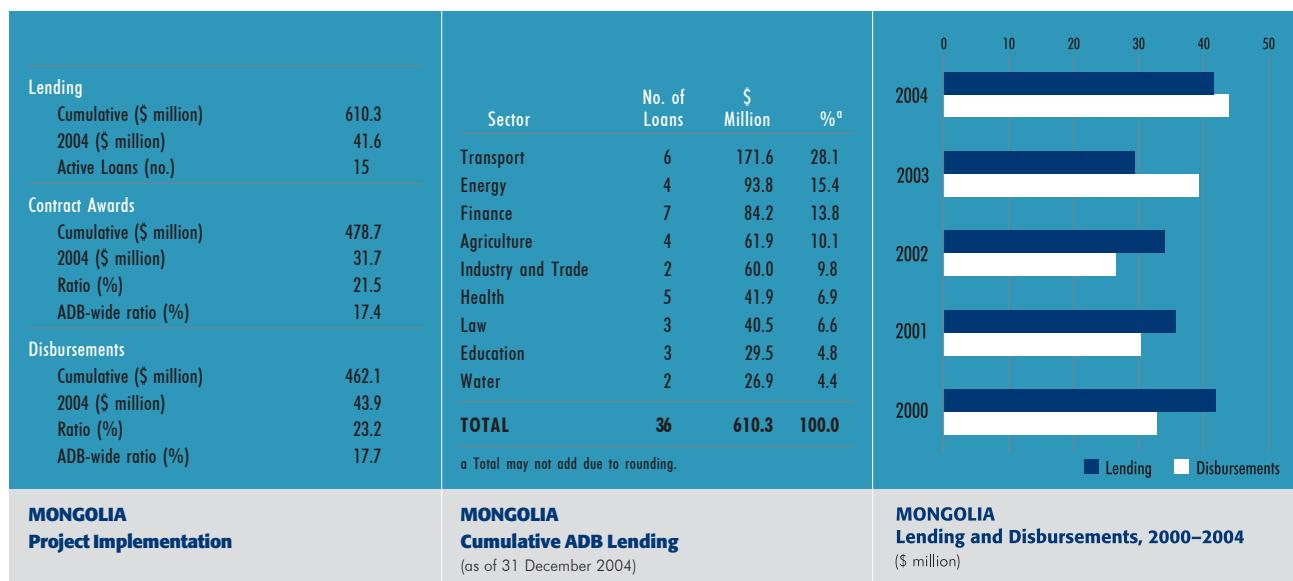
Under the second ADB corporate governance and enterprise reform program, the government undertook constitutional changes, amendments to the law on joint stock companies to improve corporate governance, streamlining adjudication to resolve commercial disputes quickly, and protection of creditors' rights. ADB provided technical assistance to improve donor coordination, to strengthen project management in line ministries, and to plan public investment.

**Loans and Technical Assistance.** Two loans for \$40.3 million were approved: one for \$32.8 million for rehabilitation of the southern transport corridor road and one for \$7.5 million as a component of the regional project for customs modernization and infrastructure development. Seven technical assistance activities totaling \$3.9 million were approved. In addition, three Japan Fund for Poverty Reduction (JFPR) grant projects totaling \$3.0 million were approved.

## Mongolia

**Strategy and Policy Dialogue.** A new CSP is under preparation to provide an updated framework to identify and target future ADB interventions. It will take account of significant, recent demographic changes, accelerated rural migration to urban areas, structural changes in the economic system, and new capacity building needs. More importantly, the new CSP will seek to address Mongolia's persistent high levels of poverty. In order to help Mongolia achieve the MDGs, ADB must continue to promote economic growth for job creation and to improve essential services for the poor. Following parliamentary elections in June 2004, policy dialogue with the new government has focused on further reform to the financial system, updating the education strategy, and urban development.

**Loan and Technical Assistance.** ADB approved a loan of \$37.1 million for the regional road development project to complete the north-south corridor linking the country with its major trading and investment markets, the PRC and the Russian Federation. ADB also approved and fully disbursed a financing package of \$6.1 million to the Trade and Development Bank of Mongolia that includes an equity investment of \$1.6 million in exchange for a 10% stake along with a \$4.5 million subordinated loan. This is ADB's first private sector investment in Mongolia. Seven technical assistance activities were approved totaling \$2.7 million for education, urban development, transport, agriculture, health, and anti-money laundering.



## Tajikistan

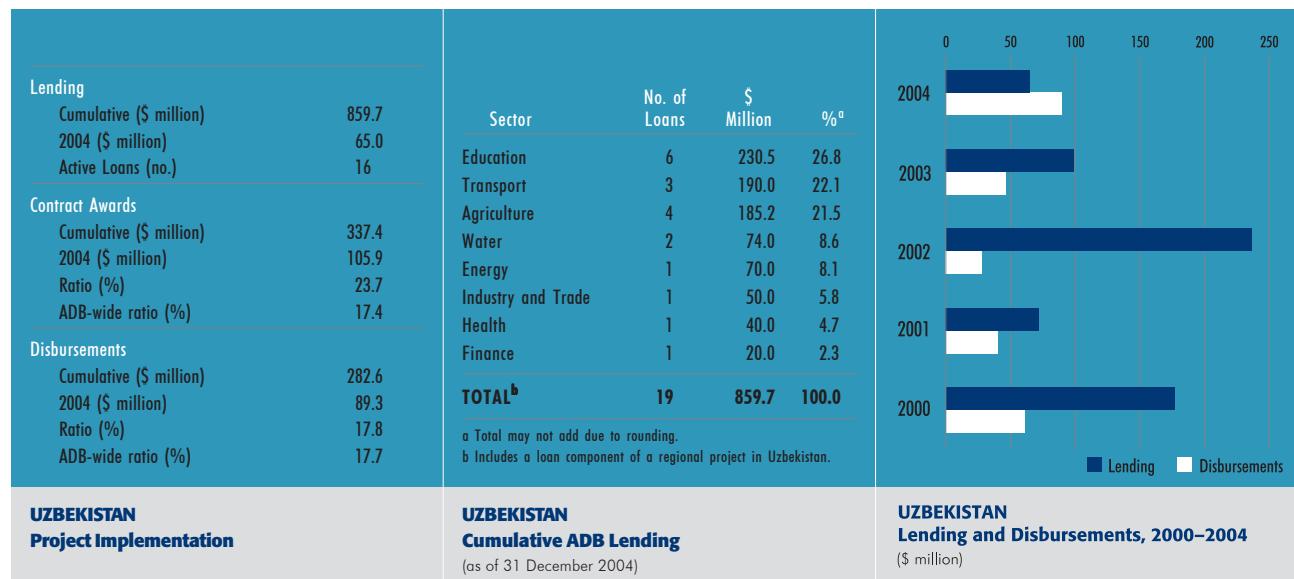
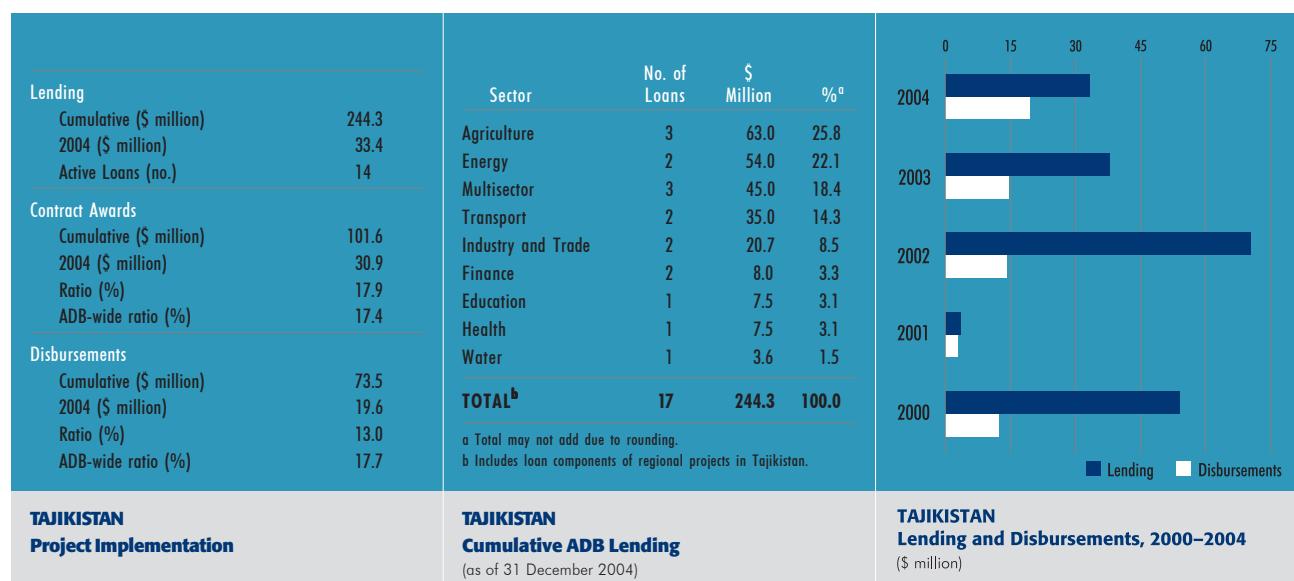
**Strategy and Policy Dialogue.** The dialogue with the government involved discussion of ADF IX allocation mechanisms and their implications for the country. The annual country allocation for 2005–2006 is approximately \$18 million. Of this, 40% is grants. In addition, resources have been set aside for regional cooperation which Tajikistan could access. Policy discussions with the government also stressed the importance of continuing with structural reforms in particular in energy, farm privatization/debt issues, and public sector management.

**Loans and Technical Assistance.** Two loans for \$33.4 million were approved: one for the irrigation rehabilitation project for \$22.7 million and one for \$10.7 million as a component of the regional project on customs modernization and infrastructure

development project that is a continuation of program loans in 2002 to the Kyrgyz Republic and Tajikistan. The irrigation project along with national reforms will allow farmers to transport raw cotton out of districts, give them a choice of investors, and help them to use standard cotton financing contracts for transparency and financial discipline. These reforms will bring about immediate changes in the policy and institutional environment that affects the lives of cotton farmers. Five technical assistance activities totaling \$2.8 million and two grants totaling \$3.0 million from the JFPR were also approved.

## Turkmenistan

**Strategy and Policy Dialogue.** Lending will commence if preconditions are met for each project including government



commitment to undertake reforms to realize the full benefits of the investment. No policy dialogue has taken place since 2002. Government officials attended ADB seminars and workshops including the Central Asian regional partnership building forum on confronting land degradation and the regional capacity building seminar on customs cooperation. High-ranking government officials participated in meetings of the steering committee on the Turkmenistan-Afghanistan-Pakistan natural gas pipeline project for which ADB financed a feasibility study. Technical assistance financed a study tour from the National Institute of State Statistics and Information to Manila in December 2004.

**Loans and Technical Assistance.** No loans or technical assistance projects were approved in 2004.

### **Uzbekistan**

**Strategy and Policy Dialogue.** ADB's strategy for Uzbekistan focuses on reducing poverty and promoting regional cooperation. The government's living standards strategy was completed in July 2004 with ADB assistance. It affirms the government's commitment to poverty reduction and outlines the main strategic policies to be implemented to improve living standards up to 2010. ADB's efforts to bring the economic benefits of cooperation to the region include encouraging Uzbekistan and its neighbors to strengthen regional infrastructure, particularly in energy, transport, and trade facilitation.

The second textbook development project addressed the availability and affordability of textbooks in basic education along with curriculum reform and encouraged private sector involvement in publishing and printing. The health project for women and children supported government policy reforms integrating primary health care into the medical system, developing the resources of medical personnel, streamlining health care financing, and strengthening the blood safety program.

**Loans and Technical Assistance.** Two loans totaling \$65.0 million were approved for the textbook and health projects. Six technical assistance activities totaling \$2.5 million were also approved.

### **Mekong**

The region comprises five countries sharing the Mekong River, namely Cambodia, Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam. The Greater Mekong

Subregion (GMS) Economic Cooperation Program also includes the People's Republic of China.

Real GDP growth ranged between 6 and 7.5% in 2004. National estimates indicate that the incidence of poverty dropped from a range of 27–58% in 1990–1994 to 10–36% in 1997–2003. Poverty levels remain high, however, particularly in rural areas.

Two important developments during the year were the formation of a new government in Cambodia following the 2003 elections and ratification of Cambodia's accession to WTO. Negotiations for WTO membership for the Lao PDR and Viet Nam continued. Another milestone was the completion of all preparations for opening the resident mission in Thailand which is expected to play a pivotal role in strengthening ADB's partnerships with the government.

A number of initiatives accelerated concrete results and promoted long-term effectiveness and impact for the GMS. The GMS road map in the RCSP for 2004–2008 was approved in March. Seventeen regional technical assistance projects were also approved with ADB contributions of \$7 million. The Mekong Development Forum in Paris in June and the Public-Private Consultation Meeting in Bangkok in September attracted a broader range of development partners to participate in the GMS. The year culminated with a highly successful 13<sup>th</sup> GMS Ministerial Conference in December in Vientiane, Lao PDR that noted the substantial progress achieved in enhancing connectivity, increasing competitiveness, and building a greater sense of community. The conference

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade (\$ million)	International Reserves (\$ million)
Cambodia	6.0	3.9	(660)	812
Lao PDR	6.5	10.6	(145)	225
Myanmar	13.8 <sup>a</sup>	7.0 <sup>b</sup>	810 <sup>a</sup>	781 <sup>a</sup>
Thailand	6.1	2.7	1,682	49,832
Viet Nam	7.5	7.7	(4,940)	6,027

( ) Negative.  
<sup>a</sup> For Fiscal Year (FY)2003 (April 2003 to March 2004). Data for FY2004 not yet available.  
<sup>b</sup> October 2004.

#### **MEKONG: ECONOMIC INDICATORS, 2004**

produced a plan of action that provides a coordinated blueprint for GMS initiatives for the next several years.

Coastal areas of Myanmar and Thailand were affected by the tsunami on 26 December. In Thailand, six provinces in the southern part of the country—Krabi, Phang-Nga, Phuket, Ranong, Satun, and Trang—bore the major effects, including substantial loss of life, assets, and livelihoods though the impact on Thailand's overall economy is expected to be limited. In Myanmar, the damage was much less. The coastal villages affected included the townships of Labutta and Ngaputaw in the Ayeyawady Delta, Kawthoung in Taninthayi Division, and some townships of Rakhine State.

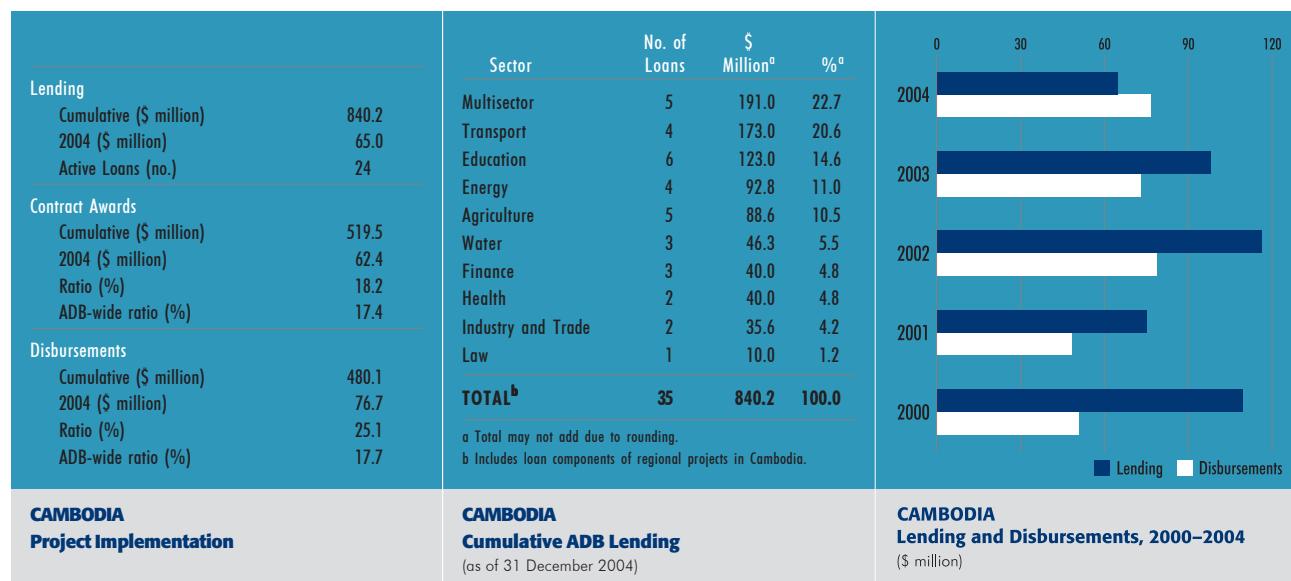
### Cambodia

**Strategy and Policy Dialogue.** ADB prepared a new CSP 2005–2009 to support implementation of the government's rectangular strategy for growth, employment, equity, and efficiency. In line with the priorities and strategies identified in the strategy, the CSP will focus on (i) broad-based economic growth through investments in physical infrastructure, development of the financial sector, support for greater regional integration, sustainable development of SMEs, and investments in agriculture and irrigation; (ii) inclusive social development focusing on education, gender mainstreaming, controlling communicable diseases, the provision of rural water supply and sanitation facilities, and community-based, sustainable management and conservation of natural resources in the Tonle Sap Basin; and (iii) good governance supporting improvements in public financial management and decentralization to strengthen

public service delivery, improve accountability, and reduce corruption.

Support will continue for legal, regulatory, and institutional reforms to improve corporate governance and efficiency in the sectors in which ADB operates. A geographic (Tonle Sap Basin) and subregional focus (GMS) supported one of the poorest and environmentally sensitive regions of Cambodia and provided benefits from the opportunities provided by regional cooperation. The CSP was based on wide-ranging consultations with the government, donors, civil society, and the private sector. ADB, the World Bank, and the United Kingdom's Department for International Development and later the UN System closely cooperated and coordinated on country strategies and policy dialogue to reduce transaction costs to the government.

**Loans and Technical Assistance.** ADB approved three loans totaling \$65 million for two projects. A program loan and a project loan will increase educational opportunities for the poor through policy reforms, institutional capacity building, developing facilities, decentralized technical and vocational education and training, and targeting education incentives to the poor. The other project will create an enabling environment for SMEs by establishing a development framework, enhancing governance and business regulations, improving access to finance, and assisting in the development of business services and public-private partnerships. Twelve technical assistance activities totaling \$4.6 million and two grants from the Japan Fund for Poverty Reduction totaling \$4.0 million were also approved.



### Lao People's Democratic Republic

**Strategy and Policy Dialogue.** The CSP for the Lao PDR outlines a number of operational priorities for ADB's assistance to the country. Among them are (i) rural development and market links; (ii) human resource development; (iii) sustainable environmental management; (iv) private sector development; (v) governance and capacity building; (vi) geographic focus, particularly on the relatively impoverished Northern Region and areas along the GMS east-west economic corridor in Savannakhet Province; and (vii) subregional cooperation with neighboring countries in the GMS.

Policy dialogue was conducted throughout 2004 on commercial and rural banking sector reforms, SME development, and environmental and social safeguards. Capacity building was provided in public financial management with a view to enhance the country's state audit functions and to improve accounting regulations and procedures. Through technical assistance, ADB supported government preparation of a development strategy for the Northern Region. Due diligence for the proposed GMS Nam Theun 2 hydropower development project in partnership with the World Bank proceeded.

**Loans and Technical Assistance.** Two loans totaling \$27.7 million were approved to improve rural roads and to promote community-managed irrigation in the Northern Region. Eleven technical assistance projects totaling \$6.1 million were also approved.

### Myanmar

**Strategy and Policy Dialogue.** ADB continued to monitor economic developments in Myanmar. An operational strategy will be formulated when appropriate.

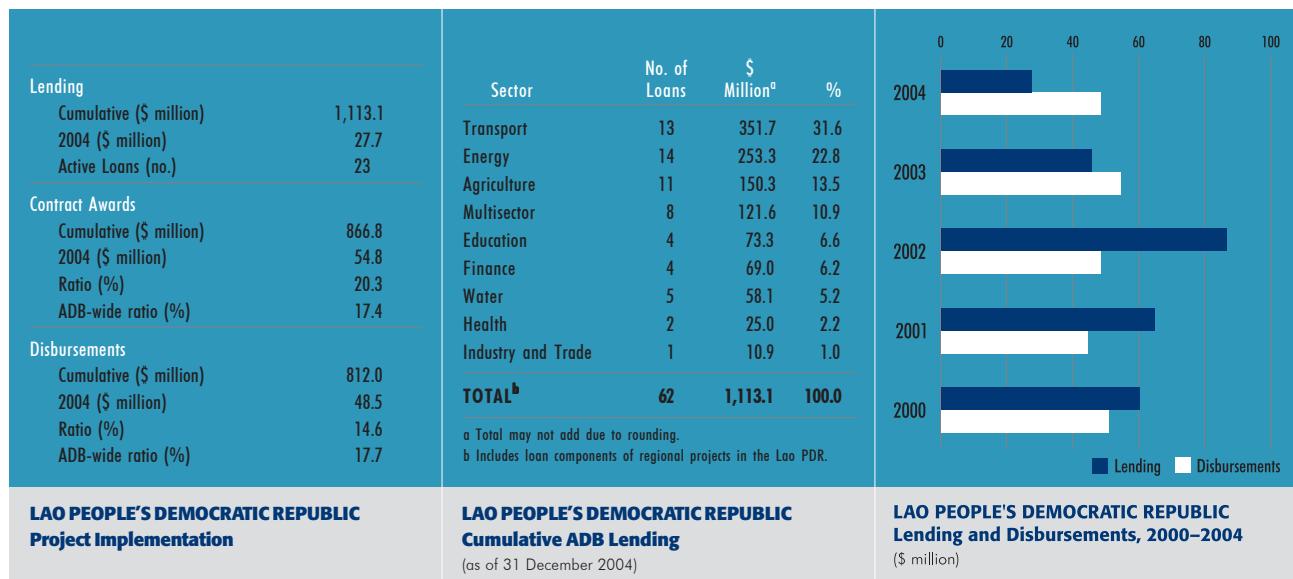
**Loans and Technical Assistance.** The last loan and technical assistance projects for Myanmar were approved in 1986 and 1987, respectively.

### Thailand

**Strategy and Policy Dialogue.** Thailand has achieved healthy and sustainable economic growth and strong resilience to external risks, achievements that have shifted

Sector	No. of Loans	\$ Million	%
Agriculture	14	296.1	55.8
Health	2	63.1	11.9
Industry and Trade	5	46.4	8.7
Transport	2	42.5	8.0
Water	4	36.0	6.8
Energy	4	26.8	5.0
Multisector	1	20.0	3.8
<b>TOTAL</b>	<b>32</b>	<b>530.9</b>	<b>100.0</b>

**MYANMAR**  
**Cumulative ADB Lending**  
(as of 31 December 2004)



the focus of its long-term partnership with ADB. Opportunities are being explored for ADB and Thailand to work closely on various development challenges, including private sector development and public-private partnerships. The government has agreed to ADB's proposal to issue a baht-denominated bond to strengthen the local bond market and to possibly finance projects in Thailand and other countries.

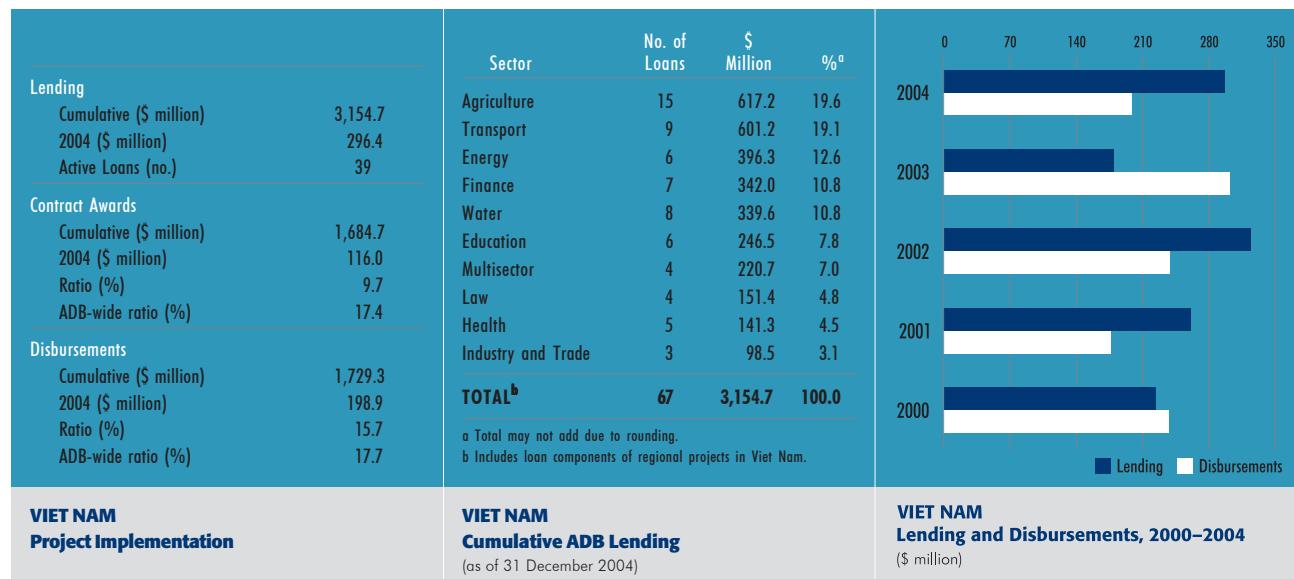
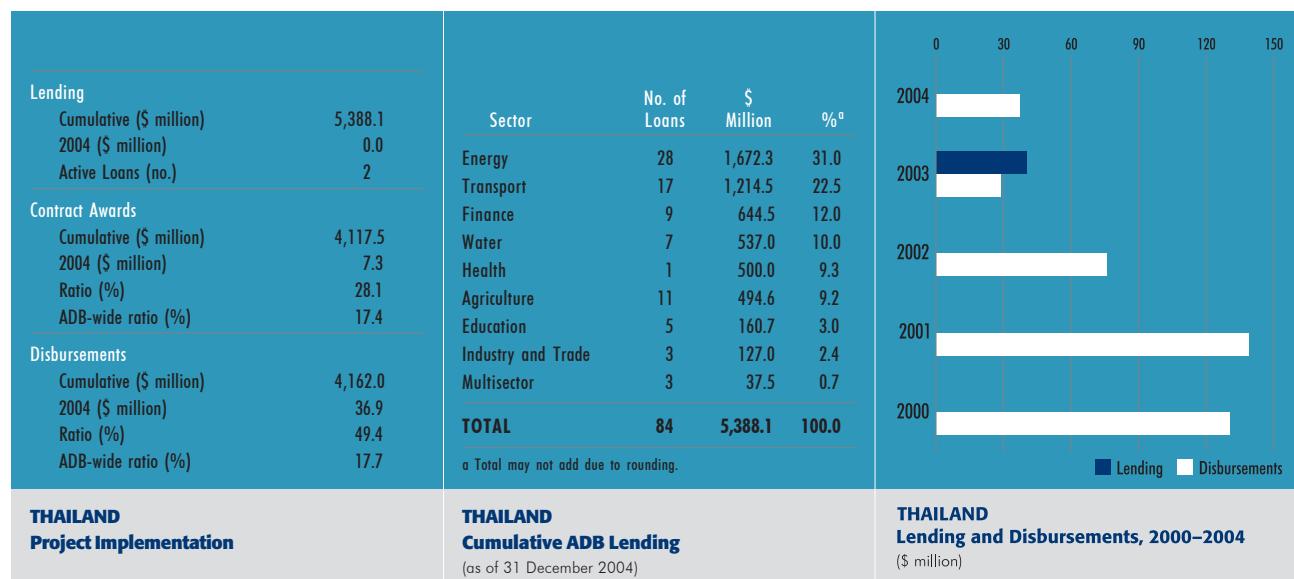
ADB's partnership with Thailand will enter a new stage with the opening of the Thailand resident mission in January 2005. Thailand continues to actively support the GMS and provides financial and technical cooperation for neighboring countries. The government strongly supported ADF IX negotiations and pledged 119 million baht, a 20% increase from ADF VIII.

Thailand has actively promoted greater subregional integration through the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation consisting of Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand.

**Loans and Technical Assistance.** No loans or technical assistance projects were approved.

### Viet Nam

**Strategy and Policy Dialogue.** Assistance to Viet Nam continued to emphasize economic growth through private sector development and improved governance and attention to socially inclusive development especially in the Central Region



where the incidence of poverty remains high. ADB also helped Viet Nam to modernize and/or expand economic infrastructure using OCR. Policy operations focused on reducing structural weaknesses and improving the business environment for private sector development, promoting inclusive and environment-friendly development, and instituting a modern governance and public administration system. ADB also supported the establishment of a regulatory framework for the insurance and leasing industries and for anti-money laundering through the financial sector program loan.

The SME development project will enhance the policy and regulatory framework, improve access to finance and land use rights, and help increase access to domestic and international markets by improving industrial and technical standards. Support for governance and public administration reform will further improve the quality of public services for people and businesses and will combat corruption. ADB is also providing knowledge products through various sector and thematic work, including a research and capacity building initiative on making markets work better for the poor.

**Loans and Technical Assistance.** Six loans totaling \$296.4 million were approved to support the government's efforts to (i) develop alternative channels of market-based financial intermediation; (ii) create a business environment conducive to economic growth and generating employment; (iii) improve the quality, efficiency, access, and management of lower secondary education; (iv) improve health services and living conditions especially for the poor and disadvantaged; (v) implement the poverty reduction program; and (vi) improve the reliability and quality of power transmission in the northern region and the efficiency of the power sector. In addition, 16 technical assistance activities totaling \$7.7 million and two grants from the JFPR totaling \$1.8 million were approved.

## The Pacific

The Pacific DMCs face significant challenges in generating broad-based, sustained economic growth from small, high-cost, narrowly focused economies. Some are on track to achieve the MDGs while others are not making significant progress. Poverty is a growing concern in many. HIV/AIDS threatens to destroy progress in Papua New Guinea and potentially elsewhere in the region.

The aggregate GDP increased by 2.4% with the two largest economies (the Fiji Islands and Papua New Guinea) growing solidly due to strong tourism performance and improved

commodity prices, respectively. Timor-Leste emerged from recession. Solomon Islands rebounded from previous instability albeit high growth involved unsustainable rates of logging of natural forests. More generally, the region benefited from strong commodity prices and higher returns in overseas financial markets. Some progress was made in formulating and implementing the private sector development reform agenda including initiatives on the productive and economic uses of land, reforms of the legal business environment, and rationalization of state-owned enterprises.

Political instability, or the threat of it, remained a major concern in Papua New Guinea and Vanuatu. Voters in Nauru elected a reformist government after years of economic mismanagement. Governance challenges, including corruption, persisted, but there were also notable improvements in fiscal management, particularly in Papua New Guinea, Solomon Islands, and Vanuatu. On the other hand, the potential burden of underperforming public enterprises was demonstrated by the bankruptcy of Royal Tongan Airlines and continued support for Samoa's Polynesian Airlines.

The Board of Directors endorsed the Pacific strategy for 2005–2009 in November. It takes the expressed priorities of the poor—opportunities to earn cash income and better access to basic social services—as its starting point. Key result areas fall under three strategic objectives: (i) to support an environment conducive for the private sector, (ii) to enhance the supply of

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade (\$ million)	International Reserves (\$ million)
Cook Islands	3.4	0.3	(69)	...
Fiji Islands	3.8	3.5	(424)	416
Kiribati	1.8	2.5	(51)	360 <sup>a</sup>
Marshall Islands	(1.5)	2.4 <sup>b</sup>	(51)	...
Micronesia, Fed. States of	(3.3)	1.5	(114)	...
Nauru	...	2.6 <sup>c</sup>	...	...
Papua New Guinea	2.6	2.9	1,199	589 <sup>d</sup>
Samoa	2.3	11.7 <sup>b</sup>	(112)	69 <sup>d</sup>
Solomon Islands	4.6	6.5	(17)	73
Timor-Leste	1.5	3.2	...	195 <sup>d</sup>
Tonga	1.6	11.0	(69)	44 <sup>d</sup>
Tuvalu	(4.0)	2.8	...	...
Vanuatu	2.2	1.8	(70)	54

... Data not available.  
( ) Negative.  
<sup>a</sup> Refers to official external assets.  
<sup>b</sup> Figures as of September 2004.  
<sup>c</sup> Refers to Australia's inflation rate.  
<sup>d</sup> Refers to gross official reserves.

## PACIFIC: ECONOMIC INDICATORS, 2004

and demand for good basic social services, and (iii) to promote effective development. Detailed strategies will be developed at the country level with a strong focus on governance and building demand for effective markets and services.

The South Pacific Subregional Office in Suva, Fiji Islands was officially opened in June 2004, and the Papua New Guinea resident mission in Port Moresby and the Pacific Liaison and Coordination Office in Sydney, Australia will be formally inaugurated in 2005. These new offices significantly enhance ADB's capacity to deliver the Pacific strategy.

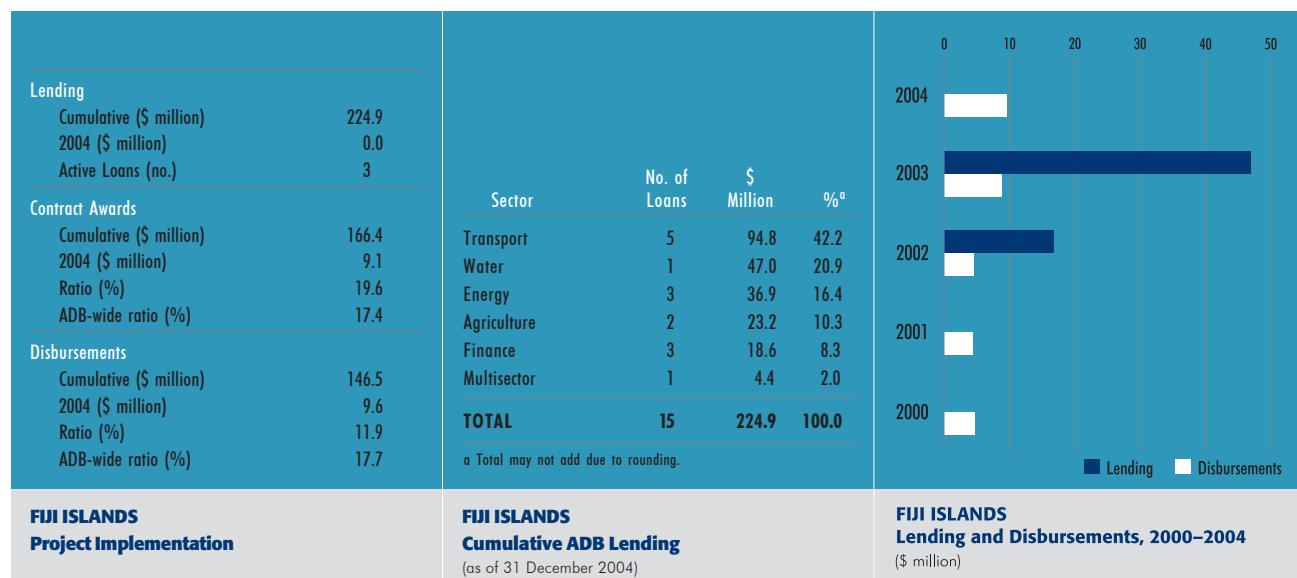
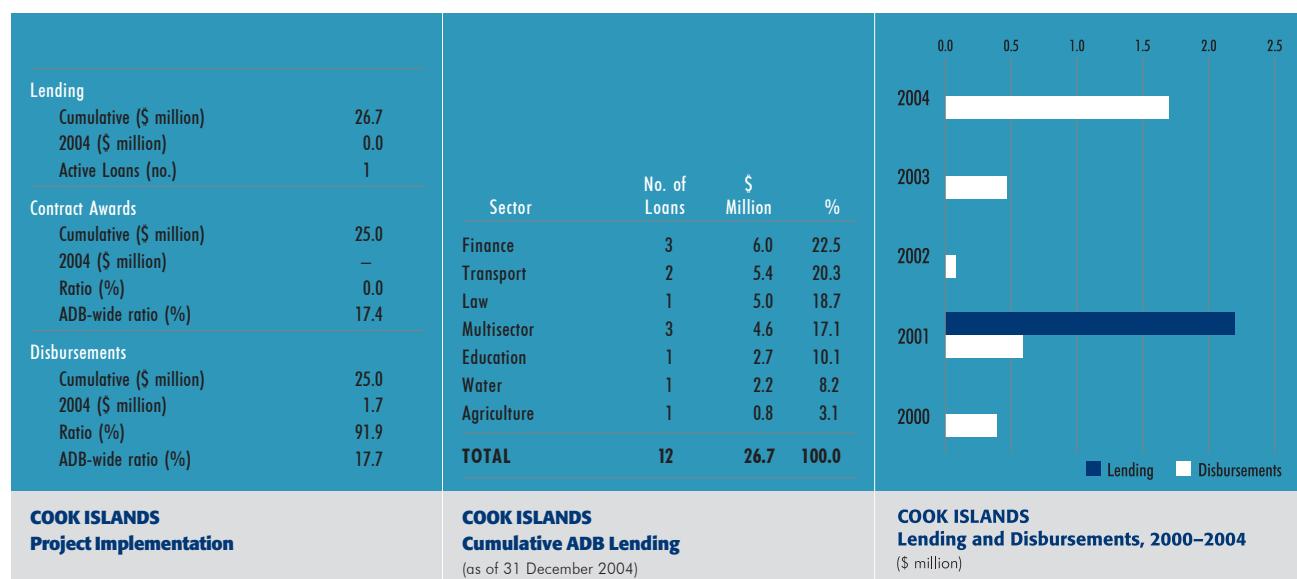
A potentially significant development in 2004 was a decision by Pacific Island Forum leaders to create the *Pacific Plan for Strengthening Regional Cooperation and Integration*. ADB is

supporting this important initiative through regional technical assistance financed from the Japan Special Fund.

### Cook Islands

**Strategy and Policy Dialogue.** The strategy focused on building sustainable capacity for sound economic and public sector management, promoting economic growth through private sector development, and protecting the environment. It included assistance to improve the government's capacity to develop and maintain a national strategic plan linked to the World Summit on Sustainable Development, to achieve the MDGs, and to help track progress under the poverty partnership agreement.

Reforming state-owned enterprises remained on the policy agenda. Policy dialogue in support of private sector growth,



especially in the tourism sector, included the need to align improvements in public infrastructure facilities with appropriate environmental safeguards, ensuring an appropriate investment climate, and mitigating serious environmental constraints and risks.

**Loans and Technical Assistance.** No loans or technical assistance activities were approved in 2004.

### Fiji Islands

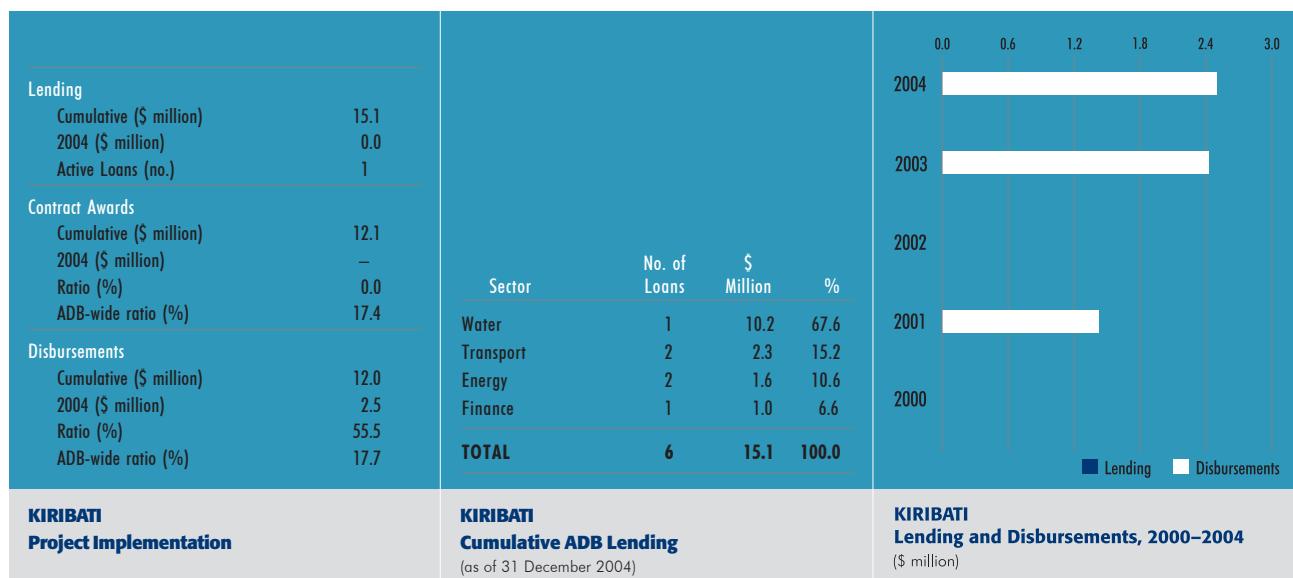
**Strategy and Policy Dialogue.** Aligned with the government's strategic development plan for 2003–2005 and with achieving the MDGs, ADB sought to reduce poverty, especially in the more vulnerable and poorer communities, by providing income-earning opportunities through close partnership with the private sector and the government. ADB's operational strategy focused on public investment in productive physical infrastructure in key sectors; on strengthening the associated policy, institutional capacity, and regulatory frameworks; and on supporting increased private sector participation and competition in public enterprise operations. The sector focus included transportation and communications; energy; alternative agriculture livelihoods and fisheries; urban water supply, sanitation, and waste management; and the further development of capital markets and banking. Policy dialogue focused on the Pacific plan to enhance international economic and trade cooperation among smaller DMCs which the government endorsed during the Pacific Forum Summit in New Zealand in April 2004.

**Loans and Technical Assistance.** No loans were approved in 2004. ADB approved three technical assistance activities totaling \$895,000 for strengthening public sector banking and cash management, reviewing the fisheries sector, and improving roads.

### Kiribati

**Strategy and Policy Dialogue.** ADB assistance supported the government's national development strategy by focusing on pro-poor economic growth by (i) promoting sustainable resource management, (ii) creating an enabling environment for private sector development that will lead to greater employment opportunities, (iii) increasing decentralization to empower the outer island population, and (iv) improving community consultations and participation to promote local community ownership in government-funded projects. Good governance was promoted by enhancing efficiency and effectiveness in the public sector and strengthening the government's strategic planning capacity for sustainable poverty reduction. The government gave priority to growth centers in which key government services and infrastructure were to be concentrated. Policy dialogue addressed key issues including (i) population growth outstripping employment and overpopulation on South Tarawa; (ii) provision of sustainable water supply, sanitation, and public utilities; and (iii) access to improved health, education, social services, and wage employment on the outer islands.

**Loans and Technical Assistance.** No loans were approved in 2004. A total of \$800,000 was approved for project preparatory technical assistance for the outer island growth centers.



## Marshall Islands

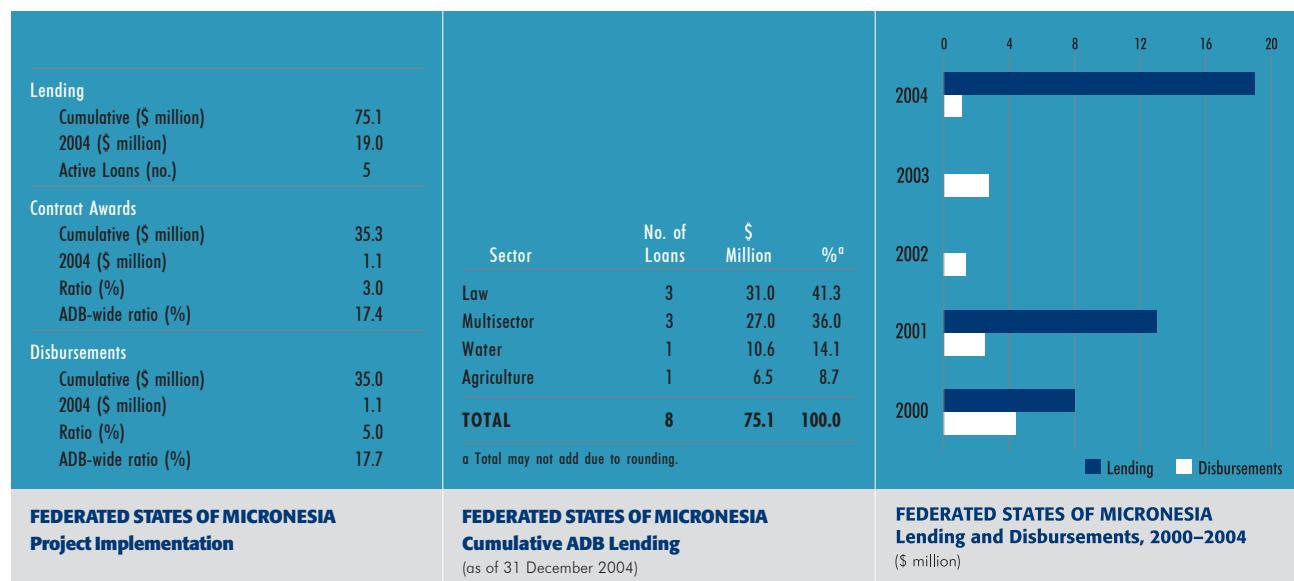
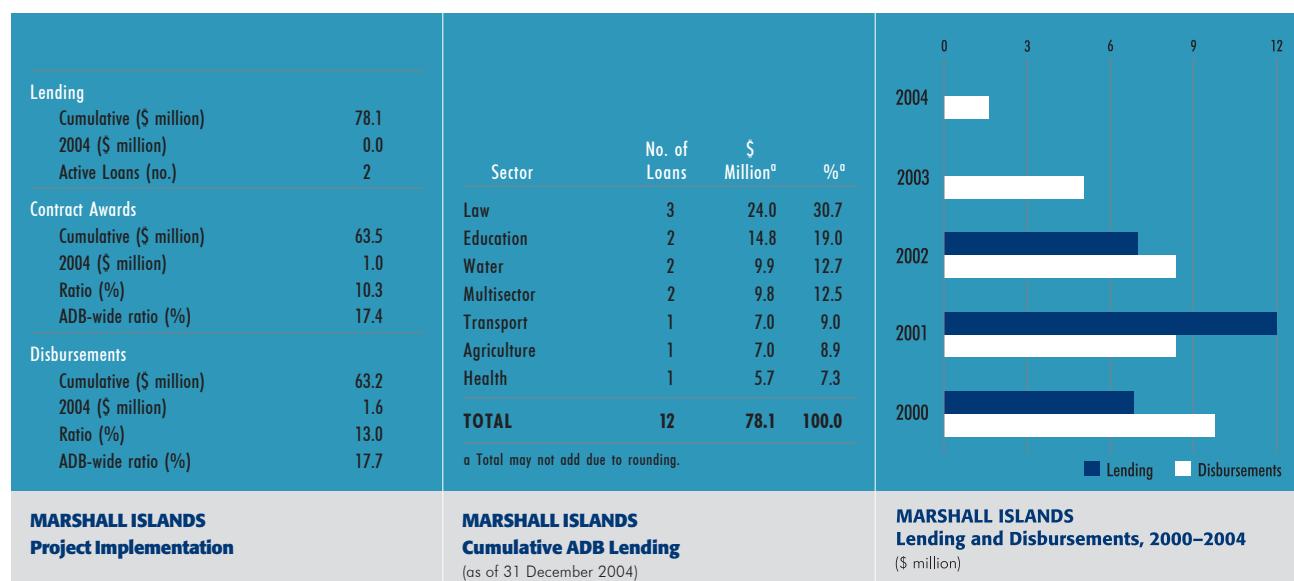
**Strategy and Policy Dialogue.** The participatory strategy formulated and approved in 2004 pursued (i) enhanced public sector productivity aimed at improving access to basic social services; (ii) an enhanced environment for private sector investment, job creation, and growth; and (iii) strengthened public sector governance. The strategy fosters greater community participation in development. Assistance will include (i) a participatory review and reform of the civil service and rationalization of government assets including a stronger focus on urban areas and urgent attention to improving the management of urban waste disposal; (ii) engaging all relevant stakeholders to improve the environment for competitive private sector development; and (iii) further improvements in governance including regular reviews of public expenditure.

Policy dialogue addressed the availability and security of land and other property in support of business and commerce, unnecessarily high transaction costs for businesses, and the lack of discernible progress in reforming the taxation system or strengthening tax collection administration.

**Loans and Technical Assistance.** No loans were approved in 2004. Two technical assistance activities totaling \$910,000 were approved to improve the environment for private sector development and to increase ownership and effective demand for improved education as a pilot toward broader civil service reform.

## Federated States of Micronesia

**Strategy and Policy Dialogue.** The country strategy emphasized wider participation of civil society in development,



more explicit treatment of poverty, and assistance for a long-term perspective in achieving development outcomes. It sought to (i) build awareness on the impact of the Amended Compact of Free Association with the United States; (ii) achieve consensus on an overall economic strategy; and (iii) improve monitoring to enhance implementation of policies and programs.

ADB assistance focused on helping the government create an enabling environment for the private sector by (i) establishing a secured transaction system through improved registration of movable assets, (ii) building institutional capacity for land administration and management, (iii) improving financial services for SMEs, and (iv) strengthening business development services for SMEs. Support for the social sector included improving delivery of basic social services, especially on the outer islands, and reforms in health and education. Poor access to safe water and sanitation facilities was addressed. ADB will continue to promote public accountability and transparency. Assistance will focus on improving public sector management and administration, implementing performance-based budgeting, and increasing the accountability of public financial management. Specifically, support will be provided to the national hardship reduction strategy, to the public sector capacity building road map, and for a youth and gender development program.

**Loans and Technical Assistance.** Two loans amounting to \$19.0 million were approved for the omnibus infrastructure development project. Three technical assistance activities totaling \$850,000 were approved.



<b>Lending</b>				
Cumulative (\$ million)	5.0			
2004 (\$ million)	0.0			
Active Loans (no.)	-			
<b>Contract Awards</b>				
Cumulative (\$ million)	2.3			
2004 (\$ million)	-			
Ratio (%)	-			
ADB-wide ratio (%)	17.4			
<b>Disbursements</b>				
Cumulative (\$ million)	2.3			
2004 (\$ million)	-			
Ratio (%)	-			
ADB-wide ratio (%)	17.7			
<b>NAURU Project Implementation</b>				
		<b>NAURU Cumulative ADB Lending</b> (as of 31 December 2004)		
Sector	No. of Loans	\$ Million	%	
Finance	1	5.0	100.0	
<b>TOTAL</b>	<b>1</b>	<b>5.0</b>	<b>100.0</b>	

## Nauru

**Strategy and Policy Dialogue.** Since joining ADB, Nauru has received one program loan for \$5.0 million and five technical assistance grants totaling \$1.2 million. Due to the government's noncompliance with tranche conditions, the loan was closed, and the balance was canceled on 2 October 2002. Subsequent governments reversed the reform measures previously agreed making it difficult for ADB to proceed with subsequent releases. A new reform-minded government was elected on 23 October 2004, and ADB has recommenced assistance starting with technical assistance to support national policy formulation and national planning. Nauru has an outstanding loan service payment that prevents further loan assistance.

**Loans and Technical Assistance.** No loans or technical assistance activities were approved in 2004.

## Palau

**Strategy and Policy Dialogue.** Palau became a member of ADB on 29 December 2003. No CSP has been formulated as yet, but discussions on a private sector development policy with the United States Department of the Interior were initiated.

**Loans and Technical Assistance.** No loans or technical assistance activities have yet been approved for Palau.

## Papua New Guinea

**Strategy and Policy Dialogue.** The strategy focuses on strengthening governance, supporting private sector development, and improving social services. ADB is strengthening public sector management, particularly fiscal and

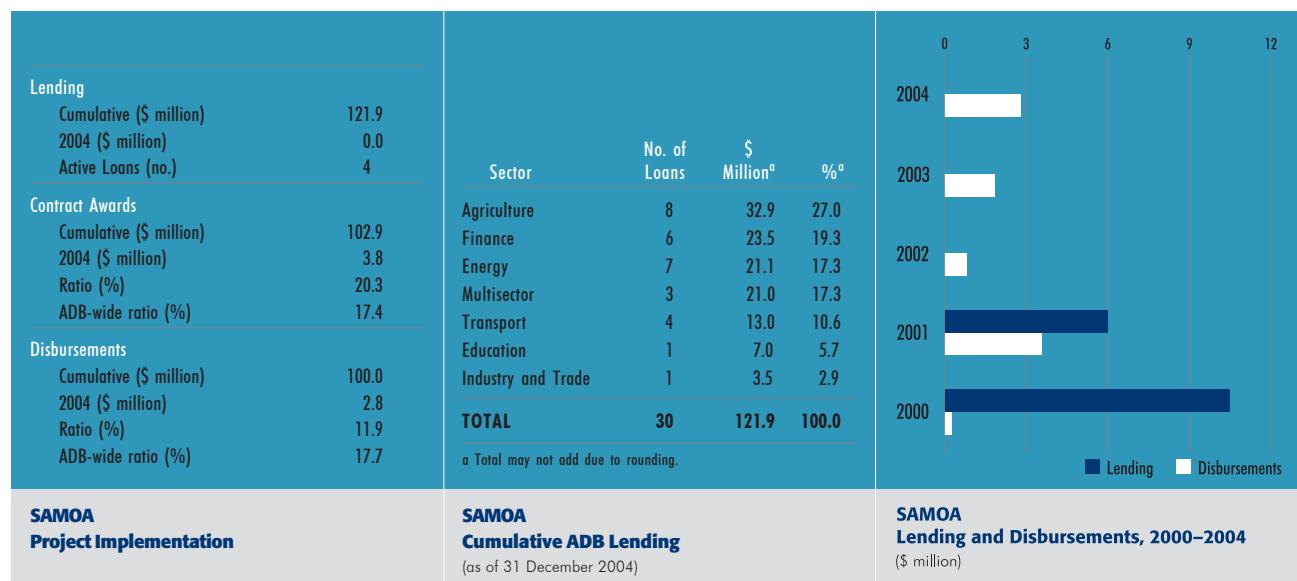
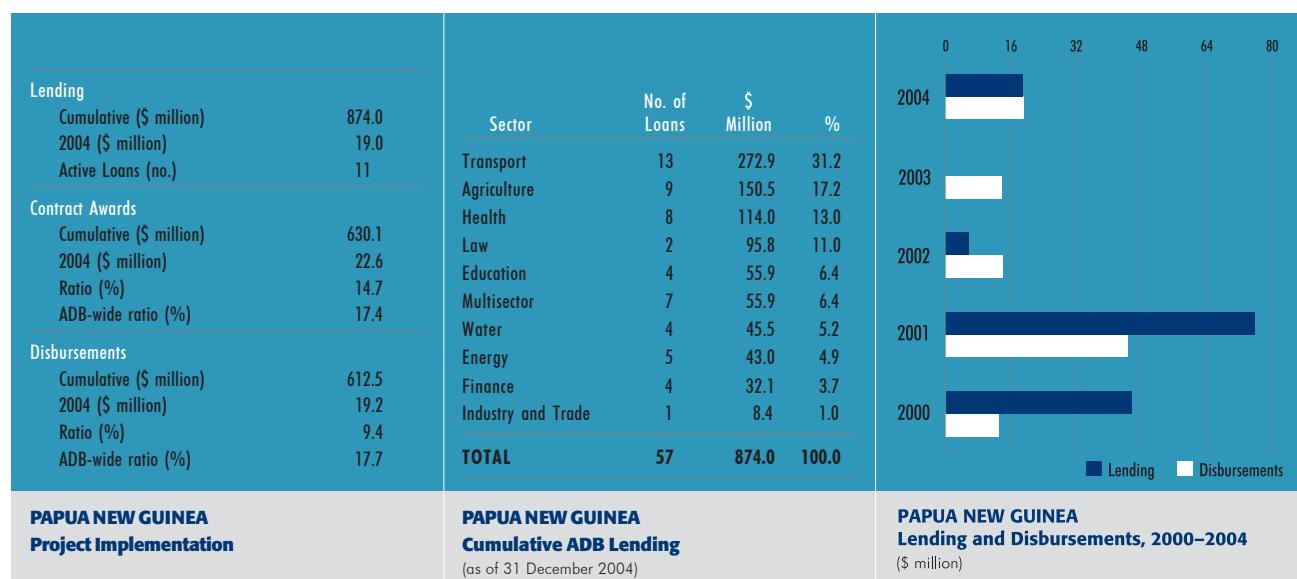
financial management and public service reform. For private sector development, ADB is helping to improve policy and institutional frameworks (agriculture and fisheries), enhance factor productivity (microfinance services), and improve market access with transport infrastructure investments especially in rural areas. In the social sectors, ADB will continue to assist in policy development in health and to support water and sanitation and service delivery. ADB, the Australian Agency for International Development, and the World Bank are aiming to develop a strategy for activities, based on joint diagnostic work to improve the effectiveness of assistance.

**Loans and Technical Assistance.** One loan of \$19.0 million was approved for the community water transport project. A total of \$500,000 was approved for technical assistance.

### Samoa

**Strategy and Policy Dialogue.** The strategy aims to (i) improve access to and the quality of education; (ii) improve the environment and public health in Apia (water and sanitation); and (iii) meet the growing demand for power with improved efficiency, viability, and reliability. It also seeks to improve the environment for the private sector by (i) ensuring sound fiscal and macroeconomic policies; (ii) rationalizing state-owned enterprises and increasing their efficiency and effectiveness; and (iii) improving the institutional and policy framework for the private sector.

With ADB assistance, the government has made good progress in improving the access of micro and small enterprises to credit, business training, and advisory services. Ongoing support



for infrastructure development in the energy and water and sanitation sectors will improve the physical business environment. ADB will continue to support government efforts to increase public participation in urban management and planning; to foster good corporate governance, especially in state-owned enterprises; and to continue the dialogue on appropriate poverty reduction strategies. Assistance for improving the access to and quality of primary and secondary education will continue as will programs that provide information and communication technology to rural schools and create community access facilities. Given the number of development partners in the education sector, a government-led multipartner approach is vital to systematically address emerging issues in a long-term strategic approach.

**Loans and Technical Assistance.** No loans were approved in 2004. Three technical assistance grants totaling \$700,000 were approved for supporting privatization, preparing the 2006–2014 education policy and strategic plan, and strengthening state-owned enterprise corporate governance.

### Solomon Islands

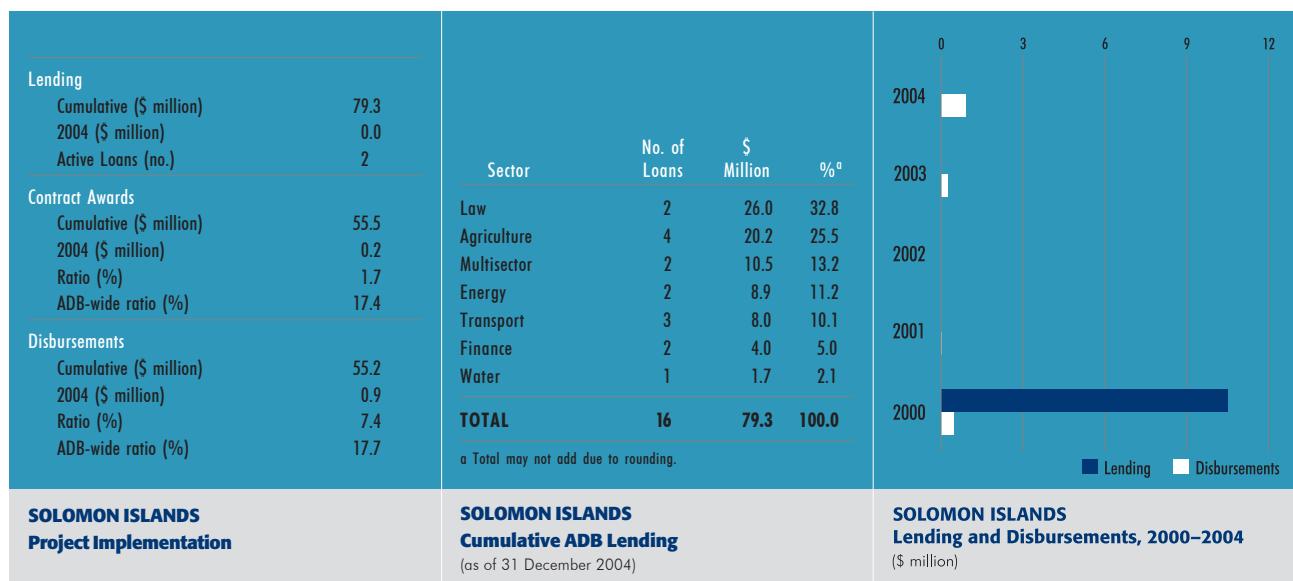
**Strategy and Policy Dialogue.** The country strategy's overarching goal was rapid, pro-poor, private sector-led economic growth. In support of the government's national economic recovery, reform, and development plan for 2003–2006, ADB will provide transportation infrastructure and services and strengthen the enabling environment for the private sector. To address these objectives, ADB will focus on building capacity and on promoting good governance.

Key strategies for overcoming the constraints in the business environment include regulatory reforms; development of transport infrastructure and services particularly in aviation and shipping; reforming state-owned enterprises; financial sector reforms including the collateral framework; provision of policy and governance advice to provincial governments; development of statistics to inform policy formulation, monitoring, and evaluation; and formulation of sector policies to promote investment and growth. The improvement of inter-island transportation and reforms of the state-owned enterprise sector are priority pillars of ADB's medium-term operational assistance portfolio and policy dialogue. Solomon Islands will be able to access the ADF IX grant facility as a result of its classification as a poor, postconflict country.

**Loans and Technical Assistance.** In 2004, no loans were approved. ADB approved three technical assistance grants amounting to \$1.9 million of which \$650,000 came from the Government of Australia. These were for state-owned enterprise reforms and private sector participation, institutional strengthening of the ministry of infrastructure and development, and diagnostic assessment of inter-island transport.

### Timor-Leste

**Strategy and Policy Dialogue.** The strategy identified reducing poverty and improving the people's quality of life through equitable and sustainable economic growth as its main objectives. This is consistent with the national development plan formulated in 2002 and its associated road map. ADB assistance focused on (i) support for physical infrastructure



investment projects funded through the multidonor trust fund for Timor-Leste; (ii) support for microfinance development by enhancing the sustainability of the microfinance institution; and (iii) establishing appropriate institutional, policy, and regulatory frameworks in selected ministries, in particular through capacity development in the water sector and in public financial management. Technical assistance was provided to strengthen government capacity in planning for and managing the revenues from the Timor Sea oil and gas fields. Support was also provided to develop sector investment programs to strengthen the links between the national development plan and the national budget. Local government capacity was strengthened through the provision of a comprehensive training effort to local district administrators. Timor-Leste is eligible to access ADF IX funds as a result of its classification as a poor, postconflict country.

**Loans and Technical Assistance.** No loans were approved in 2004. ADB approved three technical assistance activities amounting to \$900,000 for capacity building in the ministry of planning and finance to monitor the national development plan to strengthen microfinance operations, and to strengthen financial management capacity.

### Tonga

**Strategy and Policy Dialogue.** In 2004, the Government of Tonga reiterated the commitment set forth in its seventh strategic development plan for 2001–2003 to improve living standards by focusing on maintaining a stable macroeconomic environment and achieving sustainable economic growth led by the private sector and supported by an efficient and effective

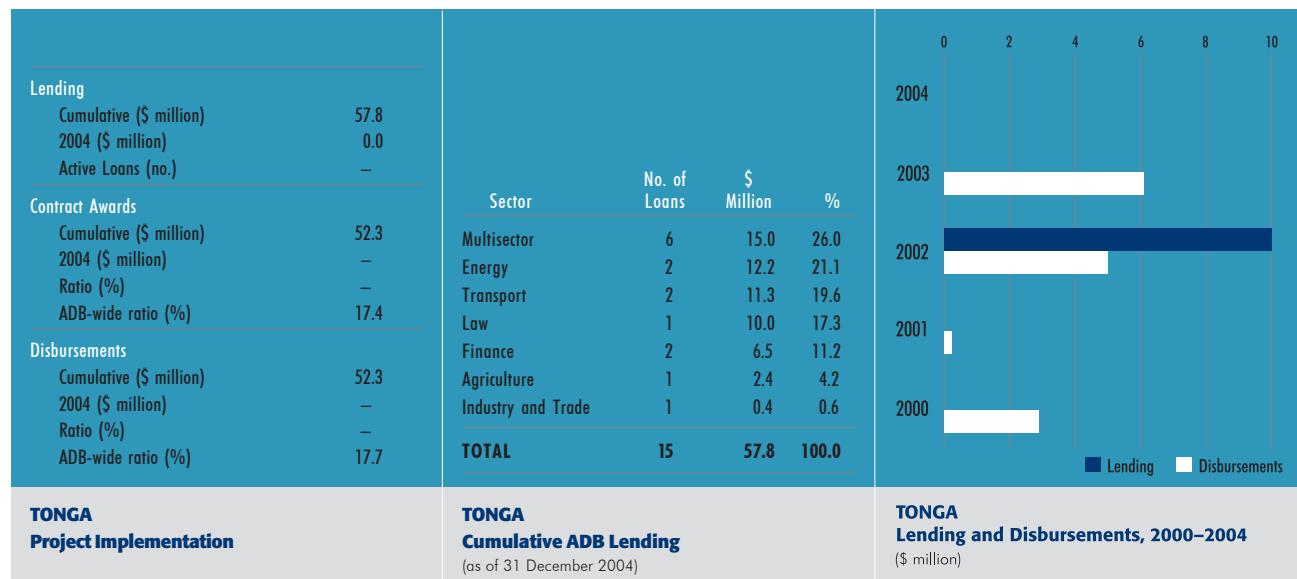
public sector. The government is currently developing the eighth plan for 2005–2007. ADB's strategy supported the government's goals.

Key projects included (i) assistance to develop a new strategic development plan linked to a multiyear fiscal framework and to annual resource allocations; (ii) continued support for public enterprise reforms, especially the privatization of selected public enterprises; (iii) addressing youth unemployment and associated social problems; (iv) improving basic infrastructure for drainage and sanitation in selected areas in the capital, Nuku'alofa; and (v) agriculture sector development through an enhanced policy environment and development of SMEs.

**Loans and Technical Assistance.** No loans were approved, but three technical assistance grants amounting to \$700,000 were approved in 2004. These were for youth microenterprise development; integrated strategic planning for a medium-term fiscal framework and budgeting; and rationalization of public enterprises.

### Tuvalu

**Strategy and Policy Dialogue.** The strategy focused on improving governance and economic management, enhancing employment opportunities by developing skills, and improving services on outer islands, in part through the introduction of sustainable financing mechanisms. ADB provided support for formulating the national sustainable development strategy. Assistance was also provided for maritime training and for the reform of state-owned enterprises. Sector focus included agriculture, fisheries, education, health, transport, and infrastructure.



Policy dialogue noted the country's high dependence on external revenues such as remittances, trust fund returns, and development aid. The government requested that ADB assist with the implementation of the tax reforms recommended by a review from the Pacific Financial Technical Assistance Centre. Representatives from the private sector expressed the need to improve access to credit and markets as well as to develop human resources for entrepreneurship. Representatives from nongovernment organizations (NGOs) recommended future collaboration with ADB in areas such as microcredit to women in the outer islands and institutional and capacity building for local NGOs.

**Loans and Technical Assistance.** A supplementary loan for maritime training project was approved for \$1.97 million. A

total of \$300,000 for project preparatory technical assistance was also approved for education sector reform and development.

### Vanuatu

**Strategy and Policy Dialogue.** ADB's strategy addressed the lack of consistency and transparency in government decision making; the high-cost, uncertain business environment; and the continuing lack of fiscal capacity to expand essential public services. It aimed to accelerate economic growth beyond population growth by helping to (i) build capacity for sound economic management and good governance, (ii) create an enabling environment for private sector development, and (iii) reduce poverty by improving service delivery to rural populations. The program also reflects ADB's concern for the

<b>Lending</b>	
Cumulative (\$ million)	7.8
2004 (\$ million)	2.0
Active Loans (no.)	2
<b>Contract Awards</b>	
Cumulative (\$ million)	4.2
2004 (\$ million)	—
Ratio (%)	0.0
ADB-wide ratio (%)	17.4
<b>Disbursements</b>	
Cumulative (\$ million)	4.2
2004 (\$ million)	0.1
Ratio (%)	2.7
ADB-wide ratio (%)	17.7

### TUVALU Project Implementation

Sector	No. of Loans	\$ Million	%
Law	1	4.0	51.2
Education	2	3.8	48.8
<b>TOTAL</b>	<b>3</b>	<b>7.8</b>	<b>100.0</b>

### TUVALU Cumulative ADB Lending (as of 31 December 2004)

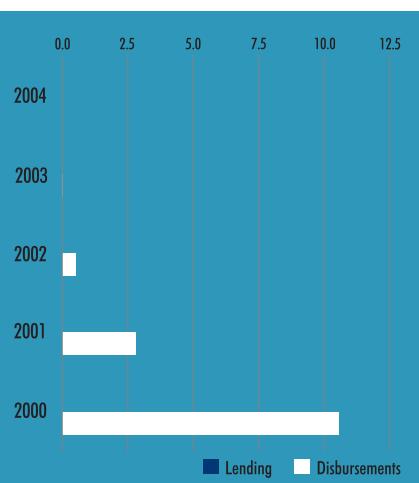


<b>Lending</b>	
Cumulative (\$ million)	51.3
2004 (\$ million)	0.0
Active Loans (no.)	—
<b>Contract Awards</b>	
Cumulative (\$ million)	49.0
2004 (\$ million)	—
Ratio (%)	—
ADB-wide ratio (%)	17.4
<b>Disbursements</b>	
Cumulative (\$ million)	49.0
2004 (\$ million)	—
Ratio (%)	—
ADB-wide ratio (%)	17.7

### VANUATU Project Implementation

Sector	No. of Loans	\$ Million	%
Law	1	20.0	39.0
Multisector	3	15.0	29.3
Transport	2	9.2	17.9
Finance	2	6.0	11.7
Agriculture	1	1.1	2.1
<b>TOTAL</b>	<b>9</b>	<b>51.3</b>	<b>100.0</b>

### VANUATU Cumulative ADB Lending (as of 31 December 2004)



### VANUATU Lending and Disbursements, 2000–2004 (\$ million)

growing disparity in economic opportunities between urban and rural dwellers with further assistance planned for technical and vocational education and development of productive rural skills.

The government gives priority to (i) improving governance and public service delivery via strengthened law enforcement and macroeconomic management, (ii) improving the lives of rural people through better access to markets and better management of natural resources, (iii) raising private investment by lowering obstacles to private enterprise, (iv) enabling greater stakeholder participation in policy formulation, and (v) increasing equity in access to services and employment opportunities.

**Loans and Technical Assistance.** No loans were approved, but two technical assistance grants amounting to \$1.3 million were approved in 2004. These were for the development of a medium-term strategic framework and secured transactions reforms.

## South Asia

The year 2004 ended with the tsunami in India, Maldives, and Sri Lanka that are likely to increase poverty and retard progress toward achieving the MDGs. The economic toll in South Asia was highest in the Maldives and Sri Lanka; their projected growth rates for 2005 were accordingly revised downwards. Although India's death toll was in the thousands, the economic impact was limited. ADB pledged to assist all three countries and made considerable funding available to help finance reconstruction and rehabilitation.

The disaster marked the end of a year of mixed results. Robust economic growth helped to reduce income poverty substantially, but progress on the nonincome MDGs was mixed. Mortality rates for children under five were substantially reduced, and primary school enrolment and completion rates increased. At the same time, progress in child malnutrition, maternal mortality, and gender balance in education and health outcomes was not as significant. Tuberculosis and HIV/AIDS were also a cause for continuing concern.

Macroeconomic performance was robust although weaker than in the previous year. GDP growth slowed to 6.4% while inflation rose to 5.5%. Less favorable weather conditions, price increases for metals and petroleum products, and slower than anticipated growth in the global economy were the main causes behind the somewhat weaker performance.

The region continued to face economic challenges. Several countries recorded surpluses in their current accounts that reflected an excess of national savings over national investment. Measures should be taken to step up investment. In addition, the surpluses resulted in an unprecedented accumulation of foreign reserves.

The multifiber arrangement, a system of quotas that regulated the textile trade, came to an end in 2004 and could have an impact on the location of production. The quotas made a number of smaller South Asian countries heavily dependent on textile exports, raising concerns that producers could move operations. Adequate infrastructure investment will prove crucial for retaining competitiveness.

With the success of the South Asian Association for Regional Cooperation (SAARC) summit in January 2004 and improvements in relations between India and Pakistan, the prospects for regional economic cooperation have greatly improved and a program of cooperation with SAARC focusing initially on transport has started. Members of the South Asia Subregional Economic Cooperation program endorsed a plan for developing subregional tourism with great interest from potential development partners and the private sector. As part of the Subregional Economic Cooperation in South and Central Asia program, ADB assisted with the Central and South Asia Transport and Trade Forum (CSATTF), focusing on developing corridors connecting landlocked countries with ports in the Arabian Sea and the Persian Gulf via Afghanistan. A CSATTF customs cooperation plan was developed for implementation during 2005–2007.

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade (\$ million)	International Reserves (\$ million)
Afghanistan	8.0	1.6	(1,395)	1,105
Bangladesh	5.5	5.8	(2,319)	2,705
Bhutan	7.0	1.3	(88)	383
India <sup>a</sup>	6.5 <sup>b</sup>	6.0 <sup>b</sup>	(31,737) <sup>b</sup>	135,089 <sup>c</sup>
Maldives	8.8	6.4	(370)	205
Nepal	3.3	4.0	(1,107)	1,447
Pakistan	6.4	4.6	(1,279)	10,554
Sri Lanka	5.5	7.9	(2,170)	1,824

( ) Negative.  
<sup>a</sup> Data refer to the financial year 2004–2005 which extends from 1 April 2004 to 31 March 2005.  
<sup>b</sup> Refers to ADB India Resident Mission estimates.  
<sup>c</sup> As of 25 March 2005. Excludes gold and special drawing rights.

**SOUTH ASIA: Economic Indicators, 2004**

## Afghanistan

At the January 2002 Tokyo conference, ADB pledged to deliver loan and grant assistance of some \$500 million over 2.5 years. At the April 2004 International Conference on Afghanistan and the International Community (Berlin Conference), ADB pledged to consider additional assistance of some \$800 million in ADF loans and grants during 2005–2008. ADB also identified loan and equity investments of up to \$100 million in partnership with local and foreign investors and guarantees of about \$100 million to catalyze private investments. With these pledges, ADB will provide Afghanistan with more than \$1 billion in assistance in 2005–2008 and more than \$1.5 billion in 2002–2008.

**Strategy and Policy Dialogue.** In 2004 ADB continued to support Afghanistan's reconstruction and development by helping to build national capacity, by assisting in the establishment of appropriate policy and institutional frameworks, and by rehabilitating essential infrastructure. At the request of the government, ADB's assistance continued to focus on transport (roads and civil aviation), energy (power and gas), natural resource management (agriculture, irrigation, and environment), and on governance and the financial sector. ADB's private sector interventions focused on banking and telecommunications.

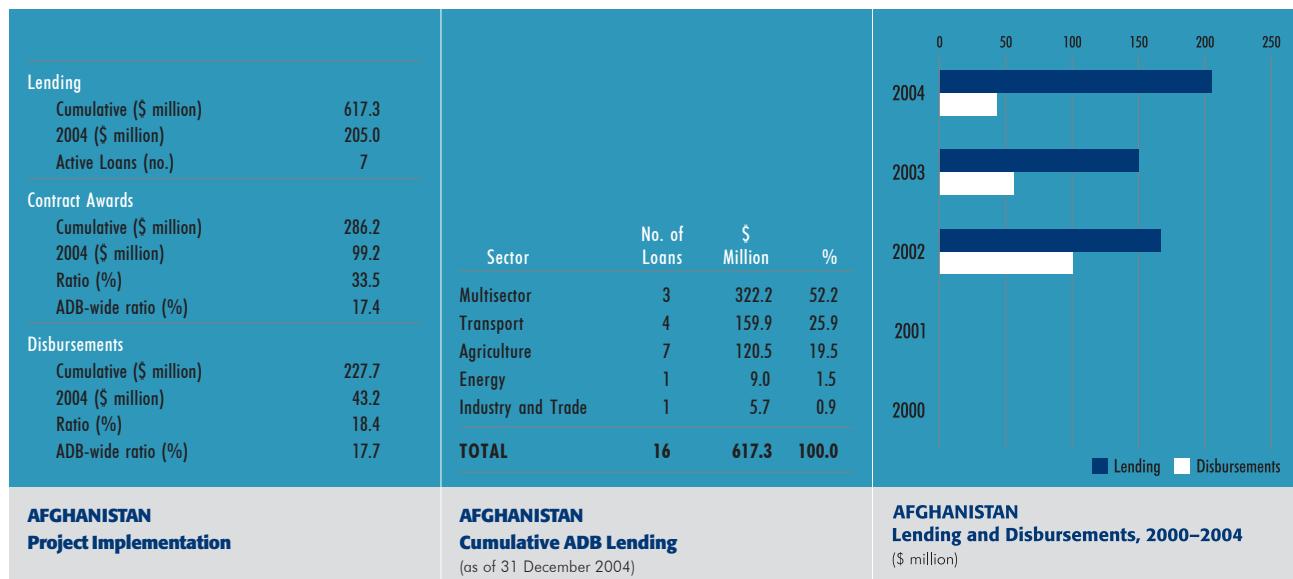
In 2004, ADB assistance was directed to rebuilding a key portion of the national road network and rehabilitation of regional airports. ADB also helped to establish a sound agriculture policy framework and efficient sector institutions including systems for managing sustainable use of the country's natural resources. Capacity development was featured through an ambitious program of technical assistance.

Policy dialogue focused on the development of a framework for agricultural investment, improved efficiency of agricultural support services, the restructuring of state-owned enterprises, and improved fiscal management. Support also was given to promote private sector activity and to attract foreign direct investment through cofinancing an investment guarantee facility to provide political risk guarantees.

**Loans and Technical Assistance.** In 2004, ADB approved five loans totaling \$205.0 million for five projects to further support the reconstruction of Afghanistan's primary road network, to rehabilitate seven regional airports, to support market-based agriculture sector policy reforms and organizational capacity building, to help finance the Afghanistan Investment Guarantee Facility (AIGF) and a newly established mobile communications telephone network. ADB also approved a \$10 million political risk guarantee for the AIG and a \$2.6 million equity investment representing a 25% stake in the Afghanistan International Bank. Also approved in 2004 was a \$10 million project grant financed through the JFPR to rehabilitate and upgrade traditional irrigation structures and to improve water management in Afghanistan's Balkh River basin. Fourteen technical assistance grants totaling \$13.6 million were also approved.

## Bangladesh

**Strategy and Policy Dialogue.** ADB operations continued to focus on poverty reduction. The key emphasis was on infrastructure, human development, governance, and environment. Policy dialogue with the government contributed to fostering reforms in the energy, transport, education, and



urban sectors. In the energy sector, the thrust was on further progress toward autonomy and commercialization of sector entities. In the transport sector, the focus was on formulating the national land transport policy and on enhancing the efficiency of port operations through computerization and environmental improvements including containing oil spills.

The assistance program emphasized development of SMEs, improved quality of secondary education, improved urban flood protection, enhancing port capacity, and meeting international port security and environmental standards. For the development of SMEs, the stress was on strengthening the policy environment and improving access to credit and support services. A gender action plan will ensure the participation of women entrepreneurs in policy making, training programs, and credit fund allocations.

ADB's assistance will boost efficiency and security at Bangladesh's Chittagong Port. The emphasis will be on installing modern computer systems to expedite cargo processing which will lead to lower shipping and port-handling charges and will foster greater international trade. Several procedural and operational improvements will be addressed. These include enhancement of personnel skills, a strategic plan for increasing productivity and cutting costs, support for the preparation of an anticorruption strategy, modernization of procedures, revisions to tariffs, and better environmental management.

ADB undertook a joint mission with the World Bank to help the government to conduct a flood damage rehabilitation

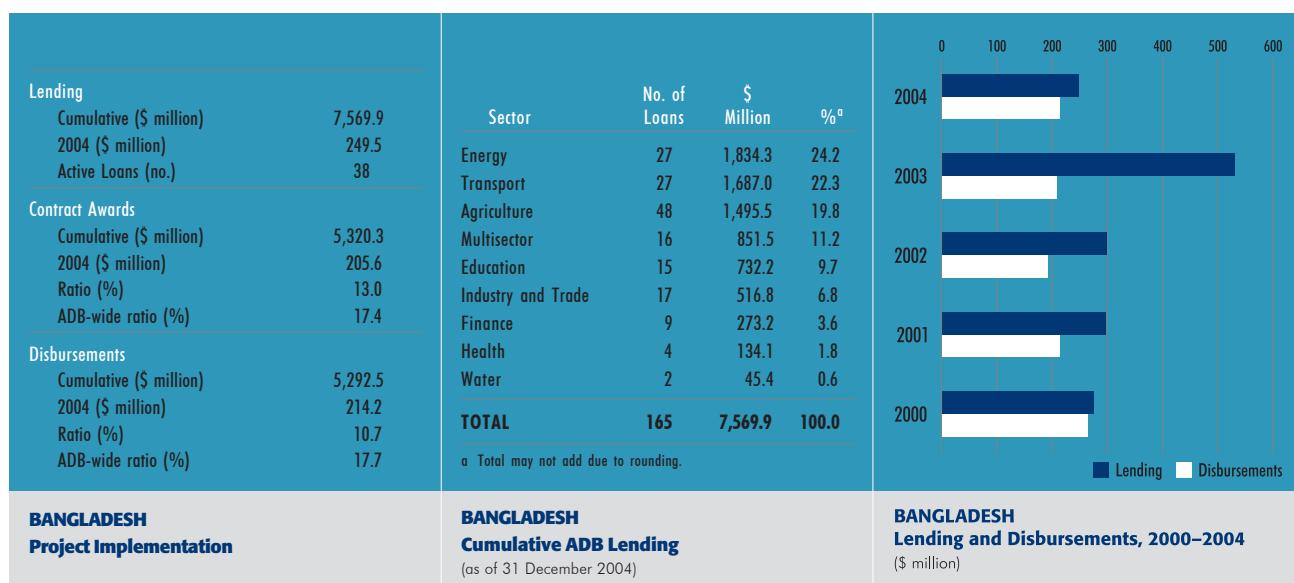
needs assessment following the severe flooding in the country during July–August 2004.

**Loans and Technical Assistance.** ADB approved seven loans for five projects totaling \$249.5 million for SME development, for improving the quality of secondary teaching, for integrated flood protection of secondary towns, for Chittagong Port trade facilitation, and for the Grameenphone telecommunications project to expand the cellular network in Bangladesh. Twelve technical assistance grants totaling \$6.3 million were also approved.

### Bhutan

**Strategy and Policy Dialogue.** ADB's CSP is fully consistent with the objectives of the October 2001 poverty partnership agreement, Bhutan's development philosophy of gross national happiness, and the development priorities outlined in the ninth 5-year plan which include strengthening infrastructure, improving the quality of social services, ensuring good governance, promoting private sector growth, and generating employment. The operational program focuses on road infrastructure, rural electrification, urban infrastructure, and promotion of the private sector.

In support of the government's development objectives, in 2004 ADB also provided support for capacity development in public resource management in the Department of Planning, the Statistics Bureau, Bhutan Electricity Authority, the Department of Aid and Debt Management, and the Department of Budget and Accounts of the Ministry of Finance. Dialogue concerning ADB's safeguard policies was also undertaken. In



June 2004, the Bhutan Power Corporation introduced a two-part tariff for its transmission and primary distribution customers. Technical assistance for the establishing the Druk Hydro Power Corporation neared completion; when dialogues with stakeholders end, the government will announce its decision.

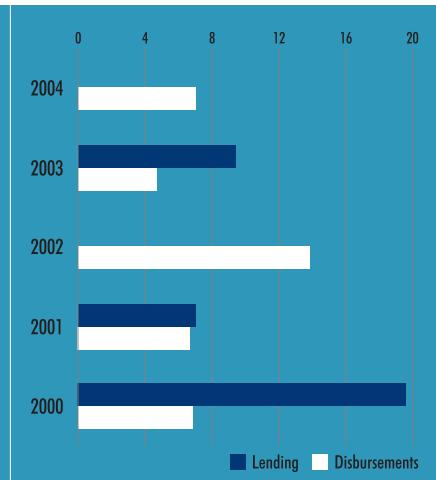
**Loans and Technical Assistance.** No loans were approved, but five technical assistance grants totaling \$1.7 million were approved. These projects include preparatory assistance for a loan on urban infrastructure development and advisory assistance on SME development and a project to strengthen the national statistical system, the payment and settlement system, and the managerial capacity of the Department of Aid and Debt Management.

<b>Lending</b>	
Cumulative (\$ million)	111.2
2004 (\$ million)	0.0
Active Loans (no.)	5
<b>Contract Awards</b>	
Cumulative (\$ million)	98.2
2004 (\$ million)	9.6
Ratio (%)	65.1
ADB-wide ratio (%)	17.4
<b>Disbursements</b>	
Cumulative (\$ million)	86.4
2004 (\$ million)	7.0
Ratio (%)	25.7
ADB-wide ratio (%)	17.7

#### BHUTAN Project Implementation

Sector	No. of Loans	\$ Million	%
Energy	3	26.9	24.2
Transport	3	19.3	17.4
Multisector	3	18.1	16.3
Education	2	14.1	12.7
Health	1	10.0	9.0
Finance	2	8.0	7.2
Agriculture	2	7.8	7.0
Industry and Trade	2	3.7	3.3
Water	1	3.3	3.0
<b>TOTAL</b>	<b>19</b>	<b>111.2</b>	<b>100.0</b>

a Total may not add due to rounding.  
**BHUTAN**  
**Cumulative ADB Lending**  
(as of 31 December 2004)

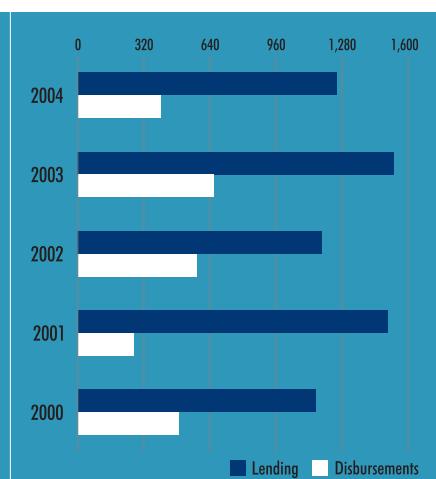


#### BHUTAN Lending and Disbursements, 2000–2004 (\$ million)

<b>Lending</b>	
Cumulative (\$ million)	14,550.3
2004 (\$ million)	1,254.4
Active Loans (no.)	40
<b>Contract Awards</b>	
Cumulative (\$ million)	8,025.7
2004 (\$ million)	550.5
Ratio (%)	12.7
ADB-wide ratio (%)	17.4
<b>Disbursements</b>	
Cumulative (\$ million)	7,446.4
2004 (\$ million)	401.6
Ratio (%)	12.1
ADB-wide ratio (%)	17.7

Sector	No. of Loans	\$ Million	%
Energy	28	4,955.2	34.1
Transport	23	4,799.2	33.0
Multisector	14	2,180.0	15.0
Finance	11	1,360.0	9.3
Law	5	850.0	5.8
Water	1	200.0	1.4
Industry and Trade	8	185.9	1.3
Health	1	20.0	0.1
<b>TOTAL</b>	<b>91</b>	<b>14,550.3</b>	<b>100.0</b>

**INDIA**  
**Cumulative ADB Lending**  
(as of 31 December 2004)



#### INDIA Lending and Disbursements, 2000–2004 (\$ million)

management systems remained the backbone of ADB's assistance. Transport sector operations focused on strengthening connectivity to link poor rural families to markets and social services in cities, towns, and ports while energy sector operations assisted with power sector reforms, promotion of more efficient, renewable energy sources, upgrading transmission and distribution systems, and encouraging energy conservation. Urban sector projects combined infrastructure development with targeted poverty reduction components and strong elements of municipal governance and policy reforms. ADB's private sector development program focused on rationalizing capital market regulations and extending the securities market. Social development goals were addressed in components of physical infrastructure and other economic projects. ADB also provided assistance for comprehensive fiscal reforms in several states including Kerala and Assam and technical assistance to modernize central tax administration. ADB's ongoing policy dialogue with the government and various executing agencies focused on improving state policy environments and in critical sectors such as power, transport, urban infrastructure, finance, and agriculture and rural development.

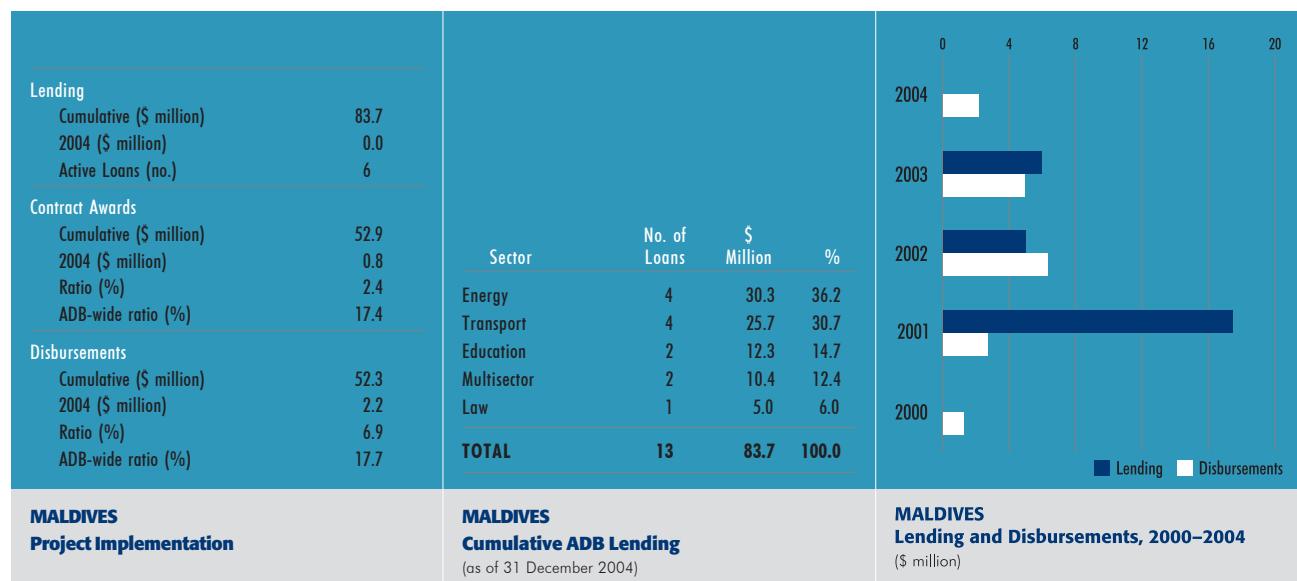
**Loans and Technical Assistance.** In 2004, ADB approved six loans amounting to \$1.3 billion covering five projects for upgrading national highways, an inter-state power transmission system, reconstruction work in the states of Jammu and Kashmir, a policy loan for implementing fiscal reforms and improving governance in the state of Assam, and one private sector loan for a power generation plant involving an equity investment of \$20.6 million. Two equity investment projects

were approved in 2004—\$20 million in a private sector equity fund, and \$9.7 million in a liquefied natural gas terminal which also involved a partial credit guarantee facility for \$65.3 million. ADB launched its first local (rupee) currency bond issue for Rs5 billion (about \$110 million) in February 2004—the first such issue by ADB in a DMC. This will enable ADB to offer rupee-denominated loans to private sector borrowers thus protecting them against exchange rate risks since most ADB-financed projects generate revenues in local currency. Sixteen technical assistance activities for \$11.2 million were also approved.

### Maldives

**Strategy and Policy Dialogue.** The CSP and poverty partnership agreement of 2002 set priorities that are still relevant and should be pursued even in the wake of the tsunami: (i) improving physical and public infrastructure in the atolls; (ii) reducing economic vulnerability by diversifying economic activity; (iii) creating an enabling environment for private-sector development and new sources of employment; (iv) supporting good governance especially by improving public sector managerial efficiency and promoting legal and judicial reforms; and (v) raising the level of social development through support to postsecondary education and developing employment skills.

The tsunami was a national disaster. Thirty-nine islands were significantly damaged and nearly a third of the 300,000 inhabitants were severely affected; they will continue to suffer unless immediate mitigating measures are taken. About 7% of the population was displaced, and the livelihoods of thousands were undermined. Total damages were estimated to be about



\$470 million, close to 62% of GDP. About \$298 million were direct damages; the rest was indirect loss. The tourism sector suffered the most with losses of around \$100 million followed by the housing sector with losses close to \$65 million. ADB is assisting with rehabilitation and reconstruction.

**Loans and Technical Assistance.** No loans were approved in 2004. Three technical assistance grants totaling \$1 million were approved for commercializing agriculture, strengthening the education framework toward vision 2020, and developing domestic maritime transport.

### Nepal

**Strategy and Policy Dialogue.** ADB formulated a new CSP for Nepal for 2005–2009 to support implementation of the government's poverty reduction strategy embodied in the Tenth Plan (2003–2007). It is ADB's first results-based CSP and was the outcome of extensive consultations with the government, local community groups and leaders, civil society, the private sector, and other development partners. To respond to the special implementation challenges posed by the ongoing conflict, the CSP proposes more flexible assistance modalities, wider community participation in project design and implementation, and greater transparency in ADB operations.

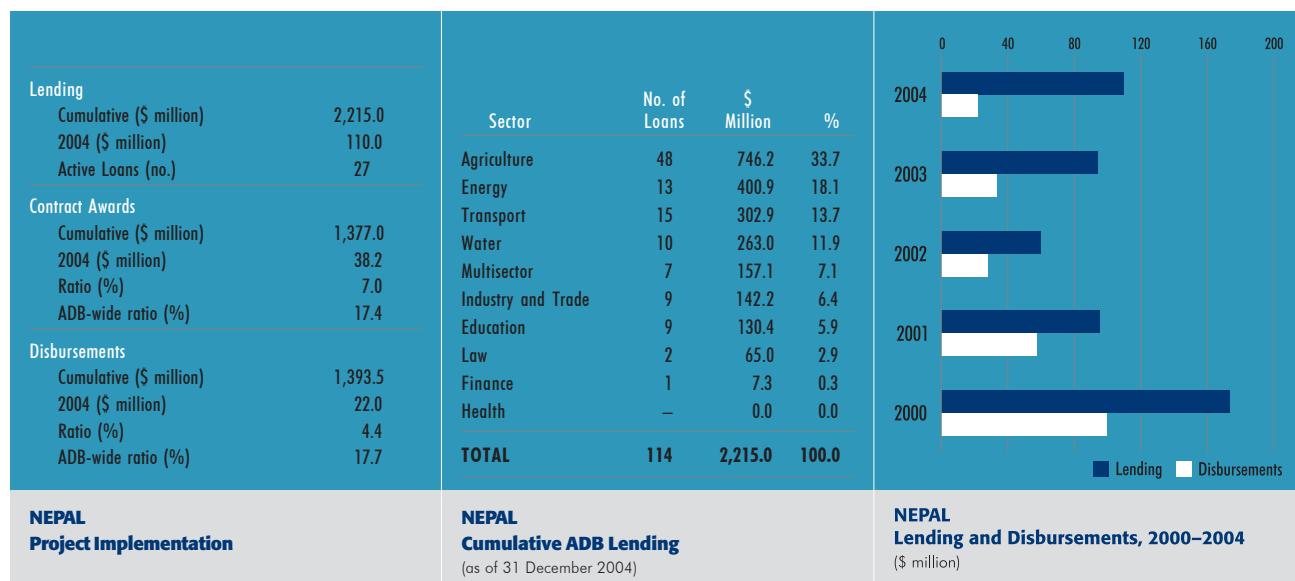
Policy dialogue with the government focused on adopting a common development results framework, capacity building of key government institutions, and an effective monitoring mechanism for the new results-based CSP. ADB also engaged in extensive dialogue with the government on key policy reforms set out in the Tenth Plan and provided support for introducing

legislative reforms to empower women and amend discriminatory laws against them. ADB continued to support governance reforms focusing on improving the efficiency of the civil service, reducing corruption, and automating civil servants' and teachers' personnel records. Public sector management reforms were also supported for privatization of public enterprises, prudent fiscal management, decentralization, and corporate and financial governance. In collaboration with other development partners, ADB also supported power sector reforms aimed at enhancing the efficiency of the Nepal Electricity Authority through restructuring and establishing a regulatory institution.

**Loans and Technical Assistance.** ADB approved five loans totaling \$110 million for gender equality and the empowerment of women, for decentralized rural infrastructure and livelihood, for a community-managed irrigation project, a skills for employment project, and a subregional transport facilitation project. ADB also approved 10 technical assistance grants totaling \$3.2 million.

### Pakistan

**Strategy and Policy Dialogue.** Following successful economic reforms resulting in significant improvements in Pakistan's macroeconomic fundamentals in recent years, ADB engaged the government in extensive policy dialogue on the need to accelerate growth to ensure that the benefits of reform reach the poor. The results of this dialogue are reflected in the CSPU for 2005–2006 in which ADB agreed to provide support for achieving sustained high growth. To this end, ADB will provide assistance for infrastructure projects that would have the



greatest impact on economic growth and poverty reduction. At the same time, the emphasis on supporting improved governance and decentralizing the delivery of social services will be maintained.

As part of the strategic dialogue, ADB completed a major report on Pakistan's devolution reform that was published as a three-volume series in June 2004. This report responded to the government's request for a series of empirically robust and practically oriented recommendations on the way forward for further devolution. ADB continued support for provincial public resource management reforms and decentralized social service delivery. In this regard, a major reform package was approved for Balochistan to support fiscal and financial reforms, to improve administrative frameworks and public-private partnerships for effective public service delivery, and to create an enabling environment for private sector development. A social sector reform and investment program in Punjab was also approved to support increased allocations for social sectors.

To directly support poverty reduction and create employment, assistance was approved for strengthening technical education and the vocational training system and making it more market oriented in Balochistan and North-West Frontier Province (NWFP). ADB also supported sustainable rural livelihoods in districts with a high incidence of poverty in Punjab to enhance access to land, water, markets, services, agriculture inputs, technology, and employment for the poor. In its first-ever support for Azad Jammu and Kashmir (AJK), ADB provided assistance for improving living conditions, quality of life, and

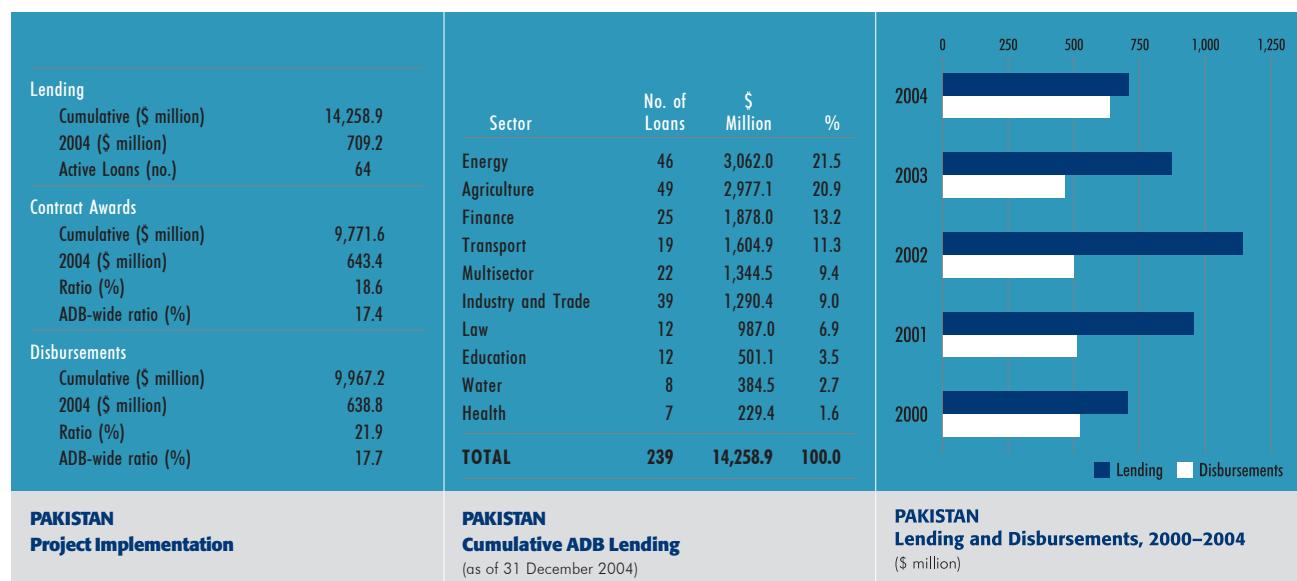
economic prospects in the area by rehabilitating and reconstructing essential physical and social infrastructure. Finally, the emphasis on improving subregional cooperation was maintained and assistance was provided to strengthen regional connectivity between Pakistan and Afghanistan and to promote trade and commercial ties between South and Central Asian countries.

**Loans and Technical Assistance.** ADB approved 11 loans totaling \$709.2 million for seven projects: assistance for sustainable livelihood improvement in Punjab; multisector rehabilitation in AJK; public resource management in Balochistan; technical education and vocational training in Balochistan and NWFP; devolved social services in Punjab; and road development and subregional connectivity in NWFP. Twenty-three technical assistance grants totaling \$28.9 million were also approved.

### Sri Lanka

**Strategy and Policy Dialogue.** The CSPU for 2005–2006 was prepared, but the new government elected in April 2004 adopted different policies in a number of areas and sectors. As a consequence, it became necessary to reassess ADB operations in light of the new priorities which place greater emphasis on the development of rural and peripheral areas and on poverty reduction but less emphasis on private sector-led economic growth.

The 2004 CSP followed the poverty partnership agreement signed in March 2002 and focused on private sector development, governance, and reducing poverty related to



conflict. ADF lending was mainly directed to the education and the transport sectors. Technical assistance also supported private sector development, transport and infrastructure development, and conflict-affected communities. A macroeconomic assessment covering progress in economic reforms and analyzing the country's debt sustainability was carried out to inform and strengthen the CSP and policy debate.

The 26 December tsunami struck more than 1,000 kilometers (two thirds) of Sri Lanka's coastline. Coastal infrastructure (roads, railway, power, telecommunications, water supply, and fishing ports) was significantly affected; the overall loss of assets has been estimated at 4.4% of GDP with reconstruction costs rising to \$1.5 billion or 7% of GDP. Given its concentration on the northern and eastern coastal areas, the tsunami affected a disproportionately large share of the poor engaged in fishing, subsistence agriculture, and small-scale trading. The human impact, in terms of lives lost and livelihoods and families destroyed was staggering, and there is a real possibility that poverty will become further entrenched if the already disadvantaged do not benefit from the reconstruction program and do not regain the means to support themselves.

Norwegian-led efforts at restarting peace talks, stalled since April 2003, were not successful, but all parties involved remain committed to maintaining the cease-fire. ADB continued to implement conflict-sensitive programs and projects and was actively involved in the formulation of guiding principles for tsunami aid that stress the importance of the "do no harm"

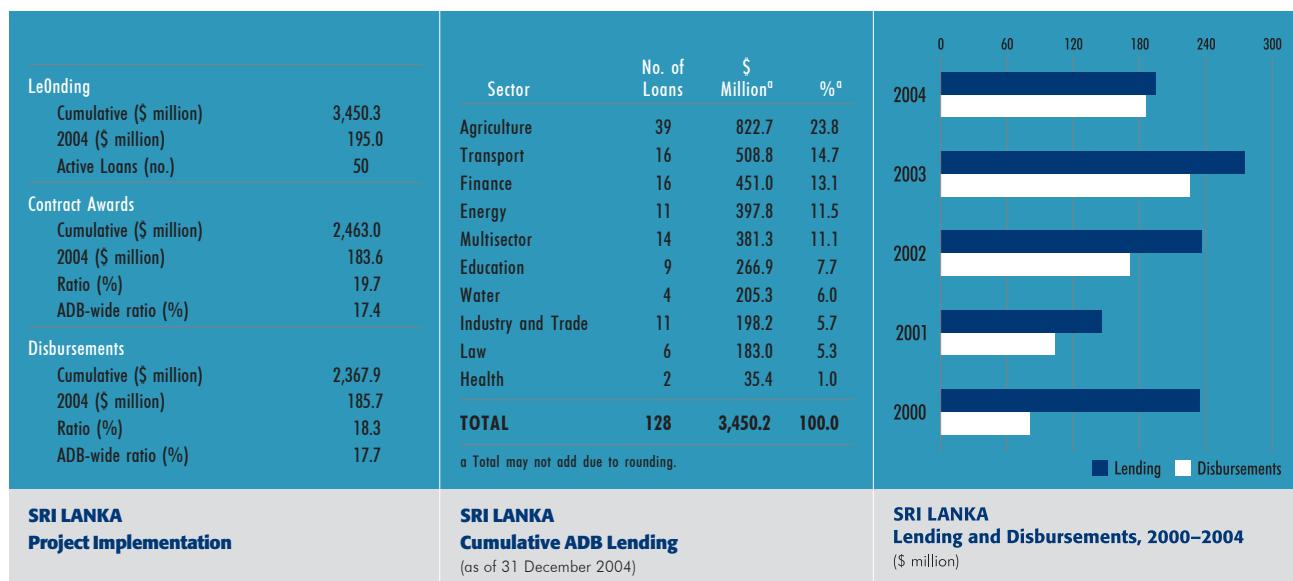
principle and of conflict awareness.

**Loans and Technical Assistance.** Eight loans totaling \$195.0 million were approved for five projects. The projects aim to modernize secondary education, to develop the road sector, to continue support for postconflict restoration and development in the northeast, to strengthen fiscal management, and to support financial markets for private sector development. Four technical assistance grants totaling about \$4.0 million were also approved including \$1.7 million for strengthening the domestic debt market and \$1 million for preparing a road sector master plan. A grant from the JFPR for \$1.5 million was also approved for the power fund for the poor.

## Southeast Asia

Southeast Asia, comprising Indonesia, Malaysia, and the Philippines, contains 60% of the population and production base of ASEAN. Malaysia, with a GDP per capita of \$4,175, is firmly established as a middle-income country and has laid a strong foundation for further development. Indonesia and the Philippines have also developed into middle-income countries but still face many of the problems of low-income countries including high poverty rates. Their challenges are compounded by their geography and ethnic diversity; together they contain over 21,000 islands and over 900 spoken languages.

GDP growth soared in 2004 fueled by a continuing surge in demand for regional exports and by solid domestic demand. All three exceeded projections with growth at 5.1% in Indonesia (up from 4.1% in 2003), 7.2% in Malaysia (up from 5.2%), and 6.1% in the Philippines (up from 4.7%). Strong economic



growth in Japan and the United States (US) and only a moderate slowdown in the PRC created a very positive export environment though growth in Malaysia and the Philippines slowed in the second half of the year as sharply higher world market prices for oil and an uncertain outlook for the US economy moderated demand. Recent rankings showed declines in competitiveness for Indonesia and the Philippines that dampened foreign and domestic investment in the face of intense competitive pressures from other emerging economies of Asia.

Progress toward MDG 1, eradicating extreme poverty and hunger by 2015, was significant. Based on present trends, the incidence of poverty using the \$1-a-day standard is expected to be close to zero in Malaysia and to be 2.5% and 7.2% of the population in Indonesia and the Philippines, respectively. The record of achievement of nonincome MDGs has been mixed. All three countries performed extremely well in primary education (MDG 2), in gender indicators for MDG 3, and in reducing the under-five mortality rate (MDG 4). The last was halved or nearly halved in all three between 1990 and 2001. However, all three have fallen well short of hunger indicators (MDG 1.2) as measured by the percentage of children who are moderately or severely underweight. Declines of 35–26% in Indonesia, 23–18% in Malaysia, and 30–28% in Philippines were registered during the period.

A key focus of ADB's work in 2004 was regional cooperation. A series of consultations in all three countries and in Singapore led to the preparation of the first Southeast Asian RCSP which focused on enhancing competitiveness and on building

connectivity for more isolated parts of the region. The program is designed to support ASEAN's new Vientiane plan of action, and to mobilize resources inside and outside of ADB to promote economic integration.

### **Indonesia**

**Strategy and Policy Dialogue.** The 2002 CSP addressed the main medium-term needs of the economy and recognized the need for a geographic focus by introducing a three-tier system that encouraged the grouping of projects in common areas. The 2005 CSP will adopt a sharper focus and introduce further selectivity in terms of sectors and the criteria for identifying geographic areas in the context of management for development results and the review of the poverty reduction strategy. Support for 2005 will be formulated at a time when there will be a significant focus on post-tsunami rehabilitation and reconstruction in the provinces of Aceh and North Sumatra.

In 2004, portfolio administration at the resident mission was strengthened. It is expected that by the end of 2005, it will be administering about half of the portfolio of 36 loans (33 projects). Enhanced quality control mechanisms and stringent readiness criteria adopted for new loans should reduce start-up delays.

**Loans and Technical Assistance.** Two loans were approved in 2004 for the state audit reform sector development program to support policy and capacity-building initiatives to create an auditing sector that operates to internationally accepted standards: a \$200 million program loan and a \$25 million investment loan. Twenty-four technical assistance grants totaling \$17.6 million and a grant from the JFPR for \$1.5 million were approved.

### **Malaysia**

**Strategy and Policy Dialogue.** Malaysia has not availed of new loans from any major multilateral finance institution in recent years. In November, ADB issued its debut Malaysian ringgit (RM) bonds in the domestic capital market with a principal amount of RM400 million and a bullet maturity of 5 years. This was a landmark event in ADB's efforts to support bond market expansion in the region and reflected the rapid development of the Malaysian financial market regulatory regime. In 2004, Malaysia announced a \$5 million contribution to ADF IX, its first contribution since ADF VII. In addition, Malaysia remained an active partner in subregional activities supported by ADB.

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade (\$ million)	International Reserves (\$ million)
Indonesia	5.1	6.2	25,179	36,321
Malaysia	7.2	1.4	26,674	66,713
Philippines	6.1	5.5	(925)	16,029

( ) Negative.

**SOUTHEAST ASIA: ECONOMIC INDICATORS, 2004**

## Philippines

**Strategy and Policy Dialogue.** Due to steadily tightening government fiscal conditions and uncertain financing mechanisms, several high priority projects reaching advanced stages of preparation in 2004 were put on hold. A new CSP reflecting current fiscal constraints is under preparation. Meanwhile, ADB (i) addressed fiscal imbalance through interventions in the power sector, the single largest contributor to the consolidated fiscal deficit and largest drain on public sector finances; (ii) supported decentralization and managing local government unit (LGU) revenues and expenditures; and (iii) developed programs in governance, health systems, and financial market regulation. These efforts will be complemented by project financing and facilities from ADB's private sector

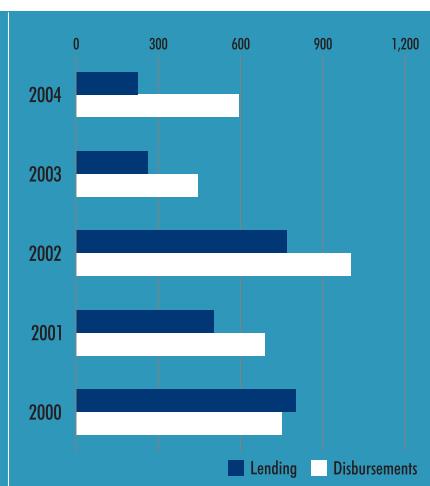
operations. By improving the local investment climate, long-term partnerships will be established with financially sound and well-managed LGUs to undertake development projects without national government budget support.

ADB collaborated with the government, the World Bank and the Japan Bank for International Cooperation to achieve a more manageable portfolio and efficient project implementation. The government and ADB conducted two exercises on portfolio management and performance monitoring and evaluation. Despite adverse impacts on disbursements due to budget constraints, the portfolio showed remarkable improvement in project implementation performance indicators including a significant reduction in

Lending		
Cumulative (\$ million)	19,582.8	
2004 (\$ million)	225.0	
Active Loans (no.)	42	
Contract Awards		
Cumulative (\$ million)	14,191.7	
2004 (\$ million)	516.8	
Ratio (%)	27.1	
ADB-wide ratio (%)	17.4	
Disbursements		
Cumulative (\$ million)	14,098.0	
2004 (\$ million)	593.5	
Ratio (%)	25.7	
ADB-wide ratio (%)	17.7	

Sector	No. of Loans	\$ Million <sup>a</sup>	% <sup>a</sup>
Agriculture	91	3,831.0	19.6
Energy	30	3,431.1	17.5
Finance	14	2,731.1	13.9
Transport	32	2,562.9	13.1
Education	30	2,092.4	10.7
Multisector	32	1,895.6	9.7
Law	7	1,029.2	5.3
Health	12	1,018.3	5.2
Industry and Trade	14	665.7	3.4
Water	9	325.6	1.7
<b>TOTAL</b>	<b>271</b>	<b>19,582.8</b>	<b>100.0</b>

<sup>a</sup> Total may not add due to rounding.



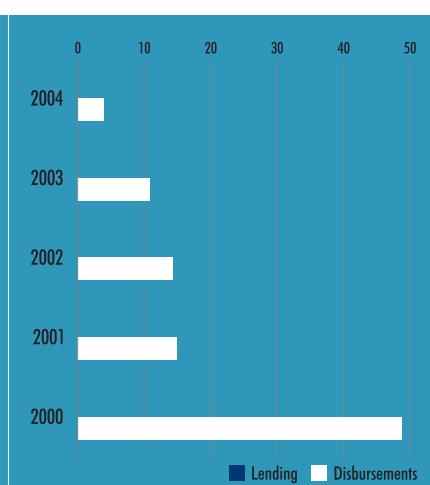
## INDONESIA Project Implementation

## INDONESIA Cumulative ADB Lending (as of 31 December 2004)

## INDONESIA Lending and Disbursements, 2000–2004 (\$ million)

Lending		
Cumulative (\$ million)	1,987.5	
2004 (\$ million)	0.0	
Active Loans (no.)	2	
Contract Awards		
Cumulative (\$ million)	1,405.3	
2004 (\$ million)	3.5	
Ratio (%)	22.9	
ADB-wide ratio (%)	17.4	
Disbursements		
Cumulative (\$ million)	1,395.8	
2004 (\$ million)	3.9	
Ratio (%)	15.6	
ADB-wide ratio (%)	17.7	

Sector	No. of Loans	\$ Million	%
Agriculture	19	409.4	20.6
Energy	11	321.5	16.2
Multisector	11	274.1	13.8
Education	5	258.8	13.0
Transport	15	255.1	12.8
Water	10	219.1	11.0
Health	3	181.5	9.1
Industry and Trade	1	53.0	2.7
Finance	1	15.0	0.8
<b>TOTAL</b>	<b>76</b>	<b>1,987.5</b>	<b>100.0</b>



## MALAYSIA Project Implementation

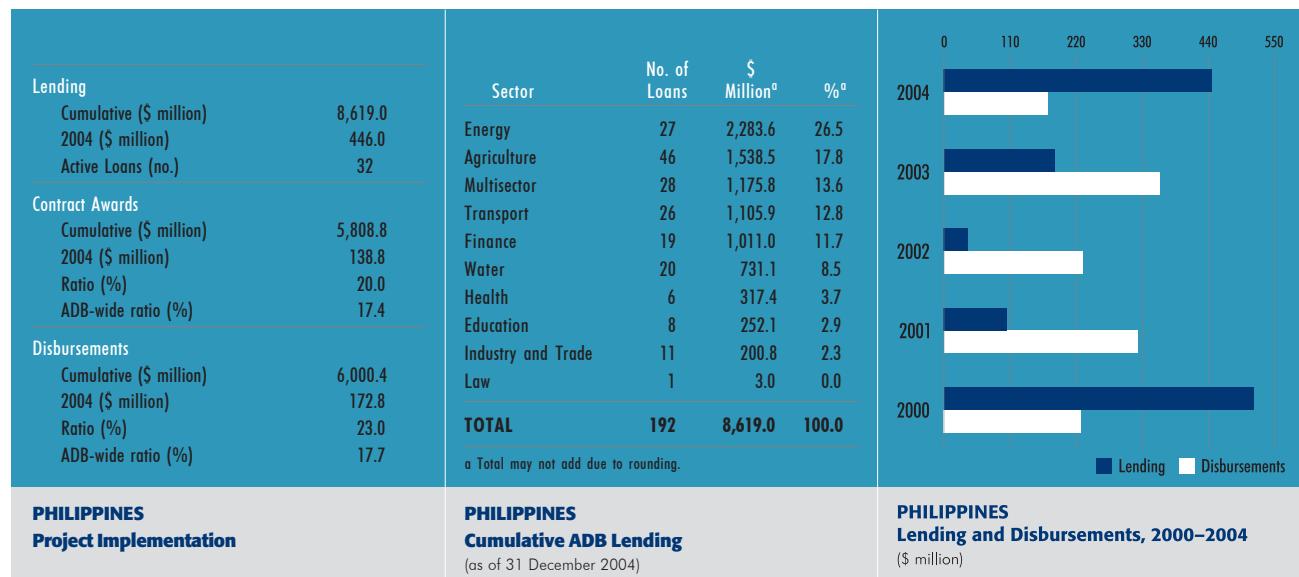
## MALAYSIA Cumulative ADB Lending (as of 31 December 2004)

## MALAYSIA Lending and Disbursements, 2000–2004 (\$ million)

undisbursed loan amounts and a reduction in the proportion of projects at risk. This was achieved by strong collaboration from government oversight agencies and executing agencies and closer supervision and administration by ADB.

**Loans and Technical Assistance.** ADB approved four loans totaling \$446.0 million including \$213 million for a health sector development program, private sector projects of \$200

million for peso swap and financing, and \$33 million for the purchase and resolution of a finance corporation's portfolio of nonperforming loans. Ten technical assistance grants totaling about \$6.0 million were approved to support agrarian reform, power sector reforms, infrastructure, basic education, microfinance and SMEs, transport, LGU development, and governance. The JFPR also provided a grant of \$1.5 million.





## PART 3: FINANCIAL STATEMENTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Overview

The Asian Development Bank (ADB) is an international development finance institution whose vision is to make Asia and the Pacific free of poverty. ADB was established in 1966 through the "Agreement Establishing the Asian Development Bank" (the Charter), ratified by 31 countries to promote the social and economic development of the region and reduce poverty. As of 31 December 2004, ADB had 63 members, 45 of which are in the region.

ADB provides various forms of financial assistance to its developing member countries (DMCs). The main instruments are loans, technical assistance, grants, guarantees, and equity investments. These instruments are financed through ordinary capital resources (OCR), Special Funds, and various trust funds. OCR and Special Funds are used to finance operations that are solely under ADB administration. Trust funds are externally funded and are administered by ADB on behalf of donors. The Charter requires that funds from each resource be kept separate from the others.

ADB also provides policy dialogues and advisory services and mobilizes financial resources through its cofinancing operations tapping official, commercial, and export credit sources to maximize the development impact of its assistance. Cofinancing for ADB projects can be in the form of loans, technical assistance, grant components of loan projects, or credit enhancement products such as guarantees.

### Ordinary Capital Resources

Funding for OCR comes from three distinct sources: funds borrowed from private placements and capital markets, paid-in capital provided by shareholders, and accumulated retained income (reserves). The financial strength of OCR is largely based on the support of shareholders and on financial policies and practices. Shareholder support is reflected in the form of capital backing from members and in the record of borrowing members in meeting their debt service obligations.

Borrowed funds, together with equity, are used to fund OCR lending and investment activities as well as general operations. Loans are generally made to DMCs and to private borrowers that have attained a higher level of economic development. Public sector loans are priced on a cost pass-through basis in which the cost of funding the loans plus a lending spread is

passed through to the borrowers. Private sector loans are priced based on market practice.

With the introduction of London interbank offered rate (LIBOR)-based loans (LBL) and the retirement of other loan products, ADB has evolved into a full-fledged LIBOR-based lender. In view of the higher interest rates charged for pool-based loans compared with LIBOR-based loans and the general trend in the interest rate environment, prepayments of pool-based loans of \$2.8 billion were received in 2004.

In addition to direct lending, ADB also provides guarantees to assist DMC governments and private borrowers in securing commercial funds for ADB-assisted projects. ADB has experienced strong and growing demand for guarantees as credit enhancement products.

### Basis of Financial Reporting

**Statutory Reporting.** *Table 1* presents financial data for 2004. ADB prepares its financial statements in accordance with accounting principles generally accepted in the United States (US). Effective 1 January 2001, ADB complied with Financial Accounting Standards (FAS) 133, "Accounting for Derivative Instruments and Hedging Activities," and its related amendments (collectively referred to as FAS 133). FAS 133 allow hedge accounting only if qualifying criteria are met. An assessment of those criteria indicated that most of ADB's derivative transactions are highly effective in hedging the underlying transactions and are appropriate for reducing funding costs. However, applying FAS 133 hedge criteria does not entirely reflect ADB's risk management and hedging strategies. Compliance with hedge accounting would impose undue constraints on future borrowing, loan, and hedge programs and would likely detract from minimizing the cost of borrowings, which ADB believes is more important. Accordingly, ADB elected not to adopt hedge accounting and reports all derivative instruments in the balance sheet at fair value while recognizing changes in the fair value of derivative instruments in the period as part of net income.

**Supplemental Reporting.** ADB manages its balance sheet by selectively using derivatives to minimize the interest rate and currency risks associated with its financial assets and liabilities. Derivative instruments are used to enhance asset/liability management of individual positions and portfolios and to reduce borrowing costs. As certain financial instruments (including all derivatives and certain investments) are recorded at their fair value while loans, borrowings, and certain

investments are recorded at carry value, applying FAS 133 does not fully reflect the overall economic value of ADB's financial instruments. Therefore, to better reflect ADB's financial position and risk management, two supplemental financial statements are included: current value and pre-FAS 133. Applications of consistent approaches on these statements allow for better analysis for management information and decision making.

### Discussion and Analysis of Current Value

Table 2 presents estimates of the economic value of OCR financial assets and liabilities taking into consideration changes in interest rates, exchange rates, and credit risks. Current value reflects the exit price for financial instruments with liquid markets and is the estimated fair value. For financial

instruments with no market quotations, current value is estimated using the expected cash flow streams discounted with the appropriate interest and exchange rates (*for details see tables 3 and 4*).

### Current Value Balance Sheets

**Loan Portfolio.** Most loans are made to or guaranteed by ADB members. ADB does not sell its loans believing that there is no comparable market for them. The current value of loans incorporates Management's best estimate of expected cash flows including interest. Estimated cash flows from principal repayments, interest, and other loan charges are discounted by the applicable market yield curves for ADB's funding cost plus ADB's lending spread.

	Statutory Reported Basis <sup>a</sup>				
	2004	2003	2002	2001	2000
<b>Income and Expenses</b>					
From Loans	1,042.5	1,383.0	1,710.0	1,813.7	1,861.3
From Investments	297.4	308.7	330.4	403.4	399.9
From Other Sources	39.4	48.5	19.7	21.6	39.7
<b>Total Income</b>	<b>1,379.3</b>	<b>1,740.2</b>	<b>2,060.1</b>	<b>2,238.7</b>	<b>2,300.9</b>
<b>Interest and Other Financial Expenses</b>	<b>868.8</b>	<b>987.5</b>	<b>1,155.1</b>	<b>1,434.1</b>	<b>1,576.7</b>
Administrative Expenses <sup>b</sup>	118.3	118.5	90.6	59.0	92.6
Technical Assistance to Member Countries	(2.4)	(.4)	56.0	20.0	—
Provision for Losses	5.0	18.0	4.5	9.8	5.9
<b>Total Expenses</b>	<b>989.7</b>	<b>1,123.6</b>	<b>1,306.2</b>	<b>1,522.9</b>	<b>1,675.2</b>
Other Income (Expenses)—FAS 133 Adjustments	41.0	(178.4)	224.8	147.5	—
Net Income	430.6	438.2	978.7	863.3	625.7
Average Earning Assets	36,364	37,540	38,244	36,272	36,693
Annual Return on Average Earning Assets	1.18%	1.17%	2.56%	2.28% <sup>c</sup>	1.71%
Return on Loans	4.16%	4.56%	5.93%	6.42%	6.59%
Return on Investments	2.21%	3.74%	4.26%	5.91%	5.09%
Cost of Borrowings	3.37%	4.65%	4.10%	5.54%	5.90%
Equity-to-Loan Ratio <sup>d</sup>	51.64%	47.67%			
	Pre-FAS 133 Basis		Current Value Basis		
	2004	2003	2004	2003	
Net Income	389.6	616.6	562.8	1,363.3	
Average Earning Assets	36,306	37,524	39,391	40,244	
Annual Return on Average Earning Assets	1.07%	1.64%	1.47%	3.39%	
Return on Loans	4.16%	4.56%	4.25%	4.97%	
Return on Investments	2.34%	3.13%	3.51%	5.88%	
Cost of Borrowings	3.58%	3.70%	3.56%	2.55%	
Equity-to-Loan Ratio	50.54%	46.81%	50.27%	46.20%	

<sup>a</sup> Financial Accounting Standards (FAS) 133 were implemented in 2001. Accordingly, statutory reported basis is the same as pre-FAS 133 basis prior to 2001.  
<sup>b</sup> Net of administration charge allocated to the Asian Development Fund and loan origination costs that are deferred.  
<sup>c</sup> Excludes the one-time cumulative effect of recording the adoption of FAS 133 on 1 January 2001.  
<sup>d</sup> Approved and established in February 2004 to measure ADB's risk-bearing capacity.

**TABLE 1: SELECTED FINANCIAL DATA**

(31 December, amounts in \$ million)

The current value also includes an appropriate credit risk assessment. To recognize the risk inherent in these and other potential overdue payments, the value of the loans is adjusted through loan loss provisioning. ADB has never suffered a loss on public sector loans except opportunity losses resulting from

the difference between payments for interest and charges not in accordance with the loan's contractual terms. As of 2004, ADB provided loan loss allowance against one public sector loan totaling \$2.3 million. The positive adjustment of \$1.8 billion (7.3% of loan balance) from the FAS 133 basis of \$24.5 billion

			31 December 2004		31 December 2003	
	Statutory Reported Basis	Reversal of FAS 133 Effects	Pre-FAS 133 Basis	Current Value Adjustments	Current Value Basis	Current Value Basis
Due from Banks	76,405	—	76,405	—	76,405	1,397,948
Investments and Accrued Income	10,780,768	—	10,780,768	—	10,780,768	9,309,278
Securities Transferred under Securities Lending Arrangement	2,040,302	—	2,040,302	—	2,040,302	2,317,819
Securities Purchased under Resale Arrangement	1,330,948	—	1,330,948	—	1,330,948	2,207,900
Loans Outstanding and Accrued Interest	24,548,149	(870)	24,547,279	1,797,227	26,344,506	27,705,291
Less: Allowance for Loan Losses and Unamortized Front-End Fee	(112,653)	—	(112,653)	—	(112,653)	(107,776)
Equity Investment	257,437	—	257,437	—	257,437	228,956
Receivable from Members	207,181	—	207,181	(72,540)	134,641	155,962
Receivable from Swaps						
Investments	1,562,113	(10,440)	1,551,673	10,440	1,562,113	1,087,833
Borrowings	9,589,335	121,807	9,711,142	(121,807)	9,589,335	9,776,335
Other Assets	509,651	—	509,651	—	509,651	479,350
<b>TOTAL</b>	<b>50,789,636</b>	<b>110,497</b>	<b>50,900,133</b>	<b>1,613,320</b>	<b>52,513,453</b>	<b>54,558,896</b>
Borrowings and Accrued Interest	24,186,126	338,181	24,524,307	714,689	25,238,996	27,808,899
Payable for Swaps						
Investments	1,797,218	29,724	1,826,942	(29,724)	1,797,218	1,226,701
Borrowings	8,853,828	15,051	8,868,879	(15,051)	8,853,828	8,988,579
Payable under Securities Lending Arrangement	2,061,489	—	2,061,489	—	2,061,489	2,520,991
Accounts Payable and Other Liabilities	624,198	—	624,198	—	624,198	544,716
<b>Total Liabilities</b>	<b>37,522,859</b>	<b>382,956</b>	<b>37,905,815</b>	<b>669,914</b>	<b>38,575,729</b>	<b>41,089,886</b>
Paid-In Capital	3,725,823	—	3,725,823	—	3,725,823	3,570,562
Net Notional Maintenance of Value Receivable	(642,944)	—	(642,944)	—	(642,944)	(620,805)
Ordinary Reserve	8,865,414	—	8,865,414	709,685	9,575,099	8,855,539
Special Reserve	189,539	—	189,539	—	189,539	186,066
Loan Loss Reserve	218,800	—	218,800	—	218,800	—
Surplus	312,117	—	312,117	—	312,117	116,645
Cumulative Revaluation Adjustments Account	193,870	(193,870)	—	—	—	—
Net Income after Appropriation	427,080	(40,963)	386,117	173,173	559,290	1,361,003
Accumulated Other Comprehensive Income	(22,922)	(37,626)	(60,548)	60,548	—	—
<b>Total Equity</b>	<b>13,266,777</b>	<b>(272,459)</b>	<b>12,994,318</b>	<b>943,406</b>	<b>13,937,724</b>	<b>13,469,010</b>
<b>TOTAL</b>	<b>50,789,636</b>	<b>110,497</b>	<b>50,900,133</b>	<b>1,613,320</b>	<b>52,513,453</b>	<b>54,558,896</b>

— Nil.  
( )Negative.

TABLE 2: CONDENSED CURRENT VALUE BALANCE SHEETS ON 31 DECEMBER 2004 AND 2003

(\$ thousand)

to the current value basis of \$26.3 billion indicates that the loans in the portfolio, on average, carry a higher interest rate than ADB would currently originate.

**Investments and Related Swaps.** Under both the statutory reported and current value basis, investment securities and

related derivatives are carried and reported at fair values based on market quotations when available. In the case of instruments for which market quotations are not readily available, the current value is calculated using market-based valuation models incorporating observable market data. The net positive adjustment of \$40.2 million resulted from

	Statutory Reported Basis	31 December 2004	31 December 2003
		Adjustments to Current Value	Current Value Basis
<b>Income</b>			
From Loans	1,042,455	—	1,042,455
From Investments	297,369	—	297,369
From Other Sources—Net	39,433	—	39,433
<b>Total Income</b>	<b>1,379,257</b>	<b>—</b>	<b>1,379,257</b>
<b>Expenses</b>			
Interest and Other Financial Expenses	868,800	—	868,800
Administrative Expenses	118,321	—	118,321
Technical Assistance to Member Countries	(2,404)	—	(2,404)
Provision for Losses	4,950	(4,950)	—
<b>Total Expenses</b>	<b>989,667</b>	<b>(4,950)</b>	<b>984,717</b>
Other Income (Expenses)—FAS 133 Adjustments <sup>a</sup>	40,963	(40,963)	—
Current Value Adjustments	—	173,173	173,173
Provision for Losses	—	(4,950)	(4,950)
<b>Net Income</b>	<b>430,553</b>	<b>132,210</b>	<b>562,763</b>
Appropriation of Guarantee Fees to Special Reserve	3,473	—	3,473
<b>Net Income After Appropriation</b>	<b>427,080</b>	<b>132,210</b>	<b>559,290</b>
			<b>1,363,305</b>
			<b>746,730</b>
			<b>(18,007)</b>
			<b>2,302</b>
			<b>1,361,003</b>

( ) Negative

<sup>a</sup> Financial Accounting Standards (FAS) 133 adjustments are reversed as the current value adjustments incorporate the effect of FAS 133 adjustments.

**TABLE 3: CONDENSED CURRENT VALUE INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

(\$ thousand)

	Balance Sheet Effects as of 31 December 2004					Income Statement Effects Year-to-Date	
	Loans	Investments	Borrowings after Swaps	Other Assets	Less Prior Year Effects <sup>a</sup>	31 December 2004	31 December 2003
Total Current Value Adjustments on Balance Sheet	1,797,227	40,164	(821,445)	(72,540)	(843,703)	99,703	588,898
Unrealized Losses on Investments <sup>b</sup>						(31,232) <sup>c</sup>	(137,523) <sup>c</sup>
Accumulated Translation Adjustments						105,826 <sup>d</sup>	304,657 <sup>d</sup>
Minimum Pension Liability Adjustment						(1,124) <sup>d</sup>	(9,302) <sup>d</sup>
<b>Total Current Value Adjustments</b>						<b>173,173</b>	<b>746,730</b>

<sup>a</sup> Prior Year Effects include cumulative current value adjustments on all financial instruments made in the prior years.  
<sup>b</sup> Relates to unrealized gain/losses of investments and equity investments classified as available for sale.  
<sup>c</sup> Unrealized losses on the investment portfolio net of unrealized gains on the equity investment portfolio have been moved from the Equity portion under the reported basis and included as part of current value adjustments for current value reporting.  
<sup>d</sup> The accumulated translation adjustments for the period, net of current translation effects from Financial Accounting Standards (FAS) 133 reversals, together with the minimum pension liability adjustment have been moved from other comprehensive income under the reported basis and included in current value net income for the purpose of current value reporting.

**TABLE 4: SUMMARY OF CURRENT VALUE ADJUSTMENTS**

(\$ thousand)

unrealized gains on asset swaps due to increasing interest rates in certain markets.

**Equity Investments.** Equity investments with readily determinable market values are reported at fair value. Unlisted equity investments without readily available market value are reported at cost less allowance for losses, which represents a fair approximation of the current value.

**Receivable from Members.** These consist of unrestricted and maybe restricted promissory notes. The current value is based on the cash flow of the projected encashment of the promissory notes discounted using appropriate interest rates.

**Borrowings after Swaps.** The current value of these liabilities includes the fair value of the borrowings and associated derivatives. The current value of these liabilities is calculated using market-based valuation models incorporating observable market data.

The \$1.1 billion increase in the valuation of these liabilities—equivalent to 4.5% of the value of the borrowing portfolio after swaps, from the FAS 133 reported basis of \$23.5 billion which incorporates the value of embedded derivatives to the current value basis of \$24.5 billion—is mainly due to the fact that the average cost of the portfolio is higher than the market rate at which ADB can currently obtain new funding.

#### **Current Value Income Statements**

The total current value adjustment of \$173.2 million (\$746.7 million in 2003) in *Table 4* represents the change in the current value of all of ADB's financial instruments during the year. The adjustment reflects changes in both interest rates and in currency exchange rates in 2004.

**Current Value Adjustments.** All unrealized gains and losses are presented as current value adjustments. Thus, the change in net unrealized losses on investments and equity investments of \$31.2 million as well as the \$5.0 million provision for loan losses are presented as part of the adjustment.

For 2004, current value net income was \$562.8 million compared with pre-FAS 133 net income of \$389.6 million and statutory reported net income of \$430.6 million (see *Table 3*). The \$173.2 million increase from the pre-FAS 133 basis to current value basis (i.e., current value adjustment) comprises a net effect of \$99.7 million from the valuation of all outstanding financial instruments, \$105.8 million from

favorable translation adjustments, and \$19.3 million unrealized gains on equity investments net of \$50.5 million of unrealized investment losses and minimum pension liability adjustment of \$1.1 million (see *Table 4*).

**Impact of Changes in Interest Rates.** The net increase in the current value adjustments on the balance sheet during 2004 was \$99.7 million. It was a result of a \$245.3 million decrease in unrealized losses in the borrowing portfolio, and an \$8.6 million decrease in unrealized losses in other assets offset by a decrease in unrealized gains in the loan and investment swap portfolios of \$139.2 million and \$15.0 million, respectively. The current value changes reflect increases in interest rates in the US market for the year where the majority of ADB's portfolios are held.

**Impact of Changes in Exchange Rates.** The increase in the current value adjustment from 2003 to 2004 was also attributed to changes in exchange rates. Translation adjustments, reflected as part of “accumulated other comprehensive income” under the statutory reported basis, are presented as current value adjustments. The general weakening of the US dollar against other major currencies in 2004 resulted in a significant positive translation adjustment of \$105.8 million.

#### **Operating Activities**

In pursuing its objectives, ADB provides financial assistance through loans, technical assistance, guarantees, and equity investments to its DMCs to help them meet their development needs.

**Loans.** Until 30 June 2001, ADB's three windows for loans from OCR were the pool-based multicurrency loan (PMCL), the pool-based single-currency loan (PSCL) in US dollars, and the market-based loan (MBL). With the introduction of LBL products on 1 July 2001, the PMCL and the MBL were no longer offered and on 1 July 2002, the PSCL in US dollars was retired. The LBL is a timely response to borrower demand for loan products that suit project needs and effectively manage their external debt. LBL products give borrowers a high degree of flexibility in managing interest rate and exchange rate risks and at the same time provide low intermediation risk to ADB. In November 2003, ADB offered to let borrowers transform their outstanding PMCLs of \$6.5 billion into PSCLs in Japanese yen. The transformation eases borrower's administration for loan service payments and loan accounting. The transformation became effective on 1 January 2004.

**OCR Loan Approvals, Disbursements, Repayments, and Prepayments.** In 2004, 33 OCR loans totaling \$4.0 billion were approved compared with 38 OCR public and private sector loans totaling \$4.7 billion in 2003. Disbursements in 2004 totaled \$2.5 billion which represented a decrease of 6.7% from the \$2.7 billion disbursed in 2003. Regular principal repayments for the year were \$1.2 billion (\$1.2 billion in 2003) while prepayments amounted to \$2.8 billion (\$5.9 billion in 2003). In 2004, 41 loans were fully prepaid. On 31 December 2004, the total loans outstanding after allowance for losses and unamortized front-end fees amounted to \$24.2 billion.

**Status of Loans.** One public sector OCR loan to Nauru and 11 private sector loans were in nonaccrual status at the end of 2004; the total outstanding balance was \$2.3 million (\$2.3 million in 2003) and \$50.4 million (\$77.1 million in 2003), respectively. The decrease in private sector loans in nonaccrual status was due to loan restructuring. Three loans totaling \$33.7 million came out of nonaccrual status while two new loans totaling \$7.5 million were placed in nonaccrual status during 2004. The total loans in nonaccrual status of \$52.7 million represented 0.2% of the total outstanding OCR loans.

**Lending Rates.** The lending rates for PSCLs are based on the previous semester's average cost of borrowings. Interest rates for MBLs are either fixed or floating. The lending rates for MBLs are determined on the basis of 6-month LIBOR with reset dates of either 15 March and 15 September or 15 June and 15 December. Effective 2001, all public sector loans without specific provisions in the loan agreements were charged with a lending spread of 60 basis points over the base lending rate. In 2004, 20 basis points of the lending spread were waived on public sector loans outstanding from 1 January 2004 to 30 June 2005 for borrowers that do not have loans in arrears. ADB's variable lending rates for PSCLs in US dollars and PSCLs in Japanese yen are shown below.

For private sector loans, the lending spread is determined on a case-by-case basis to cover ADB's risk exposure to specific borrowers and projects.

ADB also normally charges a front-end fee of 1% to cover the administrative costs incurred in loan origination. In 2004, the Board of Governors approved the waiver of the entire front-end fee on all new public sector loans approved from 1 January 2004 to 30 June 2005. Prior to that, 50 basis points waiver was applied to all public sector loans approved on or after 1 January 2003. In addition, ADB currently applies a progressive commitment fee of 75 basis points on undisbursed loan balances for public sector project loans and a flat commitment fee of 75 basis points for public sector program loans.

Rebates and surcharges are standard features of public sector LBLs. To maintain the principle of cost pass-through pricing, ADB returns the actual sub-LIBOR funding cost margin to its LBL public sector borrowers through rebates. A surcharge could arise if ADB's funding cost exceeds the 6-month LIBOR, but that is a remote possibility unless ADB experiences serious credit deterioration. Rebate or surcharge rates are set on 1 January and 1 July every year and are based on the actual average funding cost margin for the preceding 6-month period. Based on rebate rates, ADB returned an actual sub-LIBOR funding cost margin of \$12.8 million to its LBL public sector borrowers during 2004 (see below).

**Technical Assistance.** From 1967 to 1991, technical assistance expenses were charged to OCR and to other technical assistance funding resources—the Technical Assistance Special Fund (TASF), the Japan Special Fund (JSF), and trust/grant funds. From 1992 to 2000, no technical assistance expenses were charged to OCR. In 2001, the Board of Directors approved the financing of high-priority technical assistance programs out of OCR current income within a rolling 4-year

	2004	2003	PSCLs		US Dollar	Japanese Yen		2004	2003
1 January	2.13	2.74	Japanese yen	1 January 2004	0.35	0.39	Partial Credit Guarantees	1,153.6	1,115.3
	6.27	6.31	US dollar	1 July 2004	0.35	0.39	Political Risk Guarantees	152.8	130.2
1 July	1.93 <sup>a</sup>	2.46 <sup>a</sup>	Japanese yen				<b>TOTAL</b>	<b>1,306.4</b>	<b>1,245.5</b>
	6.09 <sup>a</sup>	6.31	US dollar						
<i>Note:</i> Lending rates are set on 1 January and 1 July every year and are valid for 6 months.									
<i>a</i> Net of waiver of 20 basis points on lending spread.									
<b>LENDING RATES</b> (% per annum)				<b>REBATE RATES</b> (% per annum)			<b>OUTSTANDING GUARANTEE EXPOSURE</b> (\$ million)		

financing framework. The amount of financing required varies between years and is subject to the approval of the Board of Directors. In 2003, the Board reverted to the practice of allocating OCR net income to the TASF and of financing technical assistance activities through it and various other funding resources.

**Guarantees.** ADB provides guarantees as credit enhancements for eligible projects to cover risks that the private sector cannot easily absorb or manage on its own. Reducing these risks can make a significant difference in mobilizing debt funding for projects. ADB has used its guarantee instruments successfully for infrastructure projects, financial institutions, capital markets, and trade finance. These instruments generally are not recognized in the balance sheet and have off-balance sheet risks. For guarantees issued and modified after 31 December 2002 in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," ADB recognized at the inception of a guarantee the noncontingent aspect of its obligations. ADB's total exposure on signed and effective loan guarantees is disclosed in Note E of OCR Financial Statements.

ADB offers two guarantee products—political risk and partial credit—designed to mitigate risk exposure of commercial lenders and capital market investors. These guarantees are not issued on a stand-alone basis but are provided for projects in which ADB participates. ADB cooperates with other multilateral, official, and private sector lenders and insurers to provide guarantee products.

**Political Risk Guarantee (PRG).** A PRG is designed to facilitate cofinancing by providing lenders/capital market investors of ADB-assisted projects with cover against specifically defined political risks. Coverage is available against any combination of the risks of expropriation, currency inconvertibility or nontransferability, political violence, and breach of contract, and is available for loans and other forms of debt instruments. Equity instruments are ineligible for PRG coverage. Tenors are based on the merits of the underlying project. All or part of outstanding debt service obligations to a lender may be covered. The cover may be for principal and/or interest payment obligations. For private sector projects, ADB can issue a PRG without a counter guarantee from the host government; however, PRG exposure to such a project is subject to a maximum of \$150 million or 50% of the project cost,

whichever is lower. Fees are market-based and comprise guarantee fees, front-end fees, and standby fees. A PRG is callable when a guaranteed event has occurred and such an event has resulted in debt service default to the lender. In 2004, ADB approved a \$10 million supplemental PRG cover without government counter guarantee for the Afghanistan Investment Guarantee Facility. As of 31 December 2004, the project was not yet effective.

**Partial Credit Guarantee (PCG).** A PCG provides comprehensive cover (of commercial and political risks) for specific portion of the debt service provided by cofinanciers. PCG is particularly useful for projects in DMCs with restricted access to financial markets but which ADB considers creditworthy and financially sound. Since the 1997 Asian financial crisis, borrowers, project sponsors, cofinanciers, and host governments have increasingly sought to hedge currency mismatch risks by borrowing in the same currency as the revenues generated by the project. A PCG can cover local currency debt including domestic bond issues or long-term loans from local financial institutions. For private sector transactions not supported by a counter guarantee from the host government, the exposure limit stands at \$75 million or 25% of the project cost, whichever is less. Guarantee fees for private sector transactions are market based. Fees for transactions backed by the host government guarantee comprise a standard guarantee fee of 40 basis points (0.4%) per annum on the present value of the outstanding guarantee obligation plus a front-end fee to cover processing costs. Fees can be charged to the borrower or to the lender. In 2004, ADB approved a private sector PCG for \$65.3 million equivalent to support a local currency bond issue for a liquefied natural gas terminal in India. The project was not yet effective as of 31 December 2004.

**Cofinancing.** ADB coordinates with development partners to maximize the impact of its assistance programs to all DMCs by identifying official and/or commercial cofinancing opportunities that directly complement ADB projects. This includes the application of credit enhancement products, such as guarantees, in support of commercially attractive public and private sector projects and programs. Identifying the best financing solutions for these projects and programs, especially with the use of ADB's credit enhancement products, has been the core of the cofinancing dialogue with DMCs. Official cofinancing arrangements with bilateral partners and multilateral financial institutions totaled \$713.4 million for 24 projects comprising \$147.1 million in grant funds and

\$566.3 million in loans, compared with \$775.3 million for 18 loan projects in 2003. Commercial cofinancing totaled \$1.7 billion for 10 projects, of which guarantee operations amounted to \$75.3 million. In addition, \$77 million in grants were mobilized to cofinance 102 technical assistance projects in 2004.

**Private Sector Operations.** In response to the growing role of private enterprise in its DMCs, ADB assists enterprises undertake financially viable projects with significant development impact. ADB's assistance can take the form of equity investments, loans, guarantees, or complementary financing schemes. The Charter allows the use of OCR for equity investments in private enterprises of up to 10% of its unimpaired paid-in capital together with reserves and surplus, exclusive of special reserves. As of 31 December 2004, the total approved equity investments in OCR, net of allowance for probable losses, amounted to \$537.3 million. This represented about 40% of the ceiling defined by the Charter.

As of 31 December 2004, the overall private sector portfolio (equity investments, loans, and guarantees) was approximately \$1.5 billion. As an interim arrangement, pending the implementation of a more objective capital allocation methodology, approvals of private sector operations in excess of the operational limit of \$1.5 billion established by the Board of Directors have been allowed since September 2001. Private sector guarantee operations include PRG commitments of \$202.2 million in four projects and PCG commitment of \$117.5 million in two projects. Approximately \$101 million in PRG commitments have counter guarantees from the respective governments.

ADB actively seeks to recycle funds in existing investments after its development role in such investments has been fulfilled. Divestments are carried out in a manner consistent with good business practices and without destabilizing the companies concerned. In 2004, ADB actively sought full and partial divestments of equity shareholdings in the amount of \$18.2 million, while \$82.2 million in principal repayments were received. ADB disbursed a total of \$41.7 million in equity investments and \$109.4 million in loans in 2004. Negotiations over legal documentation in 10 approved projects for a total amount of \$366.4 million are ongoing.

ADB maintains a loss allowance for all private sector investments that do not have readily available market values and for which no specific provisions have been made. The loss

allowance as of 31 December 2004 amounted to \$44.5 million and the specific provision amounted to \$89.8 million.

### Capital and Resources

**Capital.** Total shareholders' equity on a reported basis grew from \$12.9 billion as of 31 December 2003 to \$13.3 billion as of 31 December 2004. This was primarily due to (i) net income of \$427.1 million; (ii) favorable translation adjustments of \$105.2 million; (iii) the net effect of change in special drawing rights (SDR) value on capital and reserves of \$128.1 million, net of transfers to the Asian Development Fund (ADF) and the TASF of \$150 million and \$50 million, respectively; and (iv) net unrealized loss on investments and equity investments of \$31.2 million.

On 31 December 2004, authorized and subscribed capital was \$54,161.6 million. Of the subscribed capital, \$3,809.4 million was paid-in and \$50,352.2 million was callable. Callable capital can be called only if required to meet ADB's obligations incurred on borrowings or guarantees under OCR. No call has ever been made on ADB's callable capital.

To ensure it has adequate risk-bearing capacity, ADB reviews its income outlook annually. Based on that review, the Board of Directors allocates a portion of the previous year's actual net income to reserves to ensure that the level is commensurate with the income planning framework. In addition, to the extent feasible, it allocates part of the net income to support development activities in its DMCs. In May 2004, the Board of Governors approved allocations of 2003 net income of \$218.8 million to loan loss reserves, of \$195.5 million to surplus, of \$150 million to the ADF, and of \$50 million to the TASF and reduced the cumulative revaluation adjustment account by 2003 FAS 133 adjustments of \$178.4 million.

In February 2003, the Board of Directors reviewed ADB's lending and borrowing limitations and approved the following policies to take effect immediately: (i) gross outstanding borrowings are limited to no more than the sum of callable capital from nonborrowing members, paid-in capital, and reserves (including surplus), subject to the Charter limit of 100% of callable capital; (ii) outstanding loan commitments measured by the sum of outstanding disbursed and undisbursed loans, equity investments, and guarantees<sup>1</sup> are limited to no more than the sum of the total callable paid-in capital and reserves (including surplus but excluding special reserve).

In March 2003, the Board of Directors reviewed the OCR

resource position. The review followed a medium-term capital management approach within the approved financial framework for assessing the adequacy of current and prospective lending and borrowing headroom. The review concluded that ADB's capital position is comfortable enough to support projected lending operations through 2005 and to maintain a prudent buffer against exchange rate fluctuations and a margin for unutilized lending capacity. As of 31 December 2004, headroom for lending and borrowings was \$22.5 billion and \$19.6 billion, respectively (compared with \$19.9 billion and \$16.4 billion, respectively, in 2003).

### Borrowings

ADB's primary borrowing objective is to ensure availability of funds at the lowest possible cost for its lending operations. Subject to this objective, ADB seeks to diversify its funding sources across markets, instruments, and maturities. To achieve that objective, ADB continued in 2004 the strategy of (i) issuing liquid benchmark bonds to maintain ADB's strong presence in key currency bond markets, (ii) raising funds through cost-efficient opportunistic and private placement transactions to minimize borrowing costs, and (iii) emphasizing borrowings with longer maturity ranges to smooth ADB's debt redemption profile. Also, in 2004, ADB pursued the objective of contributing to the development of regional bond markets and of providing local currency financing for ADB's private sector operations through local currency bond issues. All proceeds from new funding transactions are invested until they are

required for ADB's ordinary operations. Funding raised in any given year is utilized for ADB's ordinary operations, including loan disbursements and refinancing of maturing funding obligations.

**2004 Funding Operations.** In 2004, ADB completed 19 borrowing transactions raising about \$1.6 billion in long- and medium-term funds compared with \$4.1 billion in 2003. The decrease in funding requirements in 2004 was primarily attributed to \$2.8 billion loan prepayments received during the year. The new borrowings were raised in US dollars, Japanese yen, Hong Kong dollars, Singapore dollars, Indian rupees, and Malaysian ringgit. After swaps, \$1.5 billion or 93% of 2004 borrowings were in US dollars and the remaining 7% were in Indian rupees. The average maturity of 2004 borrowings was 7.9 years compared with 7.6 years in 2003. Of the total 2004 borrowings, \$1.5 billion was raised through five public offerings and the rest through private placements. Additionally, ADB raised \$90 million in short-term funds under its Euro Commercial Paper Program. *Table 5* shows details of 2004 borrowings as compared with borrowings in 2001–2003.

**Benchmark Bond Issue.** In October 2004, ADB launched a 10-year \$1.0 billion 4.25% benchmark global bond issue. This was in line with the strategy of maintaining a strong presence in the US dollar bond market and further smoothing the debt redemption profile. The transaction generated robust demand globally with 45% of the bonds placed in Asia (excluding

	2004	2003	2002	2001	Market	Principal Amount	Coupon Rate (%)	Maturity (years)
<b>Long Term</b>								
Total Principal Amount	1,629.5	4,141.0	5,944.9	1,207.1	India	INR 5 billion	5.40	10
Average Maturity to First Call (years)	7.9	7.9	7.6	7.2	Hong Kong, China	HK\$ 1 billion	2.85	3
Average Final Maturity (years)	10.7	13.7	9.9	8.7	Malaysia	MYR 400 million	3.94	5
Number of Transactions					Singapore	S\$ 200 million	1.845	3
Public Offerings	5	2	3	2				
Private Placements	14	62	77	15				
Number of Currencies (before swaps)								
Public Offerings	5	2	1	2				
Private Placements	1	4	5	3				
<b>Short Term<sup>a</sup></b>								
Total Principal Amount <sup>b</sup>	90.0	28.0	2,830.0	1,249.7				
Number of Transactions	1	1	36	9				
Number of Currencies	1	1	2	2				

a All euro-commercial paper.  
b At year-end, the outstanding principal amount was nil in 2003, \$200 million in 2002, and \$400 million in 2001.

**TABLE 5: BORROWINGS**  
(\$ million)

**TABLE 6: LOCAL CURRENCY BOND ISSUES**

Japan), 21% in Japan, 20% in US, and 14% in Europe.

**Local Currency Bond Issues.** In 2004, ADB launched local currency bond issues in the domestic capital markets of India; Hong Kong, China; Malaysia; and Singapore. *Table 6* shows the details of these local currency bond issues. The Indian rupee (INR), Malaysian ringgit (MYR), and Singapore dollar bond issues are ADB's inaugural issues in the domestic capital markets of those countries. The INR and MYR issues are also the first issues by a foreign and a supranational entity in those domestic markets as well as the first issues in those countries rated triple A by Fitch, Moody's, and Standard and Poor's.

**Private Placements.** In keeping with the overriding objective of minimizing costs, 14 private placement borrowings were undertaken in 2004 totaling \$169 million or 10% of the year's total borrowings. These private placements were callable foreign exchange-linked notes targeted to institutional investors in Japan. These structured notes typically have principal amounts in Japanese yen and coupon rates linked to foreign exchange rates. All 2004 private placements were swapped on a fully hedged basis into floating rate US dollar liabilities.

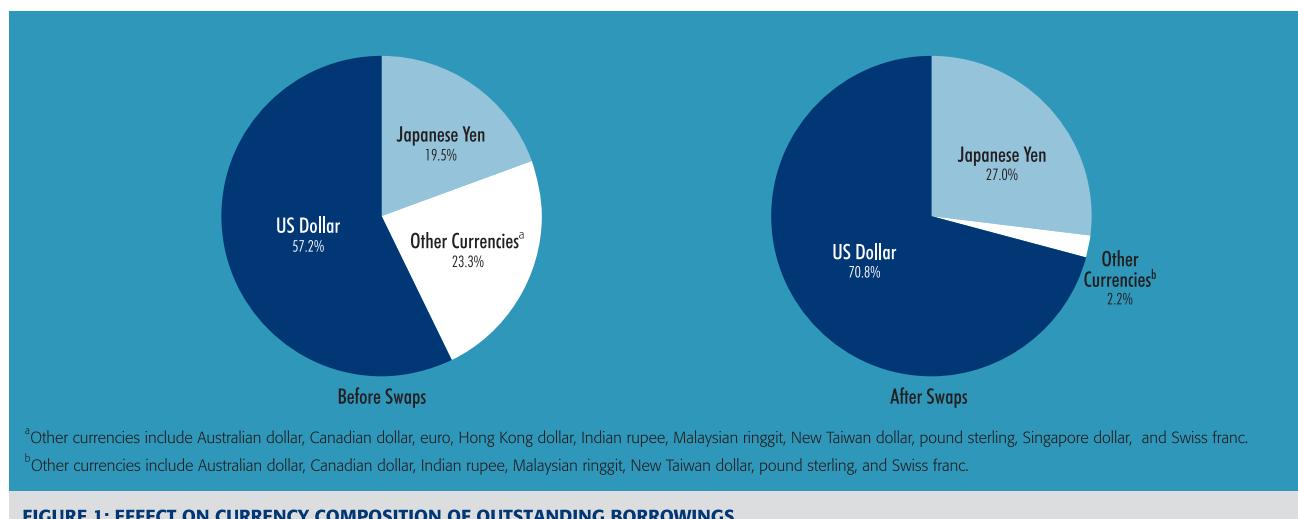
**Use of Derivatives.** ADB undertakes currency and interest rate swaps to raise, on a fully hedged basis, currencies needed for operations in a cost-efficient way while maintaining its borrowing presence in major capital markets. The proceeds of all borrowings undertaken in 2004, with the exception of the INR bond issue, were swapped into floating rate US dollars. The fixed rate INR bond issue was swapped into floating rate

INR to finance private sector loans. *Figures 1 and 2* show the effects of swaps on the interest rate structure and currency composition of ADB's outstanding borrowings as of 31 December 2004.

### Liquidity Portfolio

The liquidity portfolio helps to ensure the uninterrupted availability of funds to meet loan disbursements, debt servicing, and other cash requirements. It also contributes to ADB's earning base. ADB's Investment Authority governs liquid asset investments. Its primary objective is to maintain security and liquidity of funds invested. Subject to these two parameters, ADB seeks to maximize the total return on its investments. In compliance with its Charter, ADB does not convert currencies for investment; investments are made in the same currencies in which they are received. At present, liquid investments are held in 19 currencies.

Liquid assets are held in government and government-related debt instruments, time deposits, and other unconditional obligations of banks and financial institutions, and, to a limited extent, in corporate bonds, mortgage-backed securities, asset-backed securities of high credit quality, and derivatives. They are held in four subportfolios—core, operational cash, cash cushion, and discretionary liquidity—all of which have different risk profiles and performance benchmarks. The year-end balance of the portfolios in 2004 and 2003 including receivables for securities repurchased under resale arrangements and excluding securities transferred under securities lending arrangements and pending sales and purchases is presented in *Table 7*.



**FIGURE 1: EFFECT ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS**

The core portfolio is invested to ensure that the primary objective of a liquidity buffer is met. Cash inflows and outflows are minimized to maximize the total return relative to a defined level of risk. The portfolio is funded largely by equity, and performance is measured against external benchmarks with an average duration of about 2 years. The remaining part of the core portfolio is funded by debt and is invested to maximize the spread earned between borrowing cost and investment income on high-quality investments.

The operational cash portfolio is designed to meet net cash requirements over a 1-month horizon. It is funded by equity and invested in short-term, highly liquid money market instruments. The portfolio performance is measured against short-term external benchmarks.

The cash cushion portfolio holds the proceeds of ADB's borrowing transactions pending disbursement. It is invested in short-term instruments, and performance is measured against short-term external benchmarks.

The discretionary liquidity portfolio is funded by issuing floating rate debt and is invested to maximize the spread earned between borrowing cost and investment income on high-quality instruments. For 2004, the target size of the discretionary liquidity portfolio was set at \$2.3 billion.

### **Contractual Obligations**

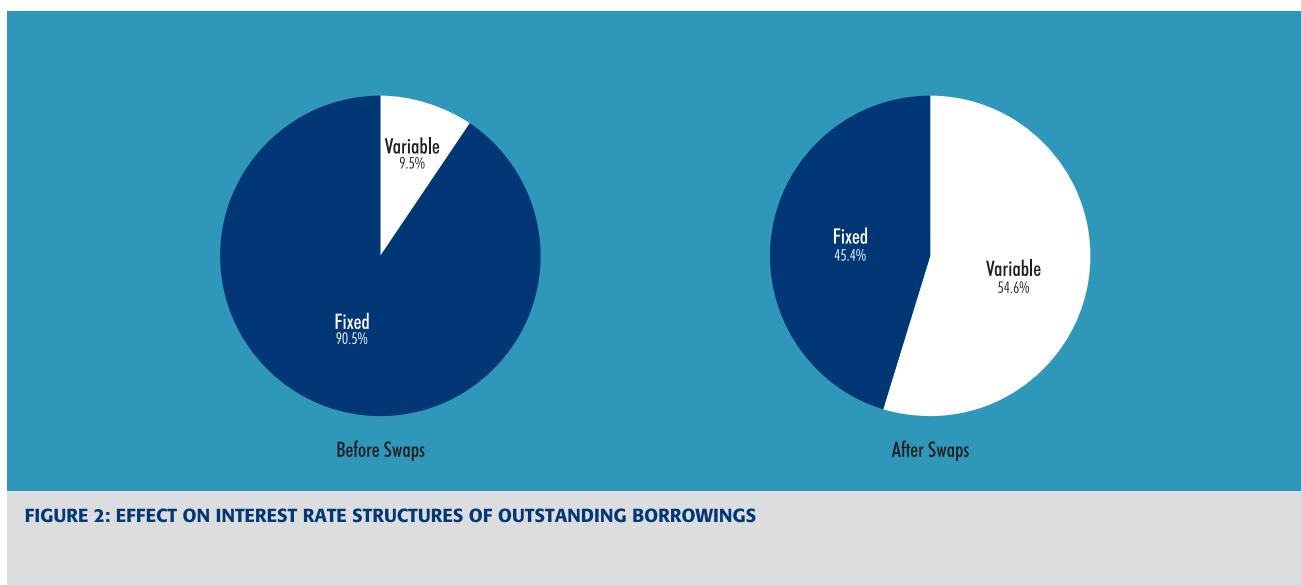
In the normal course of business, ADB enters into various contractual obligations that may require future cash payments. *Table 9* summarizes ADB's significant contractual cash

obligations on 31 December 2004. Long-term debt includes direct medium- and long-term borrowings excluding swaps but does not include any adjustment for unamortized premiums, discounts, or effects of applying FAS 133. Other long-term liabilities include accrued liabilities and unfunded pension and postretirement benefits.

### **Risk Management**

In its development banking operations, ADB assumes various credit, market (interest rate and foreign exchange), liquidity, and operational risks. Of these, credit risks in the loan and guarantee portfolios are the most significant. ADB has adopted an integrated risk management infrastructure designed to ensure that credit and other risks are appropriately identified, measured, monitored, and managed.

**Risk Bearing Capacity.** On 19 February 2004, the Board of Directors approved a new income planning framework that established the equity-to-loan ratio (ELR) as the key measure of ADB's risk bearing capacity. Consequently, the use of financial indicators, the reserve-to-loan ratio, and the interest coverage ratio were discontinued. The ELR measures the adequacy of equity capital to absorb unexpected losses from a major credit event in the public sector loan and guarantee portfolios as well as the ability to generate adequate net income to absorb loss of loan income while also matching growth in the loan and guarantee portfolios. Because ADB's loan and guarantee portfolios are unavoidably highly concentrated in Asia, a credit event of one borrower could have a significant impact due to high correlations. ADB has established a target ELR of 35% to accommodate this volatility.



In determining the ELR, ADB's equity capital is defined as the sum of usable paid-in capital, the ordinary reserve, the special reserve, and surplus. At 31 December 2004, the ELR was 50.5% under the pre-FAS 133 basis (46.8% on 31 December 2003). ADB's higher-than-target ELR represents a very strong equity capital position relative to the credit risk of the loan and guarantee portfolios indicating that both net income and equity capital are adequate to sustain a major credit event. ADB also protects the ELR from exchange rate fluctuations by periodically aligning the currency composition of its equity to that of its loans.

Under the new income planning framework, ADB also introduced the loan loss reserve (LLR) to absorb expected losses from public sector loan and guarantee portfolios. Hence both expected and unexpected losses are addressed through adequate LLR and ELR.

**Country Credit Risks.** The new income framework approved in 2004 links the adequacy of net income and equity capital to the country credit risk of the public sector loan and guarantee portfolios. A credit risk model is used to estimate expected and unexpected losses in these portfolios, incorporating borrower's default probability, loss given default, projected exposure, and default correlations. In addition, ADB stress tests net income projections to ensure net income is adequate to absorb the loss of loan income due to credit shocks and to support sufficient growth.

In December 2004, ADB adopted an internal country credit risk rating system to assess independently the creditworthiness of its borrowers. ADB also began enhancing the credit risk model to incorporate Monte Carlo simulations expected to be completed by June 2005.

**Counterparty Credit Risks.** Counterparty credit risk is the risk of loss when a derivative counterparty does not honor its obligations measured by the aggregate positive replacement cost or the net positive marked-to-market value of the derivatives. To mitigate counterparty credit risk, ADB has strict counterparty eligibility criteria. Only those with a minimum rating of A-/A3 and an International Swaps and Derivatives Association master agreement with ADB are eligible to undertake swaps. In addition, ADB has executed the Credit Support Annex (CSA) with several counterparties.

ADB utilizes a sophisticated system that allows for daily monitoring and managing of counterparty credit risk exposure. Under the CSA arrangements, derivatives' positions are marked-to-market daily, and collateral calls, transfers, and adjustments with counterparties are made in coordination with an external collateral manager. ADB also sets exposure limits on individual counterparties based on their credit ratings and equity and daily monitors current and potential counterparty exposure against the limit.

**Market Risks.** ADB controls the market risk of its liquid asset investments by adopting investment policy guidelines which only allow for investments in government and government-related debt instruments, time deposits, and other unconditional obligations of banks and financial institutions, and to a limited extent, in corporate bonds, mortgage-backed securities, and asset-backed securities of high credit quality. The principal source of investment risk arises from income volatility due to interest rate movements. ADB monitors and manages interest rate risks by employing various quantitative methods. All positions are marked-to-market, and risk-sensitive measures, including potential exposure, are calculated and compared to internally established risk limits daily.

	2004	2003		Annualized Financial Return		
	2004	2003		2004	2003	
Core Portfolio	7,387.3	6,174.1	Core Portfolio	2.16	2.89	2004
Operational Cash Portfolio	319.3	2,234.8	Operational Cash Portfolio	1.00	1.21	Long-Term Debt
Cash Cushion Portfolio	1,491.5	1,393.9	Cash Cushion Portfolio	0.65	0.68	Undisbursed Loan Commitments
Discretionary Liquidity Portfolio	2,466.7	1,755.6	Discretionary Liquidity Portfolio	0.42 <sup>a</sup>	0.44 <sup>a</sup>	Guarantee Commitments
<b>TOTAL</b>	<b>11,664.8</b>	<b>11,558.4</b>	<sup>a</sup> Spread over funding cost.			Other Long-Term Liabilities
						<b>TOTAL</b>
						<b>41,658.0</b>

**TABLE 7: YEAR-END BALANCE OF LIQUIDITY PORTFOLIO**  
 (\$ million)

**TABLE 8: RETURN ON LIQUIDITY PORTFOLIO**  
 (%)

**TABLE 9: CONTRACTUAL CASH OBLIGATIONS**  
 (\$ million)

ADB manages exchange rates to ensure that the ELR as the measure of equity capital adequacy and risk-bearing capacity is immune from fluctuations in exchange rates. ADB can achieve this by periodically aligning the currency composition of loans with that of equity thus ensuring that fluctuations in exchange rates would have similar effects on both. ADB mitigates the market risks associated with the loan portfolio by passing on all associated costs to borrowers and employing derivatives to closely match the characteristics of loans with those of borrowings.

ADB has an infrastructure designed to ensure that the market risks associated with its activities are fully identified, measured, monitored, and managed. In this regard, ADB recently broadened its market risk management capabilities by (i) improving the risk metrics and assumptions used in the valuation and risk analysis of its treasury activities and (ii) enhancing the performance measurements and attribution methodologies used for investment portfolios. Stress testing and scenario analyses have been incorporated as supplementary risk management tools, and ADB has continued to expand on the architecture used to value highly structured borrowings and related swap transactions.

In 2004 ADB upgraded its treasury system and automated a number of manual procedures related to pricing and trade reconciliation. A daily risk, performance, and attribution system was inaugurated for the six major investment portfolios to further enhance risk and performance feedback to treasury management. Moreover, an agreement was reached at the end of the year to outsource risk analyses for the external investment portfolios which will significantly bolster risk-metrics, stress testing, and scenario analyses for ADB's investments in mortgage- and asset-backed securities and corporate bonds.

**Liquidity Risks.** The objective of ADB's liquidity policy is to ensure the availability of sufficient cash flows to meet all financial commitments despite uncertain conditions in the capital markets. The policy establishes minimum levels of liquidity to maintain expected operations. ADB's liquidity requirements are primarily determined by expected lending volumes and disbursements, redemption of current borrowings, repayments and prepayments of loans, and cash from net income. The policy defines ADB's annual net cash requirement (NCR) to meet large contractual obligations for loan disbursements and debt redemption. ADB relies on borrowings to meet most of these obligations. The proxy NCR is the sum

of loan disbursements net of repayments and debt redemption for the year.

Prudential minimum liquidity is set at 40% of the next 3 years' proxy NCR and represents the minimum amount of liquidity necessary for ADB to continue operations even if its access to capital markets is temporarily denied. Maintaining that level enables ADB to cover normal NCR for 20 months and stressed NCR for 14 months without borrowing. In addition, ADB can raise discretionary liquidity, funded entirely by borrowings, to provide flexibility in the funding and debt redemption schedule over time. The policy limits discretionary liquidity to 50% of prudential minimum liquidity. Levels of liquidity, NCR, and proxy NCR are monitored on an ongoing basis and reviewed by the Board of Directors quarterly.

**Operational Risks.** Operational risk represents the potential for loss resulting from inadequate or failed internal processes or systems, human factors, or external events including business disruptions and system failure, transaction processing failures, and failure in execution of legal, fiduciary, and agency responsibilities. ADB is exposed to many types of operational risks and attempts to mitigate them by maintaining a system of internal controls and processes and system upgrades. In addition, ADB has a rigorous process for approving transactions that requires reviews and authorization by all relevant parties to ensure all transactions are properly approved, documented, monitored, and controlled. ADB recently approved a strategy to strengthen the business continuity plan to reduce the impact of disruption affecting business processes (see page 46).

**Risk Management in Private Sector Operations.** ADB maintains a separate risk management unit for private sector operations that provides an independent credit review for projects in the pipeline and projects in the portfolio. A special unit separately manages vulnerable private sector projects.

ADB's private sector investments are usually not backed by government guarantees and are exposed to a full range of commercial and political risks. Managing and monitoring those risks is a key priority. ADB evaluates not only the development angle of a project but also analyzes its credit strength, financial viability, and good corporate governance. Each private sector project undergoes an in-depth credit analysis and appraisal prior to approval. The Private Sector Credit Committee provides Management approval for due diligence and guidance on all key issues associated with the investment

and endorses submission to the Board of Directors for consideration. When applicable, the projects are reviewed by the Interest Rate Committee and/or the Guarantee Committee.

The current private sector strategy capitalizes on strength in the infrastructure and financial market sectors and will continue to focus assistance there. Nevertheless, ADB remains responsive to the changing needs of DMCs and private investment opportunities in other sectors. The objective is to build a diversified private sector portfolio in terms of both countries and sectors while managing concentration risks by establishing appropriate limits for countries, industries, and groups. The total amount of ADB assistance to a single project, including equity investments, loans, and guarantees, must not exceed 25% of the total project cost or \$75 million, whichever is lower. ADB uses an internal rating system to classify its exposure based on international credit standards that reflect the risk of timely and full recovery of investments. The rating system is used to monitor risk exposure to individual projects.

ADB streamlined approval of investment recovery operations. They generally involve negotiations for financial restructuring, foreclosure, or other remedies, including liquidation. Restructuring is undertaken only when it is expected to improve ADB's prospects for recovery. If the financial condition of the entity has deteriorated beyond recovery, ADB may have to proceed with liquidation or other legally permissible forms of recovery.

### **Summary of Financial Performance**

**Net Income.** Net income before FAS 133 adjustments was \$389.6 million, compared with \$616.6 million in 2003. The decrease of \$227.0 million (36.8%) was predominantly due to the following:

- decrease in net loan income after interest and financial expenses of \$221.8 million due to the decrease in loans and borrowing balances associated with prepayments from 2003 to 2004; in addition, the waiver of 20 basis points on the lending spread for public sector loans decreased loan income by \$10.6 million, and \$17.9 million in front-end fees were waived during the year;
- a reduction of \$11.3 million in investment income due to lower realized gains from the disposal of investment securities;
- a decrease of \$9.1 million in income from other sources attributed to the proportionate share of losses recognized for equity investments and lower dividends received.

These decreases were partially offset by a \$13.1 million decrease in the provision for private sector loans and equity investments associated with prepayments and disposals and a \$2.1 million write-back of technical assistance.

**FAS 133 Adjustments.** Favorable FAS 133 adjustments increased to \$41.0 million (unfavorable of \$178.4 million in 2003) due to increased interest rates and the general weakening of the US dollar. These accounted for the increase in the unrealized gains of embedded derivatives, the decrease in unrealized losses of the borrowings-related swap portfolio, and the decline in unrealized gains of the investment swap portfolio (see *Note K of OCR Financial Statements*).

**Staff Retirement Plan and Postretirement Medical Benefits.** Retirement benefits are provided by the pension plan to which staff members are expected to contribute 9.3% of their salaries. In addition, staff may make additional voluntary contributions. The pension plan is administered by ADB as a separate fund and is required to be kept separate from ADB resources. In addition, postretirement medical benefits are provided to retirees who elect to enroll in the postretirement medical plan. ADB covers 75% of the medical insurance premium.

Recognition of ADB's obligations for the two plans is based on benefit projections net of the fair value of the projected plan assets, both determined using certain actuarial assumptions. As of 31 December 2004, the pension plan and the postretirement medical plan showed an unfunded status of \$130.1 million and \$173.9 million, respectively. To the extent allowed, certain costs, gains/losses, and obligations are deferred and recognized in relevant accounting periods as permitted by accounting standards. Consequently, the unfunded amounts are not recognized as liabilities, but periodic costs based on actuarial valuation are recognized in OCR accounts. Recognition of future costs will depend on future events. In that respect, the fund's status and the periodic costs are reviewed annually with the assistance of actuaries. These reviews may lead to a revision in the funding rate to the pension plan. ADB's contribution rate increased from 13% in 2003 to 15% effective January 2004. Commencing January 2005, the budgeted rate will be 16%.

### **Critical Accounting Policies and Estimates**

Significant accounting policies are contained in Note B of OCR's financial statements. In the financial statements, Management makes estimates in determining the fair value of

financial instruments. Estimates by their nature are based on judgment and available information; therefore, actual results could differ and could have a material impact on the financial statements.

**Fair Valuation of Financial Instruments.** Under statutory reporting, ADB carries its investments and derivatives, as defined by FAS 133, on a fair value basis. These derivatives, including embedded derivatives in the structured borrowings, are separately valued and accounted for in the balance sheet. Fair values for exchange-traded securities and derivatives are based on quoted market prices. Fair valuations where market prices are not readily available are determined using market-based pricing models incorporating readily observable market data and require judgment and estimates.

All pricing models used for determining fair values of ADB's derivatives are based on discounted expected cash flows using observable market data. ADB reviews pricing models to assess the appropriateness of assumptions to reasonably reflect the valuation of transactions. In addition, valuations derived from the models are subject to ongoing internal and external verification and review. The models use market-sourced inputs such as interest rates, exchange rates, and option volatilities. Selection of these inputs may involve some judgment and may impact net income. Nevertheless, ADB believes that the estimates of fair values are reasonable given existing controls and processes.

## Special Funds

ADB is authorized by its Charter to establish and administer Special Funds. These are the Asian Development Fund; the Technical Assistance Special Fund; the Japan Special Fund (JSF), including the Asian Currency Crisis Support Facility (ACCSF); and the ADB Institute Special Fund (ADBISF). Financial statements for each fund are prepared in accordance with generally accepted accounting principles except for ADF's which are special purpose financial statements prepared in accordance with ADF Regulations.

### Asian Development Fund

ADF is ADB's concessional financing window for DMCs with low per capita gross national products and limited debt repayment capacities. It is the only multilateral source of concessional assistance dedicated exclusively to reducing poverty and to improving the quality of life in Asia and the Pacific. Twenty-nine donor members (regional and nonregional) have contributed to the fund.

ADF VIII. The seventh replenishment of the fund (ADF VIII), authorized in December 2000 by Resolution No. 276 of the Board of Governors, was intended to finance concessional lending operations for 2001–2004. Donors agreed on a total replenishment from their contributions of \$2.79 billion based on the exchange rates specified in the Resolution. By the end of 2004, ADB had received Instruments of Contribution from 26 donors for a total of \$2.93 billion (including a contribution from Luxembourg which became a member of ADB in September 2003 and an additional contribution from Spain). Twenty-three donors deposited unqualified Instruments of Contribution. Canada; Taipei, China; and United States deposited instruments containing a qualification as permitted by the Resolution that all installments except the first were subject to budgetary appropriations. By the end of 2004, 22 donors paid their ADF VIII contributions in full. The US paid the first two installments and part of the third installment. As a result, three donors—Austria, Germany, and Turkey—exercised their prorata rights and did not release their fourth installments for operational commitment (*for details of amounts released for operational commitment in 2004, see the column labeled "Addition" in Table 28 in the Statistical Annex*).

To augment the ADF VIII commitment authority, the Board of Governors approved the transfer of \$350 million OCR net income to the ADF (\$200 million and \$150 million, respectively, out of 2002 and 2003 net income). In addition, Management assessed the opportunities for freeing committed resources by canceling loans that were not moving or by identifying savings. In October 2003, the Board approved the use of loan savings and cancellations to directly increase the ADF VIII commitment authority. By the end of 2004, \$495 million from canceled loans had been included for new loan commitments (see Table 10).

ADF IX. The eighth replenishment of the ADF (ADF IX), which covers the 4-year period 2005–2008, was authorized in August 2004 by Resolution No. 300 of the Board of Governors. Donors recommended a replenishment of \$7.0 billion, consisting of \$3.3 billion in new contributions from donors and \$3.7 billion from internal resources based on the exchange rate specified in the Resolution. ADF IX features a new grant program that may represent up to 21% of its financing framework, including 3% as priority technical assistance. The grants in ADF IX will be used to ease some of the costs of external development finance in some of the poorest highly indebted countries and will assist poor countries in making the transition from conflict to peace and stability. They will also be used to combat HIV/AIDS and other infectious diseases.

**ADF Loan Approvals, Disbursements, and Repayments.** In 2004, 47 ADF loans totaling \$1.2 billion were approved compared with 47 loans totaling \$1.4 billion in 2003. Disbursements during 2004 totaled \$1,055.1 million, a decrease of 6.5% from \$1,128.1 million in 2003. At the end of the year, cumulative disbursements from ADF resources were \$20.9 billion. Loan repayments during the year amounted to \$390.2 million, and cumulative repayments were \$2.7 billion. At year-end, outstanding ADF loans amounted to \$21.6 billion.

**Status of Loans.** At the end of the year, 28 public sector loans to Myanmar were in nonaccrual status. The total of outstanding loans to Myanmar amounted to \$515.3 million comprising about 2.4% of the total outstanding ADF loans.

**Investment Portfolio Position.** The ADF investment portfolio amounted to \$5.6 billion on 31 December 2004 compared with \$4.3 billion in 2003. About 35% of the portfolio was invested in bank deposits, and 65% was invested in fixed income securities. The annualized rate of return on ADF investments in 2004 was 3.4% compared with 3.5% in 2003. The portfolio was denominated in 10 currencies. Euros, pounds sterling, Australian dollars, and Canadian dollars accounted for 88% of the portfolio.

	2004	2003
ADF VIII Contributions	3,052.8	1,911.9
ADF VII Contributions	411.4	341.7
ADF VI Contributions	0.0	0.0
OCR Net Income Transfer	350.0	200.0
Loan Savings and Cancellation	495.2	243.3
Expanded Advance		
Commitment Authority	3,200.0	2,400.0
Total ADF Resources <sup>a</sup>	7,509.4	5,096.8
Less:		
Loans Committed	6,383.9	4,184.4 <sup>b</sup>
Carryover of Conditional Loans Committed <sup>c</sup>	720.9	692.1
Provision for Disbursement Risk	280.1	175.3
<b>TOTAL<sup>d</sup></b>	<b>124.5</b>	<b>45.0</b>

0.0 Less than 0.1 million.  
<sup>a</sup> Excludes pre-ADF VIII amounts for determining the ADF commitment authority under the new financial planning framework for managing ADF resources, as approved by the Board of Directors on 15 April 1997.  
<sup>b</sup> Excludes loans that were conditionally approved in November–December 2003.  
<sup>c</sup> Loans that were conditionally approved under the previous replenishment.  
<sup>d</sup> Total may not add due to rounding.

**TABLE 10: ASIAN DEVELOPMENT FUND COMMITMENT AUTHORITY**  
(\$ million)

### Technical Assistance Special Fund

**Review of Activities.** In 2004, the Board of Governors approved an allocation of \$50 million from 2003 OCR net income to TASF. In addition, India made a wholly untied, direct, voluntary contribution (its 19<sup>th</sup>) amounting to 2.25 million Indian rupees (\$49,800 equivalent). At the end of 2004, total TASF resources amounted to \$1,062.0 million (see *Table 11*). Of this, \$962.8 million were committed leaving an uncommitted balance of \$99.2 million (*for details, see Table 29 in the Statistical Annex*).

**Operations and Resource Position.** Technical assistance commitments (approved and effective) decreased from \$80.1 million in 2003 to \$73.5 million in 2004 for 168 technical assistance projects made effective during the year. In 2004, \$6.3 million (\$10.1 million in 2003) representing completed and canceled technical assistance projects were written back as a reduction in technical assistance, and the corresponding undisbursed commitment was eliminated. Revenue from investments decreased from \$5.3 million in 2003 to \$5.0 million in 2004 despite the increase in the size of the investment portfolio because of lower yields in some capital markets. As a result, the uncommitted balance available for future commitments decreased from \$104.1 million in 2003 to \$99.2 million in 2004. The TASF contributed 41% of funding for all technical assistance approved in 2004.

At the end of the year, TASF investments stood at \$240.4 million, up 5.2% from 2003. Other assets—due from banks, advances to consultants, and others—totaled \$8.9 million. Accounts payable to OCR and others amounted to \$52,000.

### Japan Special Fund

**Review of Activities.** Technical assistance funded by the JSF continued to support ADB operations aimed at reducing poverty. In March 2004, Japan contributed 2.7 billion yen (\$24.2 million equivalent) as a regular contribution. As of 31 December 2004, Japan's cumulative contribution to the JSF since its inception in 1988 amounted to 101.9 billion yen (about \$876.9 million equivalent) comprising regular contributions of 83.8 billion yen (\$726.1 million equivalent) and supplementary contributions of 18.1 billion yen (\$150.8 million equivalent). In 2004, ADB approved 69 technical assistance for the JSF totaling \$39.5 million inclusive of those that were approved but not yet effective (see *Table 12*). The uncommitted balance after taking into account approved technical assistance not yet effective as of

31 December 2004 was \$118.2 million (*for details, see tables 30 and 31 in the Statistical Annex*).

**Sector Activities.** In 2004, the JSF financed 20% of the total amount of technical assistance approved by ADB including 38% of the total amount of project preparation technical assistance during the year. The breakdown of JSF approvals by sector is shown in *Table 12*.

### ADB Institute Special Fund

The costs for operating the ADB Institute are met from the ADBISF which is administered by ADB in accordance with the Statute of ADB Institute. Japan made its ninth contribution in the amount of 1.4 billion yen (\$13.1 million equivalent) in June 2004.

As of 31 December 2004, cumulative commitments amounted to 11.6 billion yen (about \$96.2 million equivalent) excluding translation adjustments. Of the total contributions received, \$80.1 million had been used by the end of the year mainly for research and capacity-building activities including organizing symposia, forums, and training; preparing research reports, publications, and websites; and for associated administrative expenses. The balance of net current assets excluding property, furniture, and equipment available for future projects and programs was about \$16.1 million.

### Trust Funds Managed by ADB

In addition to OCR and the Special Funds, ADB also manages and administers the Japan Scholarship Program (JSP), the

Japan Fund for Poverty Reduction (JFPR), the Japan Fund for Information and Communication Technology (JFICT), and channel financing arrangements of a number of trust funds provided by bilateral donors to support technical assistance and soft components of loans. These funds do not form part of ADB's own resources.

### Japan Scholarship Program

The JSP was established in 1988 to provide an opportunity for well-qualified citizens of DMCs to undertake postgraduate studies in economics, management, science, and technology, and other development-related fields at selected educational institutions in Asia and the Pacific. The JSP is funded by Japan and administered by ADB. Currently, 20 institutions in 10 countries participate.

Between 1988 and 2004, Japan contributed \$68.3 million. A total of 1,780 scholarships has been awarded to recipients from 34 members. Of the total, 1,442 have already completed their courses. Women have received 548 scholarships. The number of new scholarships awarded annually grew from 49 in 1988 to 157 in 2004 (see [www.adb.org/JSP](http://www.adb.org/JSP)).

### Channel Financing Arrangements

Official grant cofinancing plays a vital role in ADB operations, particularly in view of the continuing constraints on TASF and ADF resources. These grant funds support technical assistance and finance mostly soft components of loan projects. Most grants are provided by bilateral donors under channel financing arrangements (CFAs). ADB acts as administrator of the funds

	2004	2003
<b>Regularized Replenishment</b>		
Contributions	213.1	213.1
Allocations from OCR Net Income	631.0	581.0
Direct Voluntary Contributions	88.6	88.6
<b>Income from Investment and Other Sources</b>	132.8	126.3
Transfers from the TASF to the ADF	(3.5)	(3.5)
<b>TOTAL</b>	<b>1,062.0</b>	<b>1,005.5</b>

ADF=Asian Development Fund, OCR=ordinary capital resources, TASF=Technical Assistance Special Fund.

**TABLE 11: TECHNICAL ASSISTANCE SPECIAL FUND CUMULATIVE RESOURCES**  
(\$ million)

	\$ Million	%
Water Supply, Sanitation, and Waste Management	6.2	15.7
Agriculture and Natural Resources	5.9	15.0
Energy	5.5	13.9
Transport and Communications	4.9	12.4
Finance	4.5	11.4
Law, Economic Management, and Public Policy	3.6	9.1
Industry and Trade	3.5	8.7
Health, Nutrition, and Social Protection	2.2	5.6
Education	2.0	5.1
Multisector	1.2	3.0
<b>TOTAL</b>	<b>39.5</b>	<b>100.0</b>

Note: Total may not add due to rounding.

**TABLE 12: JAPAN SPECIAL FUND TECHNICAL ASSISTANCE BY SECTOR, 2004**

and applies its own guidelines and procedures in recruiting consultants, making disbursements, and supervising projects.

Under a CFA, the donor enters into a comprehensive agreement with ADB whereby the donor provides an untied grant fund to be administered by ADB, but the fund does not become part of ADB's own resources. The donor indicates its preferred sectors and recipient countries. ADB regularly provides a list and description of proposed technical assistance projects that satisfy the donor's preferences, and they agree on the specific activities to be financed. Funds provided under a CFA are usually transferred to an interest-bearing account and may also be invested by ADB pending disbursement. Donors are provided with regular financial statements and progress reports on the use of the funds. ADB is responsible for project preparation, processing, and administration. CFAs may be replenished with additional funds at the donor's discretion.

The primary advantage of CFAs is that funding for several individual technical assistance projects may be provided under a single agreement. Accordingly, they minimize the need for detailed negotiations on a case-by-case basis and foster administrative efficiency. The first CFA was negotiated in 1980. Since then, ADB has entered into CFAs with the following bilateral development partners: Australia, Belgium, Canada, Denmark, Finland, France, Italy, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, and United Kingdom. In 2004, Finland replenished its fund, Italy made new contributions to establish a second trust fund, and Australia cofinanced six projects with its fund.

In addition to the traditional type of CFA which may be used for several sectors, thematic CFAs with bilateral agencies have increased sharply in recent years in such areas as renewable energy, climate change, poverty reduction, governance, water, gender and development, and poverty and environment. Several thematic CFAs have been packaged as umbrella facilities to allow more than one donor to contribute.

In 2004, ADB and its partners established two new cooperative funds: the Cooperation Fund in Support of Managing for Development Results with an initial contribution from Canada followed by a contribution from the Netherlands and the Cooperation Fund for Regional Trade and Financial Security Initiative with initial contributions from Australia, Japan, and United States. As of 31 December 2004, cumulative contributions committed amounted to \$237.0 million (\$221.9 million in 2003) and 289 projects (219 in 2003) amounting to \$157.1 million (\$116.8 million in 2003).

Recently, mobilizing grant funds has been explored with private sector entities. During 2004, ADB successfully obtained funds from several private sector entities mostly to cofinance regional technical assistance projects in the environment sector.

### **Japan Fund for Poverty Reduction**

The JFPR was established in May 2000 as a trust fund to support poverty reduction and social development activities that can add substantial value to ADB projects. Since 2000, Japan has contributed \$326.9 million in total. To date, \$146 million for 53 projects have been approved of which 15 projects valued at \$29.9 million were approved in 2004 (see [www.adb.org/JFPR](http://www.adb.org/JFPR) and Table 32 in the Statistical Annex).

### **Japan Fund for Information and Communication Technology**

The JFICT was established in July 2001 to assist DMCs in bridging the digital divide to help reduce poverty. The JFICT had an initial contribution of 1.3 billion yen (approximately \$10.7 million) for a 3-year period. The JFICT was originally scheduled to close by 31 July 2004 but was extended by 1 year to accommodate new proposals. To date, \$7.03 million for 8 projects have been approved for implementation (see [www.adb.org/Documents/others/CLICK/R21\\_03.pdf](http://www.adb.org/Documents/others/CLICK/R21_03.pdf)).

### **ENDNOTE**

1 ADB's financial policies require that a political risk guarantee (PRG) be charged against lending limitations at the nominal value of the guaranteed obligation, plus the interest that will accrue for the succeeding interest period and partial risk guarantee (PCG) at the present value of the guaranteed obligation.

## FINANCIAL STATEMENTS AND REPORTS OF INDEPENDENT AUDITORS

### I. Ordinary Capital Resources (OCR)

- 117 Report of Independent Auditors
- 118 *OCR-1* Balance Sheet, 31 December 2004 and 2003
- 120 *OCR-2* Statement of Income and Expenses for the Years Ended 31 December 2004 and 2003
- 121 *OCR-3* Statement of Cash Flows for the Years Ended 31 December 2004 and 2003
- 122 *OCR-4* Statement of Changes in Capital and Reserves for the Years Ended 31 December 2004 and 2003
- 124 *OCR-5* Summary Statement of Loans, 31 December 2004 and 2003
- 126 *OCR-6* Summary Statement of Borrowings, 31 December 2004 and 2003
- 128 *OCR-7* Statement of Subscriptions to Capital Stock and Voting Power, 31 December 2004
- 130 *OCR-8* Notes to Financial Statements, 31 December 2004 and 2003

### II. Special Funds Resources

#### Asian Development Fund (ADF)

- 149 Report of Independent Auditors
- 150 *ADF-1* Special Purpose Statement of Assets, Liabilities and Fund Balances, 31 December 2004 and 2003
- 151 *ADF-2* Special Purpose Statement of Revenue and Expenses for the Years Ended 31 December 2004 and 2003
- 152 *ADF-3* Special Purpose Statement of Cash Flows for the Years Ended 31 December 2004 and 2003
- 153 *ADF-4* Special Purpose Statement of Changes in Fund Balances for the Years Ended 31 December 2004 and 2003
- 154 *ADF-5* Special Purpose Summary Statement of Loans, 31 December 2004 and 2003
- 156 *ADF-6* Special Purpose Statement of Resources, 31 December 2004
- 157 *ADF-7* Notes to Special Purpose Financial Statements, 31 December 2004 and 2003

#### Technical Assistance Special Fund (TASF)

- 161 Report of Independent Auditors
- 162 *TASF-1* Statement of Financial Position, 31 December 2004 and 2003
- 163 *TASF-2* Statement of Activities and Changes in Net Assets for the Years Ended 31 December 2004 and 2003
- 164 *TASF-3* Statement of Cash Flows for the Years Ended 31 December 2004 and 2003
- 165 *TASF-4* Statement of Resources, 31 December 2004
- 166 *TASF-5* Summary Statement of Technical Assistance Approved and Effective for the Year Ended 31 December 2004
- 167 *TASF-6* Notes to Financial Statements, 31 December 2004 and 2003

#### Japan Special Fund (JSF)

- 169 Report of Independent Auditors
- 170 *JSF-1* Statement of Financial Position, 31 December 2004 and 2003
- 171 *JSF-2* Statement of Activities and Changes in Net Assets for the Years Ended 31 December 2004 and 2003
- 172 *JSF-3* Statement of Cash Flows for the Years Ended 31 December 2004 and 2003
- 173 *JSF-4* Notes to Financial Statements, 31 December 2004 and 2003

#### Asian Development Bank Institute Special Fund (ADBISF)

- 176 Report of Independent Auditors
- 177 *ADBISF-1* Statement of Financial Position, 31 December 2004 and 2003
- 178 *ADBISF-2* Statement of Activities and Changes in Net Assets for the Years Ended 31 December 2004 and 2003
- 179 *ADBISF-3* Statement of Cash Flows for the Years Ended 31 December 2004 and 2003
- 180 *ADBISF-4* Notes to Financial Statements, 31 December 2004 and 2003





#### REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying balance sheets and the related statements of income and expenses, cash flows, and changes in capital and reserves present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank—Ordinary Capital Resources at 31 December 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Asian Development Bank; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying summary statements of loans and of borrowings as at 31 December 2004 and 2003, and of statement of subscriptions to capital stock and voting power as at 31 December 2004 are presented for purposes of additional analyses and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

Detroit, Michigan  
14 March 2005

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### BALANCE SHEET

**31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

### A S S E T S

	2004	2003
DUE FROM BANKS (Notes B and C)	\$ 76,405	\$ 1,397,948
INVESTMENTS (Notes B, C, D, and J)		
Government and government-guaranteed obligations	\$ 4,882,882	\$ 3,033,055
Time deposits	2,842,131	3,290,443
Other securities	<u>2,965,082</u>	<u>2,909,440</u>
	10,690,095	9,232,938
SECURITIES TRANSFERRED UNDER SECURITIES LENDING ARRANGEMENT (Notes B and D)	2,040,302	2,317,819
SECURITIES PURCHASED UNDER RESALE ARRANGEMENT (Notes B and D)	1,330,948	2,207,900
LOANS OUTSTANDING (OCR-5) (Notes A, B, E, and O) (Including FAS 133 adjustment of \$870 - 2004 and \$985 - 2003 and unamortized front-end fee of \$28,349 - 2004 and \$25,395 - 2003)		
Members and guaranteed by members	23,790,425	25,017,046
Private sector	<u>490,476</u>	<u>463,402</u>
	24,280,901	25,480,448
Less—allowance for loan losses	<u>84,304</u>	<u>82,381</u>
	24,196,597	25,398,067
EQUITY INVESTMENTS (Notes A, B, and F)	257,437	228,956
ACCRUED INCOME		
On investments	90,673	76,340
On loans	<u>238,899</u>	<u>264,010</u>
	329,572	340,350
RECEIVABLE FROM MEMBERS (Note I)		
Nonnegotiable, noninterest-bearing demand obligations (Note C)	207,181	236,403
Subscription installments	<u>—</u>	<u>739</u>
	207,181	237,142
RECEIVABLE FROM SWAPS (Notes B, D, H, and O)		
Investments	1,562,113	1,087,833
Borrowings	<u>9,589,335</u>	<u>9,776,335</u>
	11,151,448	10,864,168
OTHER ASSETS		
Property, furniture, and equipment (Notes B and G)	164,274	166,787
Investment related receivables	175,440	129,745
Unamortized issuance cost of borrowings	48,584	61,319
Miscellaneous (Note L)	<u>121,353</u>	<u>121,499</u>
	509,651	479,350
<b>TOTAL</b>	<b>\$50,789,636</b>	<b>\$52,704,638</b>

The accompanying notes are an integral part of these financial statements (OCR-8).

OCR-1

## LIABILITIES, CAPITAL, AND RESERVES

	2004	2003
BORROWINGS (OCR-6) (Notes B and H) (Including FAS 133 adjustment of \$2,585 - 2004 and \$2,829 - 2003)	\$ 23,921,444	\$ 26,263,929
ACCRUED INTEREST ON BORROWINGS	264,682	307,282
PAYABLE FOR SWAPS (Notes B, D, H, and O)		
Investments	<u>\$ 1,797,218</u>	<u>\$ 1,226,701</u>
Borrowings	<u>8,853,828</u>	<u>8,988,579</u>
PAYABLE UNDER SECURITIES LENDING ARRANGEMENT (Note B)	2,061,489	2,520,991
ACCOUNTS PAYABLE AND OTHER LIABILITIES		
Investment related payables	<u>325,508</u>	<u>261,729</u>
Undisbursed technical assistance commitments (Note K)	<u>20,806</u>	<u>40,692</u>
Miscellaneous (Notes B, E, G, and L)	<u>277,884</u>	<u>242,295</u>
CAPITAL AND RESERVES (OCR-4)		
Capital stock (OCR-7) (Notes B and I)		
Authorized (SDR34,991,710,000)	<u>54,161,568</u>	<u>51,996,631</u>
Subscribed (SDR34,991,710,000)	<u>50,352,179</u>	<u>48,339,510</u>
Less—"callable" shares subscribed		
"Paid-in" shares subscribed	<u>3,809,389</u>	<u>3,657,121</u>
Less—subscription installments not due	<u>9,874</u>	<u>15,813</u>
Subscription installments matured	<u>3,799,515</u>	<u>3,641,308</u>
Less—capital transferred to the Asian Development Fund	<u>73,692</u>	<u>70,746</u>
	3,725,823	3,570,562
Net notional amounts required to maintain value of currency holdings (Notes B and I)	(642,944)	(620,805)
Ordinary reserve (Note J)	8,865,414	8,892,584
Special reserve (Note J)	189,539	186,066
Loan loss reserve (Note J)	218,800	—
Surplus (Note J)	312,117	116,645
Cumulative revaluation adjustments account (Note I)	193,870	372,257
Net income after appropriation (OCR-2) (Note J)	427,080	435,886
Accumulated other comprehensive income (OCR-4) (Notes B and J)	<u>(22,922)</u>	<u>13,266,777</u>
<b>TOTAL</b>	<b>\$50,789,636</b>	<b>\$52,704,638</b>

OCR-2

## **ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**

### **STATEMENT OF INCOME AND EXPENSES**

**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004	2003
<b>INCOME (Note K)</b>		
From loans (Notes B and E)		
Interest	\$931,065	\$1,222,968
Commitment charge	50,521	49,286
Other	<u>60,869</u>	<u>110,695</u>
	<u>\$1,042,455</u>	<u>\$1,382,949</u>
From investments (Notes B and D)		
Interest	265,557	251,175
Net gain on sales	33,196	63,293
Net loss from derivatives	<u>(1,384)</u>	<u>(5,771)</u>
	<u>297,369</u>	<u>308,697</u>
From other sources—net (Notes E and P)	<u>39,433</u>	<u>48,527</u>
<b>TOTAL INCOME</b>	<b>\$1,379,257</b>	<b>\$1,740,173</b>
<b>EXPENSES (Note K)</b>		
Interest and other financial expenses (Note H)	868,800	987,509
Administrative expenses (Note M)	118,321	118,440
Technical assistance to member countries	(2,404)	(358)
Provision for losses (Notes B and E)	<u>4,950</u>	<u>18,007</u>
<b>TOTAL EXPENSES</b>	<b>989,667</b>	<b>1,123,598</b>
<b>OTHER INCOME (EXPENSES) – FAS 133</b>		
ADJUSTMENTS (Notes B and K)	<u>40,963</u>	<u>(178,387)</u>
<b>NET INCOME</b>	<b>430,553</b>	<b>438,188</b>
<b>APPROPRIATION OF GUARANTEE FEES</b>		
TO SPECIAL RESERVE (Note J)	3,473	2,302
<b>NET INCOME AFTER APPROPRIATION</b>		
TO SPECIAL RESERVE	<b>\$ 427,080</b>	<b>\$ 435,886</b>

The accompanying notes are an integral part of these financial statements (OCR-8).

OCR-3

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### STATEMENT OF CASH FLOWS

**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest and other charges on loans received	\$ 956,714	\$ 1,315,860
Interest on investments received	299,856	296,533
Interest and other financial expenses paid	(787,517)	(919,503)
Administrative expenses paid	(69,895)	(78,392)
Technical assistance disbursed	(16,805)	(23,880)
Others—net	18,386	6,586
<b>Net Cash Provided by Operating Activities</b>	<b>400,739</b>	<b>597,204</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments	8,686,524	8,972,878
Maturities of investments <sup>2</sup>	534,374,687	150,581,589
Purchases of investments <sup>2</sup>	(543,575,272)	(162,514,161)
Principal collected on loans	3,952,679	7,136,818
Loans disbursed	(2,393,583)	(2,535,704)
Net currency and interest rate swaps	1,323	11,151
Property, furniture, and equipment acquired	(8,266)	(12,403)
Net sales of equity investments	6,141	15,385
<b>Net Cash Provided by Investing Activities</b>	<b>1,044,233</b>	<b>1,655,553</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds of new borrowings	1,720,375	3,316,994
Borrowings redeemed	(4,482,563)	(4,721,249)
Matured capital subscriptions collected <sup>1</sup>	2,830	4,961
Borrowing issuance expenses paid	(719)	(18,825)
Demand obligations of members encashed	40,639	37,210
Net currency and interest rate swaps	151,559	226,771
Resources transferred to ADF	(150,000)	(200,000)
Resources transferred to TASF	(50,000)	(80,000)
<b>Net Cash Used in Financing Activities</b>	<b>(2,767,879)</b>	<b>(1,434,138)</b>
<b>Effect of Exchange Rate Changes on Due from Banks</b>	<b>1,364</b>	<b>75,375</b>
<b>Net (Decrease) Increase in Due from Banks</b>	<b>(1,321,543)</b>	<b>893,994</b>
<b>Due from Banks at Beginning of Year</b>	<b>1,397,948</b>	<b>503,954</b>
<b>Due from Banks at End of Year</b>	<b>\$ 76,405</b>	<b>\$ 1,397,948</b>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net Income (OCR-2)	\$ 430,553	\$ 438,188
Adjustments to reconcile net income to net cash provided by operating activities:		
FAS 133 adjustments	(40,963)	178,387
Depreciation and amortization	146,632	184,418
Change in accrued income, including interest and commitment charges added to loans	(89,012)	(64,976)
Net gain from sales of investments and early redemption of borrowings	(62,248)	(92,362)
Change in accrued interest and other expenses	16,965	(17,817)
Change in undisbursed technical assistance commitments	(19,886)	(24,153)
Provision for losses charged	4,950	18,007
Change in administrative expenses receivable from ADF	3,693	(8,213)
Others—net	10,055	(14,275)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 400,739</b>	<b>\$ 597,204</b>

1 Supplementary disclosure of noncash financing activities:

Nonnegotiable, noninterest-bearing demand promissory notes amounting to \$2,912 (\$4,050 - 2003) were received from members.

2 Includes cashflows associated with securities transferred under securities lending and resale arrangements.

The accompanying notes are an integral part of these financial statements (OCR-8).

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### STATEMENT OF CHANGES IN CAPITAL AND RESERVES

**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Notes B and I)

	Capital Stock	Net Notional Maintenance of Value	Ordinary Reserve	Special Reserve	Loan Loss Reserve	Surplus	Cumulative Revaluation Adjustments Account	Net Income After Appropriations	Accumulated Other Comprehensive Income	Total
<b>Balance—</b>										
<b>1 January 2003</b>	<b>\$3,246,837</b>	<b>\$(488,456)</b>	<b>\$8,470,092</b>	<b>\$183,764</b>	<b>\$ —</b>	<b>\$116,645</b>	<b>\$ 147,501</b>	<b>\$ 977,815</b>	<b>\$(302,035)</b>	<b>\$12,352,163</b>
Comprehensive income for the year 2003 (Note J)					2,302			435,886	201,280	639,468
Change in SDR value of paid-in shares subscribed	322,843									322,843
Change in subscription installments not due	(3,177)									(3,177)
Additional paid-in shares subscribed during the year	10,314									10,314
Change in SDR value of capital transferred to Asian Development Fund	(6,255)									(6,255)
Change in notional maintenance of value	(132,349)									(132,349)
Allocation of 2002 net income to ordinary reserve (Note J)			473,059				(473,059)			—
Allocation of 2002 net income to cumulative revaluation adjustment account (Note J)						224,756	(224,756)			—
Allocation of 2002 net income to TASF and ADF (Note J)							(280,000)			(280,000)
Charge to ordinary reserve for change in SDR value of capital stock (Note J)		(50,567)								(50,567)
<b>Balance—</b>										
<b>31 December 2003</b>	<b>\$3,570,562</b>	<b>\$(620,805)</b>	<b>\$8,892,584</b>	<b>\$186,066</b>	<b>\$ —</b>	<b>\$116,645</b>	<b>\$372,257</b>	<b>\$ 435,886</b>	<b>\$(100,755)</b>	<b>\$12,852,440</b>

OCR-4

	Capital Stock	Net Notional Maintenance of Value	Ordinary Reserve	Special Reserve	Loan Loss Reserve	Surplus	Cumulative Revaluation Adjustments Account	Net Income After Appropriations	Accumulated Other Comprehensive Income	Total
<b>Balance—</b>										
31 December 2003	\$3,570,562	\$(620,805)	\$8,892,584	\$186,066	\$ -	\$ 116,645	\$ 372,257	\$ 435,886	\$(100,755)	\$12,852,440
Comprehensive income for the year 2004 (Note J)					3,473			427,080	77,833	508,386
Change in SDR value of paid-in shares subscribed	153,065									153,065
Change in subscription installments not due	5,142									5,142
Change in SDR value of capital transferred to Asian Development Fund	(2,946)									(2,946)
Change in notional maintenance of value	(22,139)									(22,139)
Allocation of 2003 net income to surplus (Note J)						195,472		(195,472)		-
Allocation of 2003 net income to TASF and ADF (Note J)							(200,000)			(200,000)
Allocation of 2003 net income to loan loss reserve (Note J)					218,800			(218,800)		-
Reduction of cumulative revaluation account by 2003 FAS 133 adjustment (Note J)						(178,387)	178,387			-
Charge to ordinary reserve for change in SDR value of capital stock (Note J)	(27,170)									(27,170)
<b>Balance—</b>										
31 December 2004	\$3,725,823	\$(642,944)	\$8,865,414	\$189,539	\$218,800	\$ 312,117	\$ 193,870	\$ 427,080	\$(22,922)	\$13,266,777

Note: Figures may not add due to rounding.

### Accumulated Other Comprehensive Income (Note J)

For the Years Ended 31 December 2004 and 2003

Expressed in Thousands of United States Dollar (Note B)

	FAS 133 Adjustments and Amortization		Accumulated Translation Adjustments		Unrealized Investment Holding Gains(Losses)		Minimum Pension Liability Adjustment		Accumulated Other Comprehensive Income	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Balance, 1 January	\$ (11,437)	\$ (20,331)	\$ (125,520)	\$ (464,731)	\$ 45,504	\$ 183,027	\$ (9,302)	\$ -	\$ (100,755)	\$ (302,035)
Amortization	4,995	8,894	-	-	-	-	-	-	4,995	8,894
Other comprehensive income for the year	-	-	105,194	339,211	(31,232)	(137,523)	(1,124)	(9,302)	72,838	192,386
<b>Balance, 31 December</b>	<b>\$(6,442)</b>	<b>\$(11,437)</b>	<b>\$(20,326)</b>	<b>\$(125,520)</b>	<b>\$14,272</b>	<b>\$45,504</b>	<b>\$(10,426)</b>	<b>\$(9,302)</b>	<b>\$(22,922)</b>	<b>\$(100,755)</b>

The accompanying notes are an integral part of these financial statements (OCR-8).

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### SUMMARY STATEMENT OF LOANS

**31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

Borrowers/Guarantors	Loans Outstanding <sup>1</sup>	Undisbursed Balances of Effective Loans <sup>2</sup>	Loans Not Yet Effective	Total Loans	Percent of Total Loans
Afghanistan	\$ -	\$ -	\$ 35,000	\$ 35,000	0.09
Azerbaijan	-	-	10,000	10,000	0.02
Bangladesh	183,572	482,495	30,600	696,667	1.75
China, People's Rep. of	4,896,593	3,114,367	1,259,900	9,270,860	23.26
Fiji Islands	65,735	70,785	-	136,520	0.34
India	2,528,879	2,859,024	2,286,005	7,673,908	19.25
Indonesia	8,219,283	1,298,693	187,400	9,705,376	24.35
Kazakhstan	210,162	31,557	34,600	276,319	0.69
Korea, Rep. of	1,877,057	-	-	1,877,057	4.71
Malaysia	377,922	21,268	-	399,190	1.00
Marshall Islands	3,910	-	-	3,910	0.01
Micronesia, Fed. States of	-	-	4,800	4,800	0.01
Mongolia	4,500	-	-	4,500	0.01
Myanmar	-	-	-	-	-
Nauru	2,300	-	-	2,300	0.01
Nepal	34,238	-	-	34,238	0.09
Pakistan	1,855,747	1,353,331	394,879	3,603,957	9.04
Papua New Guinea	173,785	120,883	-	294,668	0.74
Philippines	2,748,350	526,761	446,000	3,721,111	9.33
Sri Lanka	172,343	137,960	105,000	415,303	1.04
Thailand	561,487	52,451	-	613,938	1.54
Uzbekistan	246,305	411,745	110,000	768,050	1.93
Viet Nam	142,082	10,059	120,000	272,141	0.68
	24,304,250	10,491,379	5,024,184	39,819,813	99.89
Regional	5,000	10,500	29,500	45,000	0.11
<b>TOTAL - 31 December 2004</b>	<b>24,309,250</b>	<b>10,501,879</b>	<b>5,053,684</b>	<b>39,864,813</b>	<b>100.00</b>
Allowance for loan losses	(84,304)	-	-	(84,304)	
Unamortized front-end fee	(28,349)	-	-	(28,349)	
<b>NET BALANCE - 31 December 2004</b>	<b>\$24,196,597</b>	<b>\$10,501,879</b>	<b>\$5,053,684</b>	<b>\$39,752,160</b>	
Made up of loans to:					
Members and guaranteed by members	\$ 23,788,125	\$ 10,344,131	\$ 4,700,180	\$ 38,832,436	
Private sector	408,472	157,748	353,504	919,724	
Net balance - 31 December 2004	\$ 24,196,597	\$ 10,501,879	\$ 5,053,684	\$ 39,752,160	
<b>TOTAL - 31 December 2003</b>	<b>\$ 25,505,843</b>	<b>\$ 9,267,881</b>	<b>\$ 5,593,605</b>	<b>\$ 40,367,329</b>	
Allowance for loan losses	(82,381)	-	-	(82,381)	
Unamortized front-end fee	(25,395)	-	-	(25,395)	
<b>NET BALANCE - 31 December 2003</b>	<b>\$25,398,067</b>	<b>\$ 9,267,881</b>	<b>\$5,593,605</b>	<b>\$40,259,553</b>	
Made up of loans to:					
Members and guaranteed by members	\$ 25,016,806	\$ 9,178,750	\$ 5,335,082	\$ 39,530,638	
Private sector	381,261	89,131	258,523	728,915	
Net balance - 31 December 2003	\$ 25,398,067	\$ 9,267,881	\$ 5,593,605	\$ 40,259,553	

<sup>1</sup> Amounts outstanding on the multicurrency fixed lending rate loans totaled \$286,791 (\$496,769 - 2003), on pool-based variable lending rate loans totaled \$14,879,834 (\$18,172,584 - 2003), and on LIBOR-based loans and market-based loans totaled \$9,142,625 (\$6,836,490 - 2003). The average yield on loans was 4.16% (4.56% - 2003).

<sup>2</sup> Of the undisbursed balances, ADB has made irrevocable commitments to disburse various amounts totalling \$205,928 (\$141,882 - 2003).

<sup>3</sup> Includes undisbursed commitment relating to Revolving Credit Facility of Trade Financing Facilitation Program amounting to \$10,500.

The accompanying notes are an integral part of these financial statements (OCR-8).

OCR-5

---

#### MATURITY OF EFFECTIVE LOANS

---

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2005	\$3,047,969	2014	10,375,835
2006	1,457,989	2019	7,919,525
2007	1,576,139	2024	4,723,935
2008	1,750,487	2029	2,015,530
2009	1,906,995	2031	36,725 <sup>3</sup>
		<b>Total</b>	<b>\$34,811,129</b>

---

#### SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	2004	2003	Currency	2004	2003
Euro	\$ 6,025	\$ 9,056	Swiss franc	37,050	66,491
Japanese yen	6,034,805	7,248,973	United States dollar	18,210,534	18,181,323
Indian rupee	20,836	-	Total	<b>\$24,309,250</b>	<b>\$25,505,843</b>

---

## ASIAN DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

### SUMMARY STATEMENT OF BORROWINGS

**31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	Borrowings		Swap Arrangements <sup>2</sup>	
	Principal Outstanding <sup>1</sup>		Payable (Receivable) <sup>3</sup>	
	2004	2003	2004	2003
Australian dollar	\$ 1,854,960	\$ 2,497,435	\$ (1,841,031)	\$ (2,455,801)
Canadian dollar	479,169	429,238	(476,539)	(404,477)
Euro	1,495,866	1,379,266	(1,635,741)	(1,516,492)
Hong Kong dollar	205,756	77,274	(211,344)	(79,093)
Indian rupee	114,482	-	11,873	-
			(220)	-
Japanese yen	4,718,762	4,913,314	3,406,344	3,276,949
			(1,772,498)	(1,667,193)
Malaysian ringgit	105,263	-	(104,585)	-
New Taiwan dollar	218,955	382,240	(209,561)	(381,836)
Pound sterling	189,613	175,266	-	-
Singapore dollar	122,268	-	(122,363)	-
Swiss franc	861,432	1,016,539	(546,636)	(505,801)
United States dollar	13,845,588	15,488,271	5,435,611	5,711,630
			(2,668,817)	(2,765,642)
Subtotal	<u>24,212,114</u>	<u>26,358,843</u>	<u>(735,507)</u>	<u>(787,756)</u>
Unamortized discounts/ premiums and transition adjustments	74,302	54,560		
Embedded derivatives	(364,972)	(149,474)		
FAS 133 Adjustments	-	-		
Total	<u>\$23,921,444</u>	<u>\$26,263,929</u>		

### MATURITY STRUCTURE OF BORROWINGS OUTSTANDING <sup>5</sup>

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2005	\$3,873,624	2014	4,844,475
2006	3,062,073	2019	1,766,494
2007	5,708,152	2024	343,519
2008	2,380,422	2029	468,389
2009	1,726,040	2034	38,926
		Total	<u>\$24,212,114</u>

<sup>1</sup> Includes zero coupon and deep discount borrowings which have been recorded at their discounted values. The aggregate face amounts and discounted values of these borrowings (in United States dollar equivalents) are:

Currency	Aggregate Face Amount		Discounted Value	
	2004	2003	2004	2003
Australian dollar	\$1,028,940	\$ 988,218	\$ 736,378	\$ 674,473
Canadian dollar	664,424	618,573	479,169	429,239
Swiss franc	431,502	393,767	244,313	211,812
United States dollar	1,782,903	2,458,966	1,055,588	1,648,271

<sup>2</sup> Include currency and interest rate swaps. At 31 December 2004, the remaining maturity of swap agreements ranged from less than one year to 30 years. Approximately 71.24% of the swap receivables and 74.28% of the payables are due before 01 January 2010.

OCR-6

Net Currency Obligation <sup>3</sup>		Weighted Average Cost (%) After Swaps <sup>4</sup>
2004	2003	2004
\$ 13,929	\$ 41,634	11.51
2,630	24,761	4.91
(139,875)	(137,226)	(0.13)
(5,588)	(1,819)	(0.08)
126,135	-	4.61
6,352,608	6,523,070	1.39
678	-	4.61
9,394	404	(2.35)
189,613	175,266	11.58
(95)	-	1.12
314,796	510,738	5.72
16,612,382	18,434,259	4.22
<u>23,476,607</u>	<u>25,571,087</u>	<u>3.61</u>
		(0.24)
		<u>3.37</u>

## INTEREST RATE SWAP ARRANGEMENTS

	Notional Amount	Average Rate (%)			Maturing Through <sup>7</sup>
		Receive	Pay	Floating <sup>6</sup>	
<b>Receive Fixed Swaps:</b>					
Australian dollar <sup>8</sup>	\$ 175,166	3.75	3.59	(0.33)	2005-2032
Euro <sup>9</sup>	97,314	4.40	3.62		2010
Indian rupee	125,014	5.40		4.98	2014-2019
United States dollar	5,983,061	3.46		1.90	2006-2018
United States dollar <sup>10</sup>	48,657	2.14		(0.33)	2016-2027
<b>Receive Floating Swaps:</b>					
Japanese yen	763,018	0.30	0.62	(0.34)	2005-2032
United States dollar	88,229	2.61	5.37		2007-2017
<b>Total</b>	<b><u>\$7,280,459</u></b>				

3 Adjusted by the cumulative effect of the adoption of FAS 133 effective 1 January 2001.

4 Calculation is based on average carry book value of borrowings net of fair value of swaps. Thus the weighted average cost may be negative if the related swaps payable exposure is in a different currency and the fair value of swaps receivable exceeds the carry book value of borrowings.

5 Bonds with put and call options were considered maturing on the first put or call date.

6 Represent average current floating rates, net of spread.

7 Swaps with early termination date were considered maturing on the first termination date.

8 Consists of dual currency swaps with interest receivable in Australian dollar and interest payable in Japanese yen.

9 Consists of a dual currency swap with interest receivable in Euro and interest payable in Japanese yen.

10 Consists of dual currency swaps with interest receivable in United States dollar and interest payable in Japanese yen.

The accompanying notes are an integral part of these financial statements (OCR-8).

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

**31 December 2004**

Expressed in Thousands of United States Dollars (Note B)

MEMBER	Number of Shares	Percent of Total	SUBSCRIBED CAPITAL			VOTING POWER		
			Par Value of Shares			Number of Votes	Percent of Total	
			Total	Callable	Paid-in			
<b>REGIONAL</b>								
Afghanistan	1,195	0.034	\$ 18,497	\$ 12,584	\$ 5,913	15,080	0.345	
Australia	204,740	5.851	3,169,048	2,947,118	221,929	218,625	4.998	
Azerbaijan	15,736	0.450	243,568	226,434	17,135	29,621	0.677	
Bangladesh	36,128	1.032	559,204	520,043	39,160	50,013	1.143	
Bhutan	220	0.006	3,405	3,049	356	14,105	0.322	
Cambodia	1,750	0.050	27,087	22,475	4,613	15,635	0.357	
China, People's Rep. of	228,000	6.516	3,529,075	3,281,870	247,206	241,885	5.530	
Cook Islands	94	0.003	1,455	1,362	93	13,979	0.320	
Fiji Islands	2,406	0.069	37,241	34,625	2,616	16,291	0.372	
Hong Kong, China	19,270	0.551	298,269	277,373	20,896	33,155	0.758	
India	224,010	6.402	3,467,316	3,224,507	242,810	237,895	5.439	
Indonesia	192,700	5.507	2,982,688	2,773,822	208,866	206,585	4.723	
Japan	552,210	15.781	8,547,327	7,948,747	598,581	566,095	12.942	
Kazakhstan	28,536	0.816	441,692	410,750	30,941	42,421	0.970	
Kiribati	142	0.004	2,198	2,043	155	14,027	0.321	
Korea, Rep. of	178,246	5.094	2,758,963	2,565,777	193,186	192,131	4.393	
Kyrgyz Republic	10,582	0.302	163,792	152,323	11,469	24,467	0.559	
Lao PDR	492	0.014	7,615	6,795	820	14,377	0.329	
Malaysia	96,350	2.754	1,491,344	1,386,896	104,448	110,235	2.520	
Maldives	142	0.004	2,198	2,043	155	14,027	0.321	
Marshall Islands	94	0.003	1,455	1,362	93	13,979	0.320	
Micronesia, Fed. States of	142	0.004	2,198	2,043	155	14,027	0.321	
Mongolia	532	0.015	8,235	7,662	573	14,417	0.330	
Myanmar	19,270	0.551	298,269	277,373	20,896	33,155	0.758	
Nauru	142	0.004	2,198	2,043	155	14,027	0.321	
Nepal	5,202	0.149	80,519	74,869	5,650	19,087	0.436	
New Zealand	54,340	1.553	841,096	782,201	58,895	68,225	1.560	
Pakistan	77,080	2.203	1,193,075	1,109,523	83,552	90,965	2.080	
Palau	114	0.003	1,765	1,641	124	13,999	0.320	
Papua New Guinea	3,320	0.095	51,388	47,813	3,576	17,205	0.393	
Philippines	84,304	2.409	1,304,891	1,213,522	91,369	98,189	2.245	
Samoa	116	0.003	1,795	1,610	186	14,001	0.320	
Singapore	12,040	0.344	186,360	173,312	13,048	25,925	0.593	
Solomon Islands	236	0.007	3,653	3,405	248	14,121	0.323	
Sri Lanka	20,520	0.586	317,617	295,374	22,242	34,405	0.787	
Taipei, China	38,540	1.101	596,538	554,777	41,761	52,425	1.199	
Tajikistan	10,134	0.290	156,858	145,822	11,036	24,019	0.549	
Thailand	48,174	1.377	745,656	693,432	52,224	62,059	1.419	
Timor-Leste	350	0.010	5,417	5,030	387	14,235	0.325	
Tonga	142	0.004	2,198	2,043	155	14,027	0.321	
Turkmenistan	8,958	0.256	138,656	128,904	9,751	22,843	0.522	
Tuvalu	50	0.001	774	712	62	13,935	0.319	
Uzbekistan	23,834	0.681	368,912	343,079	25,833	37,719	0.862	
Vanuatu	236	0.007	3,653	3,405	248	14,121	0.323	
Viet Nam	12,076	0.345	186,917	165,480	21,438	25,961	0.594	
<b>Total Regional (Forward)</b>	<b>2,212,895</b>	<b>63.241</b>	<b>34,252,074</b>	<b>31,837,072</b>	<b>2,415,002</b>	<b>2,837,720</b>	<b>64.878</b>	

OCR-7

MEMBER	SUBSCRIBED CAPITAL			VOTING POWER			
	Number of Shares	Percent of Total	Par Value of Shares			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
<b>Total Regional (Forward)</b>	<b>2,212,895</b>	<b>63.241</b>	<b>34,252,074</b>	<b>31,837,072</b>	<b>2,415,002</b>	<b>2,837,720</b>	<b>64.878</b>
<b>NONREGIONAL</b>							
Austria	12,040	0.344	186,360	173,312	13,048	25,925	0.593
Belgium	12,040	0.344	186,360	173,312	13,048	25,925	0.593
Canada	185,086	5.289	2,864,835	2,664,220	200,616	198,971	4.549
Denmark	12,040	0.344	186,360	173,312	13,048	25,925	0.593
Finland	12,040	0.344	186,360	173,312	13,048	25,925	0.593
France	82,356	2.354	1,274,739	1,185,460	89,279	96,241	2.200
Germany	153,068	4.374	2,369,248	2,203,319	165,928	166,953	3.817
Italy	63,950	1.828	989,844	920,516	69,328	77,835	1.780
Luxembourg	12,040	0.344	186,360	173,250	13,110	25,925	0.593
The Netherlands	36,294	1.037	561,773	522,442	39,331	50,179	1.147
Norway	12,040	0.344	186,360	173,312	13,048	25,925	0.593
Portugal	12,040	0.344	186,360	173,250	13,110	25,925	0.593
Spain	12,040	0.344	186,360	173,312	13,048	25,925	0.593
Sweden	12,040	0.344	186,360	173,312	13,048	25,925	0.593
Switzerland	20,650	0.590	319,629	297,232	22,397	34,535	0.790
Turkey	12,040	0.344	186,360	173,312	13,048	25,925	0.593
United Kingdom	72,262	2.065	1,118,500	1,040,179	78,321	86,147	1.970
United States	552,210	15.781	8,547,327	7,948,747	598,581	566,095	12.942
<b>Total Nonregional</b>	<b>1,286,276</b>	<b>36.759</b>	<b>19,909,494</b>	<b>18,515,107</b>	<b>1,394,387</b>	<b>1,536,206</b>	<b>35.122</b>
<b>TOTAL</b>	<b>3,499,171</b>	<b>100.000</b>	<b>\$54,161,568</b>	<b>\$50,352,179</b>	<b>\$3,809,389</b>	<b>4,373,926</b>	<b>100.000</b>

Note: Figures may not add due to rounding.

The accompanying notes are an integral part of these financial statements (OCR-8).

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

#### NOTE A—NATURE OF OPERATIONS AND LIMITATIONS ON LOANS, GUARANTEES, AND EQUITY INVESTMENTS

##### *Nature of Operations*

The Asian Development Bank (ADB), a multilateral development finance institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in the Asian and Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. With the adoption of its poverty reduction strategy at the end of 1999, ADB made reducing poverty in the region its main goal. ADB provides financial and technical assistance (TA) for projects and programs, which will contribute to achieving this purpose.

Mobilizing financial resources, including cofinancing, is an integral part of ADB's operational activities. In addition, ADB, alone or jointly, administers on behalf of donors, including members, their agencies and other development institutions, funds restricted for specific uses, which include TA grants as well as regional programs.

ADB's ordinary operations comprise loans, equity investments, and guarantees. During the years 2001 and 2002, limited technical assistance to member countries to support high priority TA programs was included. ADB finances its ordinary operations through borrowings, paid-in capital, and retained earnings.

##### *Limitations on Loans, Guarantees, and Equity Investments*

Article 12, paragraph 1 of the Charter provides that the total amount outstanding of loans, equity investments, and guarantees made by ADB shall not exceed the total of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. At 31 December 2004, the total of such loans, equity investments, and guarantees aggregated approximately 64.7% (67.7% - 2003) of the total subscribed capital, reserves, and surplus as defined.

Article 12, paragraph 3 of the Charter provides that equity investments shall not exceed 10% of the unimpaired paid-in capital together with reserves and surplus, exclusive of the special reserve. At 31 December 2004, such equity investments repre-

sented approximately 4.0% (3.2% - 2003) of the paid-in capital, reserves, and surplus, as defined.

#### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Functional Currencies and Reporting Currency*

The currencies of members are all functional currencies. The reporting currency is the United States dollar, and the financial statements are expressed in thousands of current United States dollars.

##### *Translation of Currencies*

Assets and liabilities are translated from their functional currencies to the reporting currency generally at the applicable rates of exchange at the end of a reporting period. Income and expense amounts are translated for each semimonthly period generally at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period. Translation adjustments other than those relating to maintenance of SDR capital values (see Notes I and J), are charged or credited to "Accumulated translation adjustments" and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income."

##### *Valuation of Capital Stock*

The authorized capital stock of ADB is defined in Article 4, paragraph 1 of the Charter "in terms of United States dollars of the weight and fineness in effect on 31 January 1966" (the 1966 dollar) and the value of each share is defined as 10,000 1966 dollars. The capital stock had historically been translated into the current United States dollar (ADB's unit of account) on the basis of its par value in terms of gold. From 1973 until 31 March 1978, the rate arrived at on this basis was \$1.20635 per 1966 dollar. Since 1 April 1978, at which time the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, currencies no longer have par values in terms of gold. Pending ADB's selection of the appropriate successor to the 1966 dollar, the capital stock has been valued for purposes of these financial statements in terms of the Special Drawing Right (SDR) at the value in current United States dollars as computed by the IMF, with each share valued at SDR10,000.

**CONTINUED**

As of 31 December 2004, the value of the SDR in terms of the current United States dollar was \$1.54784 (\$1.48597 - 2003) giving a value for each share of ADB's capital equivalent to \$15,478.40 (\$14,859.70 - 2003). However, ADB could decide to fix the value of each share at \$12,063.50 based on the 31 March 1978 par value of the United States dollar in terms of gold.

***Derivative Financial Instruments***

Statement of Financial Accounting Standards (FAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", along with its amendments, collectively referred as FAS 133, became effective on 1 January 2001. FAS 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the Balance Sheet as either an asset or liability measured at its fair value. Changes in the fair value of derivatives are recorded in net income or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

ADB uses derivative instruments for asset/liability management of individual positions and portfolios, as well as for the reduction of transaction costs. In applying FAS 133 for purposes of financial statement reporting, ADB has elected not to define any qualifying hedging relationships. Rather, all derivative instruments, as defined by FAS 133, have been marked to fair value, and all changes in the fair value have been recognized in net income. ADB has elected not to define any qualifying hedging relationships, not because economic hedges do not exist, but rather because the application of FAS 133 hedging criteria does not make fully evident ADB's risk management strategies.

The cumulative effect of a change in accounting principle includes the difference between the carrying value and the fair value of the derivative instruments in the borrowings portfolio as well as loans that met hedge criteria on 31 December 2000, offset by any gains or losses on these borrowings and loans for which a fair value exposure was being hedged. The net effect gave rise to a transition loss of \$81,657,000 in comprehensive income and a gain of \$34,656,000 was reported in net income. The allocation between net income and other comprehensive income was based upon the hedging relationships that existed before the initial application of this statement.

Since ADB has not defined any qualifying hedging relationships under this standard, the amount recorded in other

comprehensive income as part of the transition is being reclassified into earnings in the same period or periods in which the hedged forecasted transaction affects earnings.

***Investments***

All investment securities and negotiable certificate of deposits held by ADB other than derivative instruments are considered by Management to be "Available for Sale" and are reported at estimated fair value, which represents their fair market value. Time deposits are classified as "Held-to-Maturity" and are reported at cost. Unrealized gains and losses are reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income." Realized gains and losses are included in income from investments and are measured by the difference between amortized cost and the net proceeds of sales. With respect to futures, realized gain or loss is reported based on daily settlement of the net cash margin.

***Securities Transferred Under Securities Lending Arrangement and Securities Purchased Under Resale Arrangement***

ADB accounts for transfers of financial assets in accordance with FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FAS 125." In general, transfers are accounted for as sales when control over the transferred assets has been relinquished. Otherwise the transfers are accounted for as repurchase/resale agreements and collateralized financing arrangements. Securities transferred under securities lending arrangements are recorded as assets and reported at estimated fair value. Securities received under resale arrangements are not recorded on ADB's balance sheet.

***Loans***

ADB's loans are made to or guaranteed by members, with the exception of loans to the private sector, and have maturities ranging between 3 and 30 years. ADB requires its borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies which it has disbursed. Loan interest income and loan commitment fees are recognized on accrual basis. With the introduction of LIBOR-based loans in 2001, in line with ADB's principle of cost pass through pricing, any variation in the actual cost of borrowings is passed to LIBOR-based borrowers as surcharge or rebate.

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

It is the policy of ADB to place loans in nonaccrual status for which principal, interest, or other charges are overdue by six months. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have been received by ADB. ADB maintains a position of not taking part in debt rescheduling agreements with respect to public sector loans. In the case of private sector loans, ADB may agree to debt rescheduling only after alternative courses of action have been exhausted.

ADB determines that a loan is impaired and therefore subject to provisioning when principal or interest is in arrears for one year for public sector loans (unless there is clear and convincing evidence warranting the deferment or acceleration of such provisioning) and six months for private sector loans. If the present value of expected future cash flows discounted at the loan's effective interest rate is less than the carrying value of the loan, a valuation allowance is established with a corresponding charge to provision for loan losses.

ADB's periodic evaluation of the adequacy of the allowance for loan losses is based on its past loan loss experience, known and inherent risks in existing loans, and adverse situations that may affect a borrower's ability to repay.

Effective 2000, ADB levies front-end fees on all new public sector loans. These fees are deferred and amortized over the life of the loans after offsetting deferred direct loan origination costs. In 2004, entire front-end fee on all new public sector loans approved during the year was waived.

ADB levies a commitment charge on the undisbursed balance of effective loans. Unless otherwise provided by the loan agreement, the charges take effect commencing on the 60<sup>th</sup> day after the loan signing date and are credited to loan income.

#### *Guarantees*

ADB extends guarantees to public sector and private sector borrowers. Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred. ADB would be required to perform under its guarantees if the payments guaranteed were not made by the debtor, and the guaranteed party called the guarantee by demanding payments from ADB in accordance with the term of the guarantee.

Prior to 1 January 2003, guarantees in the absence of any call, were not reflected in the financial statements but disclosed as a note to the financial statements (see Note E) in accordance with the provisions of FASB No. 5, Accounting for

Contingencies. FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others", which came into effect in 2003, requires the recognition of two types of liabilities that are associated with guarantees: (a) the stand-by ready obligation to perform, and (b) the contingent liability. ADB recognizes at the inception of a guarantee, a liability for the stand-by ready obligation to perform on guarantees issued and modified after 31 December 2002. The liability is included in "Miscellaneous liabilities".

Front-end fee income on guarantees received is deferred and amortized over the period of the guarantee contract and the unamortized balance of deferred front-end fee of guarantee is included in "Miscellaneous liabilities."

#### *Equity Investments*

Investments in equity securities without readily determinable fair values are reported at cost less probable losses inherent in the portfolio but not specifically identifiable.

The reserve against losses for equity investments is reviewed quarterly based on Management's evaluation of potential losses for such investments. Equity investments with readily determinable fair values are reported at fair value, with unrealized gains and losses excluded from net income and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income." ADB applies the equity method of accounting to one investment where it has the ability to exercise significant influence and to equity investments in limited partnership.

#### *Property, Furniture, and Equipment*

Property, furniture, and equipment are stated at cost and, except for land, depreciated over estimated useful lives on a straight-line basis. Maintenance, repairs, and minor betterments are charged to expense.

#### *Accounting Estimates*

The preparation of the financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the end of the year and the reported amounts of revenues and expenses during the year. The actual results could differ from those estimates.

OCR-8

CONTINUED

*Accounting and Reporting Developments*

In April and December 2003, FASB issued FAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" and FIN No. 46 (revised), "Consolidation of Variable Interest Entities", respectively. These standards do not have a significant impact on ADB's financial statements.

In December 2003, FASB issued FAS No. 132 (Revised 2003), "Employers Disclosures about Pensions and Other Postretirement Benefits." This statement provided for additional employers' disclosures about pension plans and other postretirement benefit plans, which have been incorporated in Note M.

*Statement of Cash Flows*

For the purposes of the statement of cash flows, ADB considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

*Reclassification*

Certain reclassifications of prior year's amounts and information have been made to conform to the current year's presentation.

**NOTE C—RESTRICTIONS ON USE OF CURRENCIES AND DEMAND OBLIGATIONS OF MEMBERS**

In accordance with Article 24, paragraph 2(i) of the Charter, the use by ADB or by any recipient from ADB of certain currencies may be restricted by members to payments for goods or services produced and intended for use in their territories. With respect to the currencies of 39 DMCs for 2004 (40 - 2003), cash in banks (due from banks) and demand obligations totaling \$50,625,000 (\$54,388,000 - 2003) and \$173,672,000 (\$173,744,000 - 2003), respectively, may be, but are not currently so restricted.

In accordance with Article 24, paragraphs 2(i) and (ii) of the Charter, one member (one - 2003) has restricted the use by ADB or by any recipient from ADB of its currency to payments for goods or services produced in its territory. As such, cash in banks (due from banks) and investments totaling \$1,000 (\$18,000 - 2003) and \$2,789,000 (\$2,766,000 - 2003), respectively, have been restricted. None of the demand obligations held by ADB in 2004 was restricted (nil - 2003).

**NOTE D—INVESTMENTS**

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. In the US dollar portfolio only and up to limited amounts, investments may be made in corporate bonds rated A or better, AAA-rated asset-backed securities, and AAA-rated mortgage-backed securities. Securities may be lent, borrowed, and sold short.

In addition, ADB may purchase and sell financial futures and option contracts, and enter into currency and interest rate swaps, and forward rate agreements. Exposure to interest rate risk may be adjusted within defined bands to reflect changing market conditions. These adjustments are made through the purchase and sale of securities, and financial futures. Accordingly, financial futures are held for risk management purposes. At 31 December 2004, the notional amount of outstanding purchase and sales futures contracts were \$110,900,000 and \$21,800,000, respectively, (\$93,600,000 and \$129,200,000 - 2003). In addition, ADB entered into 18 asset swap transactions with a total notional amount of \$2,125,611,000 (\$1,321,986,000 - 2003).

Included in "Other securities" as of 31 December 2004 were corporate bonds and other obligations of banks amounting to \$2,300,457,000 (\$2,255,768,000 - 2003) and asset/mortgage-backed securities of \$664,625,000 (\$653,672,000 - 2003).

The currency compositions of the investment portfolio as of 31 December 2004 and 2003 expressed in United States dollars are as follows:

<b>Currency</b>	<b>2004</b>	<b>2003</b>
Australian dollar	\$ 558,132,000	\$ 578,525,000
Canadian dollar	216,094,000	190,734,000
Euro	668,829,000	445,248,000
Japanese yen	4,238,209,000	2,105,015,000
Pound sterling	220,103,000	306,087,000
Swiss franc	249,739,000	452,424,000
United States dollar	7,421,723,000	9,337,261,000
Others	488,516,000	343,363,000
	<b>14,061,345,000</b>	<b>13,758,657,000</b>
Less: Securities transferred under securities lending arrangement	(2,040,302,000)	(2,317,819,000)
Securities purchased under resale arrangement	(1,330,948,000)	(2,207,900,000)
Total	<b>\$10,690,095,000</b>	<b>\$ 9,232,938,000</b>

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

The estimated fair value and amortized cost of the investments by contractual maturity at 31 December 2004 are as follows:

	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>
Due in one year or less	\$ 5,299,215,000	\$ 5,297,058,000
Due after one year through five years	5,830,457,000	5,828,102,000
Due after five years through ten years	2,931,673,000	2,950,859,000
<b>Total</b>	<b>\$14,061,345,000</b>	<b>\$14,076,019,000</b>

Additional information relating to investments in government and government-guaranteed obligations and other securities, including securities transferred under securities lending arrangements, is as follows:

	<b>2004</b>	<b>2003</b>
<b>As of 31 December</b>		
Amortized cost	\$9,902,940,000	\$8,224,495,000
Estimated fair value	9,888,266,000	8,260,313,000
Gross unrealized gains	40,045,000	89,508,000
Gross unrealized losses	(54,719,000)	(53,690,000)
<b>For the years ended 31 December:</b>		
Change in net unrealized losses from prior year	(50,492,000)	(142,874,000)
Proceeds from sales	8,686,523,000	8,972,878,000
Gross gain on sales	54,363,000	75,229,000
Gross loss on sales	(21,167,000)	(11,936,000)

As of 31 December 2004, gross unrealized losses amounted to \$54,719,000 (\$53,690,000 – 2003) from government and government-guaranteed obligations, corporate bonds and mortgage/asset-backed securities, resulting from the market movement. There were six government and government-guaranteed obligations, one corporate obligation, 23 mortgage/asset-backed security positions that sustained unrealized losses for over one year, representing only 4.49% (0.03% – 2003) of the investments. Additional details are as follows:

	<b>One year or less</b>		<b>Over one year</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Government and government-guaranteed obligations	\$2,370,829,000	\$27,065,000	\$502,494,000	\$16,671,000	\$2,873,323,000	\$43,736,000
Corporate bonds	851,645,000	7,882,000	5,174,000	134,000	856,819,000	8,016,000
Mortgage/Asset-backed securities	233,935,000	2,216,000	31,746,000	751,000	265,681,000	2,967,000
<b>Total</b>	<b>\$3,456,409,000</b>	<b>\$37,163,000</b>	<b>\$539,414,000</b>	<b>\$17,556,000</b>	<b>\$3,995,823,000</b>	<b>\$54,719,000</b>

**Asset/Mortgage-backed Securities:** Asset/Mortgage-backed securities are instruments whose cash flow is based on the cash flows of a pool of underlying assets or mortgage loans managed by a trust.

**Futures:** Futures are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Initial margin requirements are met with cash or securities, and changes in the market prices are generally settled daily in cash. ADB generally closes out open positions prior to maturity. Therefore, cash receipts or payments are limited to the change in market value of the future contracts.

### NOTE E—LOANS AND GUARANTEES

#### Loans

ADB does not currently sell its loans, nor does it believe there is a comparable market for its loans. The estimated fair value of all loans is based on the estimated cash flows from principal repayments, interest and other charges discounted at the applicable market yield curves for ADB's borrowing cost plus lending spread. The estimated fair value of public sector loans is not generally affected by credit risks based on ADB's experience with its borrowers. Allowance for loan losses is made against impaired public sector and private sector loans.

OCR-8

## CONTINUED

The carrying amount and estimated fair value of loans outstanding at 31 December 2004 and 2003 are as follows:

	2004		2003	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fixed rate multicurrency loans	\$ 228,457,000	\$ 280,769,000	\$ 429,368,000	\$ 507,815,000
Pool-based single currency (JPY) loans*	4,994,867,000	5,703,209,000	6,509,640,000	7,375,407,000
Pool-based single currency (US\$) loans	9,879,842,000	11,095,700,000	11,658,739,000	12,880,882,000
LIBOR-based loans	9,040,796,000	9,091,361,000	6,758,780,000	6,781,228,000
Fixed rate loans	33,840,000	41,011,000	41,540,000	52,183,000
Local currency loan	18,795,000	19,803,000	—	—
<b>Total</b>	<b>\$24,196,597,000</b>	<b>\$26,231,853,000</b>	<b>\$25,398,067,000</b>	<b>\$27,597,515,000</b>

\* Transformed from pool-based multicurrency loans effective 1 January 2004.

Prior to 1 July 1986, the lending rate of ADB was based on a multicurrency fixed lending rate system under which loans carried interest rates fixed at the time of loan approval for the entire life of the loans. Effective 1 July 1986, ADB adopted a multicurrency pool-based variable lending rate system. In addition, in July 1992, ADB introduced a United States dollar pool-based variable lending rate system, and in November 1994, a market-based lending rate system was made available to financial intermediaries in the public sector and to the private sector borrowers. For loans to the private sector borrowers, approximately 86% (83% - 2003) of the loans were based on market-based lending rates.

Commencing 1 July 2001, ADB offered LIBOR-based loans (LBLs) in the following currencies – Euro, Japanese yen, and United States dollar. The new LBL lending facility offers borrowers the flexibility of (i) choice of currency and interest rate basis; (ii) options to link repayment schedules to actual disbursements for financial intermediary borrowers; (iii) change the original loan terms (currency and interest rate basis) at any time during the life of the loan; and (iv) options to cap or collar the floating lending rate at any time during the life of the loan. LBL terms are available for all loans for which the invitation to negotiate is issued on or after 1 July 2001. With the introduction of LBLs, all other loan windows are no longer offered to borrowers. In 2002, ADB offered local currency loans to private sector borrowers.

In November 2003, ADB offered borrowers to transform their outstanding pool-based multicurrency loans of \$6.5 billion to pool-based single currency loans in Japanese yen. The transformation facilitates borrower's administration for loan service payments and loan accounting. The transformation became effective on 1 January 2004.

In 2004, ADB received full prepayments for 41 loans amounting to \$2,790,488,000 (\$5,883,772,000 - 2003) and collected prepayment premiums of \$59,427,000 (\$107,404,000 - 2003) which have been included in "Other income from loans." Ninety-nine percent of the prepaid amounts were pool-based single currency (US dollar and Japanese yen) loans and fixed rate multi-currency loans.

Since 1988, ADB has charged front-end fees for private sector loans. Effective 1 January 2000, ADB levies a front-end fee of 1% for public sector loans for which the loan negotiations are completed after that date. In addition, a flat commitment fee of 0.75% is charged for new program loans and the progressive commitment fee of 0.75% is maintained for project loans. Effective 1 January 2000, the lending spread applied to all outstanding pool-based OCR public sector loans and new public sector market-based loans was increased from 0.4% to 0.6%.

#### *Waivers of Lending Spread and Front-End Fee*

In 2004, the Board of Governors approved the waiver of the entire 1% front-end fee on all new public sector loans approved during 1 January 2004 to 30 June 2005 (waiver of 50 basis points on public sector loans approved in 2003) and waiver of 20 basis points of the lending spread on public sector loans outstanding from 1 July 2004 – 30 June 2005 for borrowers that do not have loans in arrears. Front-end fees waived during the year totaled \$17,871,000 (\$3,008,000 – 2003) and the lending spread waiver reduced net income by \$10.6 million.

The front-end fees received for the year ended 31 December 2004 were \$23,734,000 (\$24,342,000 - 2003). Administrative expenses relating to direct loan origination of

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

\$22,421,000 for the year ended 31 December 2004 (\$13,678,000 – 2003) were deferred and offset against front-end fees earned. The excess, if any, is amortized over the life of each loan.

Undisbursed loan commitments and an analysis of loans by borrowing member countries as of 31 December 2004 are shown in OCR-5. The carrying amounts of loan outstanding by loan products at 31 December 2004 and 2003 are as follows:

	2004	2003
<b>Public Sector</b>		
Fixed rate multicurrency loans	\$ 228,457,000	\$ 429,368,000
Pool-based single currency (JPY) loans*	4,988,817,000	6,502,376,000
Pool-based single currency (US\$) loans	9,882,950,000	11,660,523,000
LIBOR-based loans	8,717,307,000	6,449,677,000
	<u>23,817,531,000</u>	<u>25,041,944,000</u>
Less: Allowance for loan losses	(2,300,000)	(240,000)
Unamortized front-end fee	(27,106,000)	(24,898,000)
	<u>(29,406,000)</u>	<u>(25,138,000)</u>
<b>Sub-total</b>	<u>23,788,125,000</u>	<u>25,016,806,000</u>
<b>Private Sector</b>		
Pool-based single currency (JPY) loans*	8,067,000	9,684,000
Fixed rate loans	58,334,000	67,402,000
LIBOR-based loans	404,482,000	386,813,000
Local currency loans	20,836,000	–
	<u>491,719,000</u>	<u>463,899,000</u>
Less: Allowance for loan losses	(82,004,000)	(82,141,000)
Unamortized front-end fee	(1,243,000)	(497,000)
	<u>(83,247,000)</u>	<u>(82,638,000)</u>
<b>Sub-total</b>	<u>408,472,000</u>	<u>381,261,000</u>
<b>Total</b>	<u>\$24,196,597,000</u>	<u>\$25,398,067,000</u>

\* Transformed from pool-based multicurrency loans effective 1 January 2004.

### Loans in Nonaccrual Status

One public sector loan to Nauru remained in nonaccrual status as of 31 December 2004 (one to Nauru – 2003). The principal outstanding for this loan as of 31 December 2004 was \$2,300,000 (\$2,300,000 – 2003) of which \$462,000 (\$340,000 – 2003) was overdue. The loan in nonaccrual status resulted in \$144,000 (\$145,000 – 2003) not being recognized as income from public sector loans for the year ended 31 December 2004. The accu-

mulated interest and other charges on this loan that were not recognized as income as of 31 December 2004 would have totaled \$702,000 (\$558,000 – 2003).

Eleven private sector loans were in nonaccrual status as of 31 December 2004 (twelve – 2003). The principal outstanding at that date was \$50,426,000 (\$77,115,000 – 2003) of which \$38,735,000 (\$70,045,000 – 2003) was overdue. Loans in nonaccrual status resulted in \$9,582,000 (\$6,776,000 – 2003) not being recognized as income from private sector loans for the year ended 31 December 2004. The accumulated interest and other charges on these loans that were not recognized as income as of 31 December 2004 would have totaled \$46,488,000 (\$36,906,000 – 2003).

### Loan Loss Provision

ADB has not suffered any losses of principal on public sector loans. During the year, loan loss provision of \$2,060,000 (\$240,000 – 2003) was provided against one public sector loan. The amount was determined based on the carrying value of the loan and the present value of expected cash inflows discounted at the loan's effective interest rate. Loan loss provisions have been made against impaired private sector loans (see Note K).

Information pertaining to loans which were subject to loan loss provisions at 31 December 2004 and 2003 is as follows:

	2004	2003
Loans not subject to loss provisions	\$24,218,977,000	\$25,405,205,000
Loans subject to loss provisions	90,273,000	100,638,000
<b>Total</b>	<u>\$24,309,250,000</u>	<u>\$25,505,843,000</u>
Average amount of loans subject to loss provisions	\$ 94,680,000	\$ 101,758,000
Related interest income on such loans recognized in the year	\$ 1,585,000	\$ 2,637,000
Cash received on related interest income on such loans	\$ 1,531,000	\$ 2,399,000

OCR-8

## CONTINUED

The changes in the allowance for loan losses during 2004 and 2003 are as follows:

	2004			2003		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Balance 1 January	\$ 240,000	\$82,141,000	\$82,381,000	\$ –	\$72,477,000	\$72,477,000
Provision during the year	2,060,000	194,000	2,254,000	240,000	12,637,000	12,877,000
Provision written back	–	(565,000)	(565,000)	–	(3,335,000)	(3,335,000)
Translation adjustment	–	234,000	234,000	–	362,000	362,000
Balance 31 December	<u>\$2,300,000</u>	<u>\$82,004,000</u>	<u>\$84,304,000</u>	<u>\$240,000</u>	<u>\$82,141,000</u>	<u>\$82,381,000</u>

*Loan Guarantees*

ADB extends guarantees to public sector and private sector borrowers. Such guarantees include (i) partial credit guarantees where only certain principal and/or interest payments are covered; and (ii) political risk guarantees, which provide coverage against well-defined sovereign risks. While counterguarantees from the host government are required for all public sector guarantees, guarantees for private sector projects may be provided with or without a host government counter-guarantee. A counter-guarantee takes the form of a member government agreement to indemnify ADB for any payments it makes under

the guarantee. In the event that a guarantee is called, ADB has the contractual right to require payment from the government, on demand, or as ADB may otherwise direct.

Guaranteed payments under partial credit guarantees are generally due 10 or more years from the loan inception date. ADB's political risk guarantee is callable when a guaranteed event has occurred and such an event has resulted in debt service default to the guaranteed lender.

The committed and outstanding amount of these guarantee obligations as of 31 December 2004 and 31 December 2003 covered:

	2004		2003	
	Committed Amount	Outstanding Amount	Committed Amount	Outstanding Amount
Partial Credit Guarantees with counter-guarantee	\$1,156,735,000	\$1,153,593,000	\$1,115,342,000	\$1,115,342,000
Political Risk Guarantees with counter-guarantee without counter-guarantee	253,167,000 102,233,000	100,508,000 52,252,000	252,673,000 31,619,000	101,940,000 28,291,000
	355,400,000	152,760,000	284,292,000	130,231,000
Total	<u>\$1,512,135,000</u>	<u>\$1,306,353,000</u>	<u>\$1,399,634,000</u>	<u>\$1,245,573,000</u>

None of these amounts were subject to call as of 31 December 2004 (nil - 31 December 2003). The committed amount represents the maximum potential amount of undiscounted future payment that ADB could be required to make, inclusive of stand-by portion for which ADB is committed but not currently at risk. The outstanding amount represents the guaranteed amount utilized under the related loans, which have been disbursed as of the end of a reporting period, exclusive

of the stand-by portion. ADB estimates that the present value of guarantees outstanding at 31 December 2004 was \$715,733,000 (\$649,665,000 - 2003).

As of 31 December 2004, a liability of \$10,842,000 (\$3,932,000 - 2003) relating to stand-by ready obligation for a political risk guarantee has been included in "Miscellaneous liabilities" on the balance sheet.

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

#### *Cofinancing*

ADB functions as lead lender in cofinancing arrangements with other participating financial institutions who also provide funds to ADB's public and private sector borrowers. In such capacity, ADB provides loan administration services, which include loan

disbursements and loan collections. The participating financial institutions have no recourse to ADB for their outstanding loan balances.

Loans administered by ADB on behalf of participating institutions as at 31 December 2004 and 2003 are as follows:

	<b>2004</b>		<b>2003</b>	
	<b>Amount</b>	<b>No. of Loans</b>	<b>Amount</b>	<b>No. of Loans</b>
Public sector loans	\$815,777,000	39	\$ 824,977,000	41
Private sector loans	<u>121,480,000</u>	<u>10</u>	<u>257,896,000</u>	<u>11</u>
Total	<u><u>\$937,257,000</u></u>	<u><u>49</u></u>	<u><u>\$1,082,873,000</u></u>	<u><u>52</u></u>

During the year ended 31 December 2004, a total of \$735,000 (\$766,000 - 2003) was received as compensation for arranging and administering such loans. This amount has been included in "Income from other sources."

#### NOTE F—EQUITY INVESTMENTS

ADB's investments in equity securities issued by private enterprises located in DMCs include a \$7,472,000 (\$14,284,000 - 2003) investment in the Asian Finance and Investment Corporation Ltd. (AFIC) and \$20,016,000 investments in limited partnership which are accounted for on the equity method. AFIC, domiciled and incorporated in Singapore, was established in 1989 with 26 shareholders comprising ADB and a group of international commercial banks. AFIC is principally engaged in the business of merchant banking including the operation of an Asian Currency Unit under the terms and condition specified by the Monetary Authority of Singapore. ADB's participation in AFIC's equity was to provide financing for private sector enterprises to strengthen and diversify the institutional structure in DMCs. At the end of 2004, AFIC had \$24,471,000 in net assets (\$46,891,000 - 2003) and \$22,136,000 in net loss (net profit of \$3,270,000 - 2003).

ADB's holding represents 30.5% of AFIC's issued ordinary share capital and net assets. ADB also holds 100% of AFIC issued convertible noncumulative preference shares in the amount of \$25,000,000 (\$25,000,000 - 2003). As of 31 December 2004, ADB's maximum exposure to loss as a result of its investment in AFIC was \$32,472,000 (\$39,284,000 - 2003).

Unrealized gains on equity investments reported at market value were \$28,946,000 at 31 December 2004 (\$9,686,000 - 2003) and were reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income."

As of 31 December 2004, gross unrealized losses amounted to \$488,000 (\$672,000 - 2003), details of which are as follows:

	<b>2004</b>		<b>2003</b>	
	<b>Fair Value</b>	<b>Unrealized loss</b>	<b>Fair Value</b>	<b>Unrealized loss</b>
Fair Value	\$1,504,000		\$1,348,000	
Unrealized loss				
One year or less	\$ —		\$ —	
Over a year	488,000		672,000	
Total	\$ 488,000		\$ 672,000	

Approved equity investment facility that has not been disbursed was \$279,815,000 at 31 December 2004 (\$184,918,000 - 2003).

#### NOTE G—PROPERTY, FURNITURE, AND EQUIPMENT

In 1991, under the terms of an agreement with the Philippines (Government), ADB returned the former headquarters premises, which had been provided by the Government. In accordance with the agreement as supplemented by a memorandum of understanding, ADB was compensated \$22,657,000 for the return of these premises. The compensation is in lieu of being provided premises under the agreement and accordingly, is deferred and amortized over the estimated life of the new headquarters building as a reduction of occupancy expense. The amortiza-

## CONTINUED

tion for the year ended 31 December 2004 amounted to \$331,000 (\$337,000 – 2003) reducing depreciation expense for the new headquarters building from \$4,471,000 (\$4,471,000 – 2003) to \$4,140,000 (\$4,134,000 – 2003). At 31 December 2004, the unamortized deferred compensation balance (included in “ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous”) was \$8,639,000 (\$9,039,000 – 2003). At 31 December 2004, accumulated depreciation for property, furniture, and equipment was \$112,545,000 (\$101,766,000 – 2003).

#### NOTE H—BORROWINGS AND SWAP TRANSACTIONS

The key objective of ADB’s borrowing strategy is to provide adequate funds at the lowest possible cost for the benefit of its borrowers. ADB uses financial derivative instruments in connection with its borrowing activities to increase cost efficiency, while achieving risk management objectives. Currency swaps are used to convert a currency borrowed under advantageous terms into one of ADB’s major operational currencies, taking advantage of the opportunities offered in different financial markets. Such currency swaps enable ADB to raise operationally needed currencies in a cost-efficient way and to maintain its borrowing presence in the major capital markets. Interest rate swaps are used generally to reduce interest rate mismatches arising from lending operations.

ADB issues structured debt, which includes embedded derivatives in order to decrease its cost of borrowing. ADB simultaneously enters into currency and/or interest rate swaps to fully hedge the effects of such embedded derivatives. Borrowings are reported on the balance sheet at their carrying book value adjusted for any unamortized premium or discounts, and include the fair value of embedded derivatives of \$364,972,000 as of 31 December 2004 (\$149,474,000 – 2003) that are required to be separately accounted for under FAS 133.

The fair value of outstanding currency swap agreements and interest rate swap agreements is determined at the estimated amount that ADB would receive or pay to terminate the agreements using a market-based valuation model. The basis of valuation is the present value of expected cash flows based on observable market data.

**Interest rate swaps:** Under a typical interest rate swap agreement, one party agrees to make periodic payments based on a notional principal amount and an interest rate that is

fixed at the outset of the agreement. The counterparty agrees to make floating rate payments based on the same notional principal amount. The terms of ADB’s interest rate swap agreements usually match the terms of particular borrowings.

**Currency swaps:** Under a typical currency swap agreement, one party agrees to make periodic payments in one currency while the counterparty agrees to make periodic payments in another currency. The payments may be fixed at the outset of the agreement or vary based on interest rates. A receivable is created for the currency swapped out, and a payable is created for the currency swapped in. The terms of ADB’s currency swap agreements usually match the terms of particular borrowings.

#### NOTE I—CAPITAL STOCK, CAPITAL TRANSFERRED TO ASIAN DEVELOPMENT FUND, MAINTENANCE OF VALUE OF CURRENCY HOLDINGS, AND MEMBERSHIP

##### *Capital Stock*

The authorized capital stock of ADB as of the end of 2004 consists of 3,499,171 shares (3,499,171 – 2003), all of which have been subscribed by members (3,499,171 – 2003). Of the subscribed shares, 3,253,061 (3,253,061 – 2003) are “callable” and 246,110 (246,110 – 2003) are “paid-in.” The “callable” share capital is subject to call by ADB only as and when required to meet ADB’s obligations incurred on borrowings of funds for inclusion in its ordinary capital resources or on guarantees chargeable to such resources. The “paid-in” share capital has been paid or is payable in installments, partly in convertible currencies and partly in the currency of the subscribing member which may be convertible. In accordance with Article 6, paragraph 3 of the Charter, ADB accepts nonnegotiable, non-interest-bearing demand obligations in satisfaction of the portion payable in the currency of the member, provided such currency is not required by ADB for the conduct of its operations. The settlement of such amounts is not determinable and, accordingly, it is not practicable to determine a fair value for these receivables.

As of 31 December 2004, all matured installments amounting to \$3,799,515,000 (\$3,641,308,000 – 2003) were received (receivable of \$739,000 from one country – 2003). Installments not due aggregating \$9,874,000 (\$15,813,000 – 2003) are receivable as follows:

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

For the Year ending 31 December:

2005	\$6,597,000	2006	\$3,277,000
------	-------------	------	-------------

#### *Capital Transferred to Asian Development Fund*

Pursuant to the provisions of Article 19, paragraph 1(i) of the Charter, the Board of Governors has authorized the setting aside of 10% of the unimpaired “paid-in” capital paid by members pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by members pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973 to be used as a part of the Special Funds of ADB. The resources so set aside amounting to \$73,692,000 as of 31 December 2004 (\$70,746,000 - 2003) expressed in terms of the SDR on the basis of \$1.54784 (\$1.48597 - 2003) per SDR (\$57,434,000 in terms of \$1.20635 per 1966 dollar—see Note B), were allocated and transferred to the Asian Development Fund.

#### *Maintenance of Value of Currency Holdings*

Prior to 1 April 1978, the effective date of the Second Amendment to the IMF Articles, ADB implemented maintenance of value (MOV) in respect of holdings of member currencies in terms of 1966 dollars, in accordance with the provisions of Article 25 of the Charter and relevant resolutions of the Board of Directors. Since then, settlement of MOV has been put in abeyance.

Inasmuch as the valuation of ADB’s capital stock and the basis of determining possible MOV obligations are still under consideration, notional amounts have been calculated provisionally as receivable from or payable to members in order to maintain the value of currency holdings in terms of the SDR. In view thereof, the notional MOV amounts of receivables and payables are offset against one another and shown as net notional amounts to maintain value of currency holdings in the “CAPITAL AND RESERVES” portion of the Balance Sheet. The timing of the establishment and settlement of such amounts is uncertain and, accordingly, it is not practicable to determine a fair value for such receivables and payables.

The net notional amounts as of 31 December 2004 consisted of (a) the increase of \$732,935,000 (\$606,902,000 - 2003) in amounts required to maintain the value of currency holdings to the extent of matured and paid capital subscriptions due to the increase in the value of the SDR in relation to the United States dollar during the period from 1 April 1978 to 31 December 2004 and (b) the net increase of \$89,991,000 (decrease of

\$13,903,000 - 2003) in the value of such currency holdings in relation to the United States dollar during the same period. In terms of receivable from and payable to members, they are as follows:

	<b>2004</b>	<b>2003</b>
Notional MOV Receivables	\$912,255,000	\$879,531,000
Notional MOV Payables	<u>269,311,000</u>	<u>258,726,000</u>
<b>Total</b>	<b>\$642,944,000</b>	<b>\$620,805,000</b>

#### *Membership*

As of 31 December 2004, ADB is owned by 63 member countries, 45 countries from the region and 18 countries from outside the region (see OCR-7). There has been no subscription from new members in 2004 (Luxembourg and Palau – 2003).

#### NOTE J—RESERVES

##### *Ordinary Reserve and Net Income*

Under the provisions of Article 40 of the Charter, the Board of Governors shall determine annually what part of the net income shall be allocated, after making provision for reserves, to surplus and what part, if any, shall be distributed to the members. During 2004, no allocation to ordinary reserve was made (\$473,059,000 - 2003). Of the net income for the year ended 31 December 2003, the amount of \$218,800,000 was allocated to Loan Loss Reserve, \$195,472,000 to Surplus and the amounts of \$150,000,000 and \$50,000,000 were allocated to ADF and TASF, respectively (\$200,000,000 and \$80,000,000, respectively - 2003).

The restatement of the capital stock for purposes of these financial statements on the basis of the SDR instead of the 1966 dollar (see Note B) resulted in a net charge of \$27,170,000 to the Ordinary Reserve during the year ended 31 December 2004 (\$50,567,000 - 2003). That charge is the increase in the value of the matured and paid capital subscriptions caused by the change during the year in the value of the SDR in relation to the United States dollar not allocated to members as notional maintenance of value adjustments in accordance with resolutions of the Board of Directors.

##### *Cumulative Revaluation Adjustments Account*

In May 2002, the Board of Governors approved the allocation of net income representing the cumulative FAS 133 adjustments

## CONTINUED

to a separate category of Reserves - "Cumulative Revaluation Adjustments Account." During the year, the 2003 FAS adjustments of \$178,387,000 resulted in a reduction (increase of \$224,756,000 – 2003) of the balance of the Cumulative Revaluation Adjustments account at 31 December 2004 to \$193,870,000 (\$372,257,000 – 2003).

#### *Special Reserve*

The Special Reserve includes commissions on loans and guarantee fees on guarantees set aside pursuant to Article 17 of the Charter. Special Reserve assets consist of term deposits and government and government-guaranteed obligations and are included under the heading "INVESTMENTS." For the year ended 31 December 2004, guarantee fees amounting to \$3,473,000 (\$2,302,000 – 2003) were appropriated to Special Reserve.

#### *Loan Loss Reserve*

In 2004, the Board of Directors approved the creation of Loan Loss Reserve through an allocation of \$218,800,000 out of prior year net income. The Loan Loss Reserve forms part of Capital and Reserves to be used as a basis for capital adequacy against the estimated expected loss in ADB's public sector loans and guarantees portfolio. The estimated expected loss is determined using ADB's credit risk model net of loan loss provisions taken up in accordance with generally accepted accounting principles.

#### *Surplus*

Surplus represents funds for future use to be determined by the Board of Governors. During 2004, the Board of Governors allocated \$195,472,000 out of 2003 net income to Surplus (nil – 2003).

#### *Comprehensive Income*

Comprehensive income has two major components: net income and other comprehensive income comprising gains and losses affecting equity that, under generally accepted accounting principles, are excluded from net income. Other comprehensive income includes such items as the effects of the implementation of FAS 133, unrealized gains and losses on available-for-sale securities and listed equity investments, currency translation adjustments and minimum pension liability adjustment.

#### NOTE K—INCOME AND EXPENSES

Total income from loans for the year ended 31 December 2004 was \$1,042,455,000 (\$1,382,949,000 – 2003). The average yield on the loan portfolio during the year was 4.16% (4.56% – 2003). Premium on prepaid loans collected during 2004 amounted to \$59,427,000 (\$107,404,000 – 2003).

Total income from investments including FAS 133 adjustments, and interest earned for securities transferred under securities lending and resale arrangements for the year ended 31 December 2004 was \$281,793,000 (\$369,455,000 – 2003). The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month, excluding unrealized gains and losses on investment securities, was 2.21% (3.74% – 2003). If unrealized gains and losses on investment securities were included, the annualized rate of return would be 1.81% (2.30% – 2003).

Income from other sources primarily includes dividends received for the year ended 31 December 2004 amounting to \$10,540,000 (\$14,879,000 – 2003), gain on sale of equity investments of \$30,425,000 (\$25,440,000 – 2003), and share in the net loss of equity investments of \$13,185,000 (net income of \$632,000 – 2003) accounted for on the equity method.

Total interest expense incurred for the year ended 31 December 2004 amounted to \$849,414,000 (\$974,839,000 – 2003). Other financial expenses consist of amortization of borrowings' issuance costs and other expenses of \$19,397,000 (\$22,070,000 – 2003) net of income of \$11,000 (\$9,400,000 – 2003) on early redemption of certain borrowing obligations.

Administrative expenses (other than those pertaining directly to ordinary operations and special operations) for the year ended 31 December 2004 were apportioned between ordinary capital resources and the Asian Development Fund in proportion of the relative volume of operational activities of each fund. Of the total administrative expenses of \$305,893,000 (\$285,136,000 – 2003), \$165,151,000 (\$153,018,000 – 2003) was accordingly charged to the Asian Development Fund. The balance of administrative expenses after allocation was reduced by the deferral of direct loan origination costs of \$22,421,000 (\$13,678,000 – 2003) related to new loans for the year ended 31 December 2004 (see Notes B and E).

Following the approval by the Board of Directors in June 2003 of the resumption of direct net income allocation to TASF to finance technical assistance (TA) operations, no TA commitments during the year were charged to OCR current income as "TECHNICAL ASSISTANCE TO MEMBER COUNTRIES".

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

Accordingly the write-back in the amount of \$2,404,000 for the year represented cancellations of the undisbursed amounts of completed TA projects committed in prior periods (\$358,000 – 2003).

As of 31 December 2004, the net cumulative amount of TA commitments that had been charged to OCR current income in the prior years amounted to \$73,197,000 (\$75,601,000 – 31 December 2003) out of which \$52,391,000 (\$34,909,000 – 2003) had been disbursed.

For the year ended 31 December 2004, the provision for losses totaled \$4,950,000 (\$194,000 for private sector loans, \$2,060,000 for public sector loans and \$2,696,000 for equity investments). For the year ended 31 December 2003, the provision for losses totaled \$18,007,000 (\$12,637,000 for private sector loans and \$240,000 for public sector loans and \$5,130,000 for equity investments).

Favorable FAS 133 adjustments of \$40,963,000 (unfavorable of \$178,387,000 – 2003) was made up of:

	<b>2004</b>	<b>2003</b>
Unrealized gains (losses) on Borrowings related swaps	\$(125,289,000)	\$(386,324,000)
Investments related swaps	(15,577,000)	60,758,000
Embedded derivatives in structured borrowings	186,604,000	149,474,000
Amortization of the FAS 133 transition adjustment	(4,775,000)	(2,295,000)
<b>Total</b>	<b>\$ 40,963,000</b>	<b>\$(178,387,000)</b>

### NOTE L—OTHER ASSETS AND LIABILITIES—MISCELLANEOUS

Included in miscellaneous assets and liabilities are as follows:

	<b>2004</b>	<b>2003</b>
Amounts receivable from:		
Asian Development Fund (Note K)	\$24,994,000	\$28,687,000
Technical Assistance Special Fund	51,000	15,000
Japan Special Fund	50,000	141,000
Asian Development Bank Institute Special Fund	186,000	317,000
Staff Retirement Plan	1,015,000	–
Agency Trust Funds	808,000	452,000
<b>Total</b>	<b>\$27,104,000</b>	<b>\$29,612,000</b>
Amount payable to:		
Staff Retirement Plan	\$ –	\$ 7,425,000

### NOTE M—STAFF RETIREMENT PLAN AND POSTRETIREMENT MEDICAL BENEFITS

#### *Staff Retirement Plan*

ADB has a contributory defined benefit Staff Retirement Plan (the Plan). Every employee, as defined under the Plan, shall, as a condition of service, become a participant from the first day of service, provided that at such a date, the employee has not reached the normal retirement age of 60. The Plan applies also to members of the Board of Directors who elect to join the Plan. Retirement benefits are based on length of service and highest average remuneration during two years of eligible service. The Plan assets are segregated and are not included in the accompanying Balance Sheet. The costs of administering the Plan are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the Plan.

Participants are required to contribute 9 1/3% of their salary to the Plan and may also make additional voluntary contributions. ADB's contribution is determined at a rate sufficient to cover that part of the costs of the Plan not covered by the participants' contributions.

#### *Expected Contributions*

The expected amount of contributions to the Plan for 2005 amounts to \$64,020,000 representing ADB's contributions of \$19,734,000 (\$17,431,000 – 2003), based on budgeted contribution rate of 16% (15% – 2003), participants' mandatory contributions of \$11,507,000 (\$10,846,000 – 2003) and discretionary contributions of \$32,779,000.

#### *Investment Strategy*

Contributions in excess of current benefits payments are invested in international financial markets and in a variety of investment vehicles. The Plan employs six external asset managers and one global custodian who function within the guidelines established by the Plan's Investment Committee. The investment of these assets, over the long term, is expected to produce higher returns than short-term investments. The investment policy incorporates the Plan's package of desired investment return, and tolerance for risk, taking into account the nature and duration of the Plan's liabilities. The Plan's assets are diversified among different markets and different asset classes. The use of derivatives for

OCR-8

## CONTINUED

speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

The Plan's investment policy is periodically reviewed and revised to reflect the best interest of the Plan's participants and beneficiaries. The current policy, adopted in January 2003, specifies an asset-mix structure of 70% of assets in equities and 30% in fixed income securities. At present, investments of the Plan's assets are divided into three categories: US equity, Non-US equity, and US fixed income.

As of 31 December 2004 and 2003, the breakdown of the fair value of plan assets held is as follows:

	<b>2004</b>	
	<b>Amount</b>	<b>Percentage</b>
Equity Securities		
US	\$441,188,000	
Non-US	247,264,000	
	<hr/>	
	688,452,000	70.1%
Fixed income securities		
Other Assets (Liabilities)–net		
Total	\$981,284,000	100.0%

	<b>2003</b>	
	<b>Amount</b>	<b>Percentage</b>
Equity Securities		
US	\$428,578,000	
Non-US	168,698,000	
	<hr/>	
	597,276,000	69.6%
Fixed income securities		
Other Assets (Liabilities)–net		
Total	\$858,593,000	100.0%

All investments excluding time deposits are valued using market prices. Time deposits are reported at cost. Fixed income securities include US government and government-guaranteed obligations, corporate bonds and time deposits. Other assets include forward exchange contracts in various foreign currencies transacted to hedge currency exposure in the investment portfolio, which are reported at fair value.

For the year ended 31 December 2004 the net return on the Plan assets was 11.1% (27.7% - 2003). ADB expects the long-term rate of return on the assets to be 8%.

#### *Assumptions*

The assumed overall rate of return takes into account long-term return expectations of the underlying asset classes within the investment portfolio mix, and the expected duration of the Plan's liabilities. Return expectations are forward looking and, in general, not much weight is given to short-term experience. Unless there is a drastic change in investment policy or market environment, the assumed investment return of 8% on the Plan's assets is expected to remain broadly the same, year to year.

#### *Postretirement Medical Benefits Plan*

In 1993, ADB adopted a cost-sharing plan for retirees' medical insurance premiums. Under the plan, ADB is obligated to pay 75% of the Group Medical Insurance Plan premiums for retirees, including retired members of the Board of Directors, and their eligible dependents who elected to participate. The cost-sharing plan is currently unfunded.

Generally accepted accounting principles require an actuarially determined assessment of the periodic cost of post-retirement medical benefits.

The table on the next page sets forth the pension and postretirement medical benefits at 31 December 2004 and 2003:

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

	<b>Pension Benefits</b>		<b>Postretirement Medical Benefits</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 975,471,000	\$ 833,547,000	\$ 149,181,000	\$ 123,999,000
Service cost	32,952,000	29,392,000	6,930,000	5,654,000
Interest cost	62,290,000	57,673,000	9,672,000	8,672,000
Participants' contributions	40,732,000	39,641,000	—	—
Actuarial loss	37,256,000	49,215,000	10,191,000	12,427,000
Benefits paid	(37,344,000)	(33,997,000)	(2,100,000)	(1,571,000)
Benefit obligation at end of year	<u>\$ 1,111,357,000</u>	<u>\$ 975,471,000</u>	<u>\$ 173,874,000</u>	<u>\$ 149,181,000</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 858,593,000	\$ 648,044,000	\$ —	\$ —
Actual return on plan assets	102,393,000	191,075,000	—	—
Employer's contribution	16,910,000	13,830,000	2,100,000	1,571,000
Plan participants' contributions	40,732,000	39,641,000	—	—
Benefits paid	(37,344,000)	(33,997,000)	(2,100,000)	(1,571,000)
Fair value of plan assets at end of year	<u>\$ 981,284,000</u>	<u>\$ 858,593,000</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status				
Unrecognized actuarial loss	\$ (130,073,000)	\$ (116,878,000)	\$ (173,874,000)	\$ (149,181,000)
Unrecognized prior service cost	92,302,000	86,049,000	53,588,000	46,663,000
Unrecognized transition obligation	28,359,000	32,597,000	(2,542,000)	(2,927,000)
Net amount recognized	<u>\$ (9,412,000)</u>	<u>\$ 1,761,000</u>	<u>\$ (122,349,000)</u>	<u>\$ (102,557,000)</u>
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	\$ —	\$ 2,198,000	\$ —	\$ —
Accrued benefit liability	(48,197,000)	(42,336,000)	(122,349,000)	(102,557,000)
Intangible asset	28,359,000	32,597,000	N/A	N/A
Accumulated other comprehensive income	10,426,000	9,302,000	N/A	N/A
Net amount recognized	<u>\$ (9,412,000)</u>	<u>\$ 1,761,000</u>	<u>\$ (122,349,000)</u>	<u>\$ (102,557,000)</u>
Weighted-average assumptions as of 31 December				
Discount rate	6.00%	6.25%	6.00%	6.25%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase varies with age and averages	5.00%	5.25%	5.00%	5.25%

For measurement purposes, a 6.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as at 31 December 2004. The rate was assumed to decrease gradually to 5.75% for 2009 and remain at that level thereafter.

The accumulated benefit obligation of the pension plan as of 31 December 2004 was \$1,029,412,000 (\$898,582,000 – 2003).

	<b>Pension Benefits</b>		<b>Postretirement Medical Benefits</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Components of net periodic benefit cost:				
Service cost	\$ 32,952,000	\$ 29,392,000	\$ 6,930,000	\$ 5,654,000
Interest cost	62,290,000	57,673,000	9,672,000	8,672,000
Expected return on plan assets	(71,317,000)	(61,675,000)	—	—
Amortization of prior service cost	4,238,000	4,521,000	(385,000)	(385,000)
Amortization of transition obligation	(7,000)	(1,105,000)	2,409,000	2,409,000
Recognized actuarial (gain) loss	(73,000)	—	3,266,000	2,495,000
Net periodic benefit cost	<u>\$ 28,083,000</u>	<u>\$ 28,806,000</u>	<u>\$ 21,892,000</u>	<u>\$ 18,845,000</u>

OCR-8

CONTINUED

A one-percentage-point change in assumed health care trend rates would have the following effects:

	<b>1- Percentage-Point Increase</b>	<b>1-Percentage-Point Decrease</b>
Effect on total service and interest cost components	\$ 4,132,000	\$ (3,148,000)
Effect on postretirement benefit obligation	35,427,000	(27,837,000)
<i>Estimated Future Benefits Payments</i>		

The expected benefit payments are based on the same assumptions used to measure the benefit obligation at 31 December 2004:

	<b>Pension Benefits</b>	<b>Postretirement Medical Benefits</b>
2005	\$ 48,193,000	\$ 3,222,000
2006	49,238,000	3,769,000
2007	52,495,000	4,337,000
2008	55,102,000	4,971,000
2009	58,252,000	5,614,000
2010-2014	341,996,000	38,673,000

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years.

#### NOTE N—FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of ADB's significant financial instruments as of 31 December 2004 and 2003 are summarized as follows:

	<b>2004</b>		<b>2003</b>	
	<b>Carrying Amount<sup>a</sup></b>	<b>Estimated Fair Value</b>	<b>Carrying Amount<sup>a</sup></b>	<b>Estimated Fair Value</b>
<b>On-balance sheet financial instruments:</b>				
<b>ASSETS:</b>				
Due from banks	\$ 76,405,000	\$ 76,405,000	\$ 1,397,948,000	\$ 1,397,948,000
Investments (Note D)	10,690,095,000	10,690,095,000	9,232,938,000	9,232,938,000
Securities transferred under securities lending arrangement	2,040,302,000	2,040,302,000	2,317,819,000	2,317,819,000
Securities purchased under resale arrangement	1,330,948,000	1,330,948,000	2,207,900,000	2,207,900,000
Loans outstanding (Note E)	24,196,597,000	26,231,853,000	25,398,067,000	27,597,515,000
Equity investments (Note F)	257,437,000	257,437,000	228,956,000	228,956,000
Other assets				
Nonnegotiable, noninterest-bearing demand obligations	207,181,000	207,181,000	236,403,000	155,223,000
Receivable from swaps - investments (Note D)	1,562,113,000	1,562,113,000	1,087,833,000	1,087,833,000
Receivable from swaps - borrowings (Note H)	9,589,335,000	9,589,335,000	9,776,335,000	9,776,335,000
Future guarantee receivable	10,842,000	10,842,000	3,932,000	3,932,000
<b>LIABILITIES:</b>				
Borrowings (Note H)	24,186,126,000	25,238,996,000	26,571,211,000	27,808,899,000
Other liabilities				
Payable for swaps - investments (Note D)	1,797,218,000	1,797,218,000	1,226,701,000	1,226,701,000
Payable for swaps - borrowings (Note H)	8,853,828,000	8,853,828,000	8,988,579,000	8,988,579,000
Guarantee liability	10,842,000	10,842,000	3,932,000	3,932,000
<b>Off-balance sheet financial instruments:</b>				
Guarantees (Note E)	\$ 1,254,101,000	\$ 679,908,000	\$ 1,217,282,000	\$ 630,024,000

<sup>a</sup> The carrying amount for borrowings and swaps are inclusive of accrued interest.

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

---

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

---

Additional fair value information, including methods used to estimate certain values, is included in the notes referenced in the above table.

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value.

If available, quoted market values are used to determine fair values. Financial instruments for which market quotations are not readily available are valued using valuation models. The basis of valuation is the expected cash flows discounted based on observable market data.

### NOTE O—CREDIT RISK

ADB is exposed to risk if the borrowers falls in arrears on payments. ADB manages country risk for lending operations through continuous monitoring of creditworthiness of the borrowers and rigorous capital adequacy framework. Guarantees involve elements of credit risk which are also not reflected on the balance sheet. Credit risk represents the potential loss due to possible nonperformance by obligors and counterparties under the terms of the contract.

As of 31 December 2004, ADB has a significant concentration credit risk to Asian and the Pacific region associated with loan and guarantee products with credit exposure determined based on fair value of loans and outstanding guarantees amounting to \$27,538,206,000.

ADB transacts in various financial instruments as part of liquidity and asset/liability management purposes that may involve credit risks. For all securities, ADB manages credit risks by following the guidelines set forth in the Investment Authority. (See Note D).

ADB has a potential risk of loss if the swap counterparty fails to perform its obligations. In order to reduce such credit risk, ADB only enters into long-term swap transactions with counterparties eligible under ADB's swap guidelines which include a requirement that the counterparties have a credit rating of A-/A3 or higher and requires certain counterparties with executed Credit Support Annex, to provide collateral in form of cash or other approved liquid securities based on mark-to-market exposure.

As of 31 December 2004, ADB had received collateral of \$219,421,000 in connection with the swap agreements. ADB has also entered into master swap agreements which contains legally enforceable close-out netting provisions for all counterparties with outstanding swap transactions.

### NOTE P—SPECIAL AND TRUST FUNDS

ADB's operations include special operations, which are financed from special fund resources, consisting of the Asian Development Fund, the Technical Assistance Special Fund, Japan Special Fund, and the Asian Development Bank Institute Special Fund.

In addition, ADB, alone or jointly with donors, administers on behalf of the donors, including members of ADB, their agencies and other development institutions, projects/programs supplementing ADB's operations. Such projects/programs are funded with external funds administered by ADB and with external funds not under ADB's administration. The funds are restricted for specific uses including technical assistance to borrowers and technical assistance for regional programs. The responsibilities of ADB under these arrangements range from project processing to project implementation including the facilitation of procurement of goods and services.

OCR-8

Special funds and funds administered by ADB on behalf of the donors are not included in the assets of ordinary capital resources. The breakdown of the total of such funds together with the funds of the special operations as of 31 December 2004 and 2003 is as follows:

	2004		2003	
	Total Net Assets	No.of Funds	Total Net Assets	No.of Funds
<b>Special Funds</b>				
Asian Development Fund	\$29,571,195,000	1	\$26,758,581,000	1
Technical Assistance Special Fund	99,185,000	1	104,112,000	1
Japan Special Fund	178,116,000	1	167,677,000	1
Asian Development Bank Institute Special Fund	16,845,000	1	14,215,000	1
<b>Subtotal</b>	<b>29,865,341,000</b>	<b>4</b>	<b>27,044,585,000</b>	<b>4</b>
<b>Trust Funds</b>				
Funds administered by ADB	940,601,000	40	592,988,000	38
Funds not administered by ADB	9,472,000	2	17,100,000	2
<b>Subtotal</b>	<b>950,073,000</b>	<b>42</b>	<b>610,088,000</b>	<b>40</b>
<b>Total</b>	<b>\$30,815,414,000</b>	<b>46</b>	<b>\$27,654,673,000</b>	<b>44</b>

During the year ended 31 December 2004, a total of \$1,303,000 (\$1,124,000 - 2003) was received as compensation for administering projects/programs under Trust Funds. The amount has been included in "Income from other sources."





#### REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

We have audited the accompanying special purpose statements of assets, liabilities and fund balances of the Asian Development Bank—Asian Development Fund at December 31, 2004 and 2003 and the related special purpose statements of revenues and expenses, cash flows and changes in fund balances for the years then ended. These financial statements are the responsibility of the management of the Asian Development Bank. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B, the Board of Directors approved in May 2001 the adoption of special purpose financial statements for the Asian Development Bank—Asian Development Fund. With the adoption of the special purpose financial statements, loan loss provisioning has been eliminated. The accompanying financial statements are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of Asian Development Bank—Asian Development Fund at 31 December 2004 and 2003, and the revenues and expenses and cash flows for the years then ended, on the basis explained in Note B.

Our audits were conducted for the purpose of forming an opinion on the special purpose financial statements taken as a whole. The accompanying special purpose statements of loans as at 31 December 2004 and 2003, and of resources as at 31 December 2004 are presented for purposes of additional analyses and are not required parts of the special purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the special purpose financial statements and in our opinion is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Governors, Board of Directors, management and members of the Asian Development Bank—Asian Development Fund. However, under the Agreement Establishing the Asian Development Fund, this report is included in the Annual Report of the Asian Development Bank and is therefore a matter of public record and its distribution is not limited.

*PricewaterhouseCoopers LLP*

Detroit, Michigan

14 March 2005

ADF-1

**ASIAN DEVELOPMENT BANK-ASIAN DEVELOPMENT FUND****SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES****31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004	2003
<b>ASSETS</b>		
DUE FROM BANKS (Note B)	\$ 8,701	\$ 35,530
INVESTMENTS (Notes B and C)		
Government and government-guaranteed obligations	\$ 1,599,194	\$ 1,184,896
Time deposits	1,903,259	1,509,514
Corporate bonds	<u>2,028,398</u>	<u>5,530,851</u>
SECURITIES TRANSFERRED UNDER SECURITIES LENDING ARRANGEMENT (Notes B and C)	198,010	459,469
SECURITIES PURCHASED UNDER RESALE ARRANGEMENT (Notes B and D)	60,962	4,500
LOANS OUTSTANDING (ADF-5) (Notes B and D)	21,627,140	20,046,522
ACCRUED REVENUE		
On investments	63,029	49,084
On loans	<u>48,858</u>	<u>47,621</u>
DUE FROM CONTRIBUTOR(S) (Notes B and E)	2,323,652	2,334,627
OTHER ASSETS		
Investment related receivables	246	227
Others	<u>2,657</u>	<u>2,903</u>
<b>TOTAL</b>	<b>\$29,864,106</b>	<b>\$27,268,041</b>
<b>LIABILITIES AND FUND BALANCES</b>		
PAYABLE UNDER SECURITIES LENDING ARRANGEMENT (Note B)	\$ 203,327	\$ 468,473
PAYABLE TO ORDINARY CAPITAL RESOURCES	24,994	28,687
ADVANCE PAYMENTS ON CONTRIBUTIONS (ADF-6)	63,945	11,680
OTHER LIABILITIES	645	620
FUND BALANCES		
Amounts available for loan commitments (ADF-6)		
Contributed Resources (Note B)	\$26,292,598	\$24,016,828
Set-Aside Resources (Note G)	73,692	70,746
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund (Note A)	<u>583,717</u>	<u>433,458</u>
	26,950,007	24,521,032
Accumulated surplus (ADF-4)	2,132,274	1,931,557
Accumulated other comprehensive income (ADF-4) (Notes B and H)	<u>488,914</u>	<u>29,571,195</u>
<b>TOTAL</b>	<b>\$29,864,106</b>	<b>\$27,268,041</b>

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ADF-2

**ASIAN DEVELOPMENT BANK-ASIAN DEVELOPMENT FUND****SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSES****For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004	2003
<b>REVENUE</b>		
From loans (Notes B and D)	\$195,451	\$176,704
From investments (Notes B and C)		
Interest	\$170,768	\$151,851
Net (loss) gain on sales	<u>(470)</u>	<u>703</u>
From other sources—net	<u>159</u>	<u>152,554</u>
	\$ 365,908	\$ 329,404
<b>EXPENSES</b>		
Financial expenses	39	15
Administrative expenses (Note F)	<u>165,152</u>	<u>153,021</u>
	165,191	153,036
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>\$200,717</b>	<b>\$176,368</b>

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ADF-3

## ASIAN DEVELOPMENT BANK-ASIAN DEVELOPMENT FUND

### SPECIAL PURPOSE STATEMENT OF CASH FLOWS

**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest charges on loans received	\$ 176,423	\$ 154,453
Interest on investments received	173,466	165,153
Cash received from other sources	159	146
Administrative expenses paid	(168,845)	(144,808)
Financial expenses paid	(39)	(15)
 Net Cash Provided by Operating Activities	181,164	174,929
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments	242,123	254,667
Maturities of investments <sup>2</sup>	100,008,330	67,647,666
Purchases of investments <sup>2</sup>	(101,179,873)	(68,431,103)
Principal collected on loans	390,173	312,320
Loans disbursed	(1,033,031)	(1,107,679)
 Net Cash Used in Investing Activities	(1,572,278)	(1,324,129)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received and encashed <sup>1</sup>	1,207,037	968,965
Net cash received from Ordinary Capital Resources	149,948	200,000
 Net Cash Provided by Financing Activities	1,356,985	1,168,965
Effect of Exchange Rate Changes on Due from Banks	7,300	5,560
 Net (decrease) increase in Due from Banks	(26,829)	25,325
Due from Banks at Beginning of Period	35,530	10,205
 Due from Banks at End of Period	\$ 8,701	\$ 35,530
<b>RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
 Excess of revenue over expenses (ADF-2)	\$ 200,717	\$ 176,368
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Capitalized charges on loans	(20,003)	(19,702)
Amortization of discounts/premiums	6,742	24,711
Change in accrued administrative expenses	(3,693)	8,213
Change in accrued revenue on investments and loans	(3,069)	(13,958)
Net loss (gain) on sales of investments	470	(703)
 Net Cash Provided by Operating Activities	\$ 181,164	\$ 174,929

1 Supplementary disclosure on noncash financing activities:

Nonnegotiable, noninterest-bearing demand promissory notes amounting to \$1,010,945 (\$541,576 - 2003) were received from contributing members.

2 Includes cashflows associated with securities transferred under securities lending and resale arrangements.

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ADF-4

## ASIAN DEVELOPMENT BANK-ASIAN DEVELOPMENT FUND

### SPECIAL PURPOSE STATEMENT OF CHANGES IN FUND BALANCES

**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	Contributed Resources	Set-Aside Resources	Transfers from OCR and TASF	Accumulated Surplus	Accumulated Other Comprehensive Income	Total
<b>Balance—</b>						
1 January 2003	\$20,790,249	\$64,491	\$232,951	\$1,755,189	\$ 9,691	\$22,852,571
Comprehensive income for the year 2003 (Note H)				176,368	296,301	472,669
Change in amount of contributed resources available for loan commitments	3,226,579					3,226,579
Transfer from ordinary capital resources			200,000			200,000
Change in SDR value of set-aside resources		6,255				6,255
Change in value of transfers from Technical Assistance Special Fund			507			507
<b>Balance—</b>						
31 December 2003	\$24,016,828	\$70,746	\$433,458	\$1,931,557	\$305,992	\$26,758,581
Comprehensive income for the year 2004 (Note H)				200,717	182,922	383,639
Change in amount of contributed resources available for loan commitments	2,275,770					2,275,770
Transfer from ordinary capital resources			150,000			150,000
Change in SDR value of set-aside resources		2,946				2,946
Change in value of transfers from Technical Assistance Special Fund			259			259
<b>Balance—</b>						
31 December 2004	\$26,292,598	\$73,692	\$583,717	\$2,132,274	\$488,914	\$29,571,195

### Accumulated Other Comprehensive Income (Note H)

**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	Accumulated Translation Adjustments		Unrealized Investment Holding Gains(Losses)		Accumulated Other Comprehensive Income	
	2004	2003	2004	2003	2004	2003
Balance, 1 January	\$ 300,135	\$ (10,429)	\$ 5,857	\$ 20,120	\$ 305,992	\$ 9,691
Other comprehensive income for the year	184,604	310,564	(1,682)	(14,263)	182,922	296,301
Balance, 31 December	<u>\$484,739</u>	<u>\$300,135</u>	<u>\$4,175</u>	<u>\$ 5,857</u>	<u>\$488,914</u>	<u>\$305,992</u>

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

## ASIAN DEVELOPMENT BANK-ASIAN DEVELOPMENT FUND

### SPECIAL PURPOSE SUMMARY STATEMENT OF LOANS

**31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

Borrowers/Guarantors <sup>1</sup>	Loans Outstanding	Undisbursed Balances of Effective Loans <sup>2</sup>	Loans Not Yet Effective <sup>2</sup>	Total Loans	Percent of Total Loans
Afghanistan	\$ 221,553	\$ 199,451	\$ 119,009	\$ 540,013	1.85
Azerbaijan	-	23,784	21,020	44,804	0.15
Bangladesh	5,251,867	1,060,729	208,186	6,520,782	22.35
Bhutan	86,663	21,023	-	107,686	0.37
Cambodia	529,717	238,416	134,478	902,611	3.09
Cook Islands	25,655	140	-	25,795	0.09
Indonesia	852,716	425,317	79,878	1,357,911	4.65
Kazakhstan	61,362	1,070	-	62,432	0.21
Kiribati	12,396	2,077	-	14,473	0.05
Kyrgyz Republic	468,723	115,639	42,377	626,739	2.15
Lao PDR	868,918	296,449	18,803	1,184,170	4.06
Maldives	53,583	30,813	5,852	90,248	0.31
Marshall Islands	65,123	11,445	-	76,568	0.26
Micronesia, Fed. States of	40,574	21,991	14,992	77,557	0.27
Mongolia	494,574	119,473	39,478	653,525	2.24
Myanmar	515,326	-	-	515,326	1.77
Nepal	1,352,372	497,919	137,457	1,987,748	6.81
Pakistan	5,037,849	1,127,614	240,663	6,406,126	21.95
Papua New Guinea	308,014	66,367	-	374,381	1.28
Philippines	965,574	10,225	-	975,799	3.34
Samoa	89,126	21,618	-	110,744	0.38
Solomon Islands	49,961	11,154	-	61,115	0.21
Sri Lanka	2,265,041	733,025	63,042	3,061,108	10.49
Tajikistan	79,093	136,311	58,114	273,518	0.94
Thailand	56,303	-	-	56,303	0.19
Tonga	49,506	-	-	49,506	0.17
Tuvalu	4,168	1,963	2,094	8,225	0.03
Uzbekistan	21,244	277	-	21,521	0.07
Vanuatu	53,740	-	-	53,740	0.19
Viet Nam	1,746,399	1,028,793	164,896	2,940,088	10.08
<b>BALANCE – 31 December 2004</b>	<b>\$21,627,140</b>	<b>\$6,203,083</b>	<b>\$1,350,339</b>	<b>\$29,180,562</b>	<b>100.00</b>
<b>BALANCE – 31 December 2003</b>	<b>\$20,046,522</b>	<b>\$5,956,466</b>	<b>\$1,335,197</b>	<b>\$27,338,185</b>	

<sup>1</sup> Loans other than those made directly to a member or to its central bank have been guaranteed by the member with the exception of loans to the private sector amounting to \$6,074 (\$5,962 - 2003).

<sup>2</sup> Loans negotiated before 1 January 1983 were denominated in current United States dollars. Loans negotiated after that date are denominated in Special Drawing Rights (SDR) for the purpose of commitment. The undisbursed portions of such SDR loans are translated into United States dollars at the applicable exchange rates as of the end of a reporting period. Of the undisbursed balances, ADB has entered into irrevocable commitments to disburse various amounts totalling \$53,400 (\$27,054 - 2003).

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ADF-5

## Maturity of Effective Loans

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2005	\$665,694	2014	5,440,580
2006	553,318	2019	6,106,836
2007	607,543	2024	5,759,185
2008	703,499	2029	4,072,524
2009	830,703	2034	2,488,226
		2039	536,455
		2044	65,660
		Total	\$27,830,223

## Summary of Currencies Receivable on Loans Outstanding

Currency	2004	2003	Currency	2004	2003
Australian dollar	\$ 313,536	\$ 371,139	New Zealand dollar	19,443	19,189
Canadian dollar	866,622	873,959	Norwegian krone	216,761	25,848
Danish krone	82,593	86,223	Pound sterling	185,677	202,286
Euro	3,377,058	3,145,215	Singapore dollar	1,776	957
Japanese yen	12,744,460	11,802,439	Swedish krona	97,525	102,266
Korean won	74,093	43,566	Swiss franc	354,169	306,761
Malaysian ringgit	5,574	4,524	Thai baht	2,692	1,989
			United States dollar	3,285,161	3,060,161
			Total	\$21,627,140	\$20,046,522

ADF-6

## ASIAN DEVELOPMENT BANK-ASIAN DEVELOPMENT FUND

### SPECIAL PURPOSE STATEMENT OF RESOURCES

**31 December 2004**

Expressed in Thousands of United States Dollars (Note B)

	Effective Amounts Committed During 2004	Effective Amounts Committed		Amounts			
		At Exchange Rates Per Resolutions	At 31 December 2004 Exchange Rates	Not Yet Available For Loan Commitments	Amounts Available For Loan Commitments	Amounts Received	Amounts Receivable
<b>CONTRIBUTED RESOURCES</b>							
Australia	\$ -	\$ 1,324,951	\$ 1,270,226	\$ -	\$ 1,270,226	\$ 1,270,226	\$ -
Austria	-	169,562	232,003	8,367	223,636	223,636	-
Belgium	-	159,126	202,152	-	202,152	202,152	-
Canada	-	1,413,316	1,471,926	-	1,471,926	1,471,926	-
Denmark	-	179,656	224,302	-	224,302	224,302	-
Finland	-	114,676	123,984	-	123,984	123,984	-
France	-	957,755	1,162,137	-	1,162,137	1,162,137	-
Germany	-	1,297,647	1,779,543	55,578	1,723,965	1,723,965	-
Hong Kong	-	36,550	36,550	-	36,550	36,550	-
Indonesia	-	14,960	14,960	-	14,960	14,960	-
Italy	150,043	818,732	778,146	-	778,146	778,146	-
Japan	-	7,502,667	12,697,800	-	12,697,800	12,697,800	-
Korea	-	158,580	154,374	-	154,374	154,374	-
Luxembourg	-	35,000	42,608	21,304	21,304	21,304	-
Malaysia	-	10,000	6,708	-	6,708	6,708	-
Nauru	-	1,933	1,933	-	1,933	1,433	500
The Netherlands	-	496,350	671,636	-	671,636	671,636	-
New Zealand	-	90,472	100,278	-	100,278	100,278	-
Norway	-	165,600	177,681	-	177,681	177,681	-
Portugal	-	47,142	69,722	-	69,722	69,722	-
Singapore	-	4,000	4,121	-	4,121	4,121	-
Spain	-	232,543	301,896	38,619	263,277	263,277	-
Sweden	-	288,985	277,047	-	277,047	277,047	-
Switzerland	-	250,051	372,247	-	372,247	372,247	-
Taipei,China	-	46,508	43,025	-	43,025	43,025	-
Thailand	-	6,642	5,183	-	5,183	5,183	-
Turkey	-	105,386	105,386	1,250	104,136	104,136	-
United Kingdom	-	862,613	954,554	-	954,554	954,554	-
United States	412,000	3,336,928	3,336,928	201,340	3,135,588	3,135,588	-
Totals	562,043	20,128,331	26,619,056	326,458	26,292,598	26,292,098 <sup>1</sup>	\$ 500
SET-ASIDE RESOURCES	-	-	73,692	-	73,692	-	-
TRANSFER FROM ORDINARY CAPITAL RESOURCES	150,000	-	580,000	-	580,000	-	-
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND <sup>2</sup>	-	-	3,717	-	3,717	-	-
<b>TOTALS</b>	<b>\$712,043</b>	<b>\$20,128,331</b>	<b>\$27,276,465</b>	<b>\$326,458</b>	<b>\$26,950,007</b>	<b>\$26,292,098</b>	<b>\$ 500</b>

<sup>1</sup> Excludes \$63,945 equivalent representing advance payments received but not yet available for loan commitments as of 31 December 2004.

<sup>2</sup> Includes translation adjustments amounting to \$245 as of 31 December 2004.

ADF-7

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

### NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

31 December 2004 and 2003

#### NOTE A—NATURE OF OPERATIONS

The Asian Development Fund (ADF) was established on 28 June 1974 to more effectively carry out the special operations of the Asian Development Bank (ADB) by providing resources on concessional terms which are made available almost exclusively to the least developed borrowing countries.

The resources of ADF have been subsequently augmented by seven replenishments, the most recent of which became effective in June 2001 in a total amount equivalent to \$2,791,483,000 to cover the operational requirements for the four-year period from January 2001. During the year, an allocation in the amount of \$150,000,000 (\$200,000,000 – 2003) was made to ADF from the 2003 net income of ADB's ordinary capital resources (OCR).

#### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In May 2001, the Board of Directors approved the adoption of the special purpose financial statements for ADF. Due to the nature and organization of ADF, these financial statements have been prepared for the specific purpose of reflecting the sources and applications of member subscriptions. With the adoption of the special purpose financial statements, loan loss provisioning has been eliminated. With the exception of the aforementioned, the ADF financial statements are prepared in accordance with accounting principles generally accepted in the United States.

##### *Functional Currencies and Reporting Currency*

The currencies of contributing member countries are functional currencies. The reporting currency is the United States dollar, and the special purpose financial statements are expressed in thousands of current United States dollars.

##### *Translation of Currencies*

Assets, liabilities, amounts available for loan commitments and advance payments on contributions are translated from their functional currencies to the reporting currency, generally at the applicable rates of exchange at the end of a reporting period. Revenue and expense amounts are translated for each semi-monthly period, generally at the applicable rates of exchange at the beginning of each period; such practice approximates

the application of average rates in effect during the period. Translation adjustments relating to set-aside resources (see Note G) are recorded as notional amounts receivable from or payable to OCR. All other translation adjustments are charged or credited to "Accumulated translation adjustments" and reported in "FUND BALANCES" as part of "Accumulated other comprehensive income."

##### *Investments*

All investment securities and negotiable certificate of deposits held by ADF are considered by Management to be "Available for Sale" and are reported at estimated fair value, which represents their fair market value. Time deposits are classified as "Held-to-Maturity" and are reported at cost. Unrealized gains and losses are reported in "FUND BALANCES" as part of "Accumulated other comprehensive income." Realized gains and losses are included in revenue from investments and are measured by the difference between amortized cost and the net proceeds of sales.

##### *Securities Transferred Under Securities Lending Arrangement and Securities Purchased Under Resale Arrangement*

ADB accounts for transfers of financial assets in accordance with FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FAS 125." In general, transfers are accounted for as sales when control over the transferred assets has been relinquished. Otherwise the transfers are accounted as repurchase/resale agreements and collateralized financing arrangements. Securities transferred under securities lending arrangements are recorded as assets and reported at estimated fair value. Securities received under resale arrangements are not recorded on ADB's balance sheets.

##### *Loans*

It is the policy of ADF to place in nonaccrual status loans made to eligible borrowing member countries if the principal or interest with respect to any such loans is overdue by six months. Interest on nonaccruing loans is included in revenue only to the extent that payments have actually been received by ADF. ADB maintains a position of not taking part in debt rescheduling agreements with respect to public sector loans. In the case of private sector loans, ADB may agree to debt rescheduling only after

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

### NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

31 December 2004 and 2003

alternative courses of action have been exhausted. When ADB decides that a particular loan is no longer collectible, the entire amount will be expensed during the period.

#### *Contributed Resources*

Contributions by member countries are included in the financial statements as amounts committed and are reported in "Contributed Resources" as part of "FUND BALANCES" from the date Instruments of Contribution are deposited and related formalities are completed.

Contributions are generally paid or to be paid in the currency of the contributor either in cash or notes.

#### *Accounting Estimates*

The preparation of special purpose financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and fund balances as at the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

#### *Special Purpose Statement of Cash Flows*

For the purposes of the special purpose statement of cash flows, ADF considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

#### *Reclassification*

Certain reclassifications of prior year's amounts and information have been made to conform to the current year's presentation.

#### NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. In the US dollar portfolio only and up to limited amounts, investments may be made in corporate bonds rated A or better, AAA-rated asset-backed securities, and

AAA-rated mortgage-backed securities. Securities may be lent, borrowed, and sold short.

The currency compositions of the investment portfolio as of 31 December 2004 and 2003 expressed in United States dollars are as follows:

Currency	2004	2003
Australian dollar	\$1,120,776,000	\$1,038,683,000
Canadian dollar	732,119,000	540,541,000
Danish krone	147,984,000	114,377,000
Euro	2,275,301,000	1,744,002,000
Japanese yen	72,094,000	36,211,000
New Zealand dollar	90,738,000	69,059,000
Norwegian krone	19,214,000	172,654,000
Pound sterling	974,282,000	835,155,000
Swedish krone	172,159,000	125,324,000
United States dollar	185,156,000	75,923,000
	5,789,823,000	4,751,929,000
Less: Securities transferred under securities lending arrangement	(198,010,000)	(459,469,000)
Securities purchased under resale arrangement	(60,962,000)	(4,500,000)
Total	<u>\$5,530,851,000</u>	<u>\$4,287,960,000</u>

The estimated fair value and amortized cost of the investments by contractual maturity at 31 December 2004 are as follows:

	Estimated Fair Value	Amortized Cost
Due in one year or less	\$4,187,834,000	\$4,185,989,000
Due after one year through five years	1,601,989,000	1,599,659,000
Total	<u>\$5,789,823,000</u>	<u>\$5,785,648,000</u>

Additional information relating to investments in government and government-guaranteed obligations and corporate bonds, including securities transferred under securities lending arrangements, is as follows:

As of 31 December:	2004	2003
Amortized cost	\$3,821,427,000	\$3,232,058,000
Estimated fair value	3,825,602,000	3,237,915,000
Gross unrealized gains	6,206,000	12,060,000
Gross unrealized losses	(2,031,000)	(6,203,000)
For the years ended 31 December:		
Change in net unrealized losses from prior year	(1,682,000)	(14,263,000)
Proceeds from sales	242,123,000	254,667,000
Gross gain on sales	327,000	722,000
Gross loss on sales	(797,000)	(19,000)

ADF-7

CONTINUED

The annualized rate of return on the average investments held during the year, including securities transferred under securities lending arrangement and securities purchased under resale arrangement, based on the portfolio held at the beginning and end of each month, excluding unrealized gains and losses on investment securities, was 3.43% (3.91% - 2003). If unrealized gains and losses on investment securities were included, the annualized rate of return would have been 3.39% (3.55% - 2003).

As of 31 December 2004, gross unrealized losses amounted to \$2,031,000 (\$6,203,000 - 2003) from government and government-guaranteed obligations and corporate bonds, resulting from market movements. There are eleven positions (four - 2003) that sustained unrealized losses for over one year, representing only 4.7% (1.6% - 2003) of the investments. Additional details are as follows:

	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government and government-guaranteed obligations	\$326,972,000	\$658,000	\$160,605,000	\$ 958,000	\$ 487,577,000	\$1,616,000
Corporate bonds	132,806,000	181,000	111,253,000	234,000	244,059,000	415,000
Total	<u>\$459,778,000</u>	<u>\$839,000</u>	<u>\$271,858,000</u>	<u>\$1,192,000</u>	<u>\$731,636,000</u>	<u>\$2,031,000</u>

#### NOTE D—LOANS AND LOAN LOSS PROVISION

##### *Loans*

Prior to 1 January 1999, loans of ADF were extended to eligible borrowing member countries, which bore a service charge of 1% and required repayment over periods ranging from 35 to 40 years. On 14 December 1998, the Board of Directors approved an amendment to ADF loan terms, as follows: (i) for loans to finance specific projects, the maturity was shortened to 32 years including an 8-year grace period; (ii) for program loans to support sector development, the maturity was shortened to 24 years including an 8-year grace period; and (iii) all new loans bear a 1% interest charge during the grace period, and 1.5% during the amortization period, with equal amortization. The revised ADF lending terms took effect on 1 January 1999 for loans for which formal loan negotiations were completed on or after 1 January 1999. ADF requires borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies disbursed.

ADB believes that there is no comparable market, nor ADB intends to sell its loans. The use of market data to arrive at the loan at fair value will give meaningless results. As such, the fair value of loans is determined using an entry value method. Under this method, fair value is determined based on the terms

at which a similar loan would currently be made by ADB to a similar borrower. For such loans, fair value approximates the carrying amount. The estimated fair value of loans is not affected by credit risks because the amount of any such adjustment is not considered to have a material effect based on ADB's experience with its borrowers.

Undisbursed loan commitments and an analysis of loans by country as of 31 December 2004 are shown in ADF-5.

The principal amount outstanding of public sector loans in nonaccrual status as of 31 December 2004 was \$515,326,000 (\$495,974,000 - 2003) of which \$135,776,000 (\$106,895,000 - 2003) was overdue. Loans in nonaccrual status resulted in \$4,906,000 (\$4,620,000 - 2003) not being recognized as income from loans for the year ended 31 December 2004. The accumulated interest on these loans that was not recognized as income as of 31 December 2004 would have totaled \$33,187,000 (\$28,281,000 - 2003). The loans in nonaccrual status as of 31 December 2004 were 28 loans made to Myanmar (28 loans to Myanmar - 2003).

No private sector loan was in nonaccrual status as of 31 December 2004 (nil - 2003).

Private sector loan outstanding as of 31 December 2004 was \$6,074,000 (\$5,962,000 - 2003), and there was no undisbursed loan commitment (nil - 2003).

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

### NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

31 December 2004 and 2003

#### NOTE E—DUE FROM CONTRIBUTOR

Included in “Due from contributors” are notes of contributors and contributions receivable. Notes of contributors are nonnegotiable, noninterest-bearing and, subject to certain restrictions imposed by applicable Board of Governors’ resolutions, encashable by ADB at par upon demand.

ADB currently expects that the notes outstanding at 31 December 2004 will be encashed in varying amounts over a seven-year period ending 31 December 2011.

The fair value of notes of contributors is determined using an entry value method, whereby fair value is determined based on the terms at which notes are currently being accepted from contributors. On this basis, the fair value of outstanding notes of contributors approximates their carrying amount.

#### NOTE F—ADMINISTRATIVE EXPENSES AND ADMINISTRATION CHARGE

Administrative expenses for 2004 included a directly identifiable expense of \$1,000 (\$3,000 – 2003) and administration charge from OCR amounting to \$165,151,000 (\$153,018,000 – 2003). The charge represents an apportionment of all administrative expenses of ADB (other than those pertaining directly to ordinary operations and special operations), in the proportion of the relative volume of operational activities of each fund.

#### NOTE G—SET-ASIDE RESOURCES

Pursuant to the provisions of Article 19, paragraph 1(i) of the Articles of Agreement Establishing the Asian Development Bank (the Charter), the Board of Governors has authorized the setting aside of 10% of the unimpaired “paid-in” capital paid by member countries pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by member countries pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973, to be used as a part of the Special Funds of ADB. The capital so set aside was allocated and transferred from the OCR to ADF as Set-Aside Resources.

The capital stock of ADB is defined in Article 4, paragraph 1 of the Charter, “in terms of United States dollars of the weight and fineness in effect on 31 January 1966” (the 1966 dollar). Therefore, Set-Aside Resources had historically been

translated into the current United States dollar (ADB’s unit of account), on the basis of its par value in terms of gold. From 1973 until 31 March 1978, the rate arrived at on this basis was \$1.20635 per 1966 dollar. Since 1 April 1978, at which time the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, currencies no longer had par values in terms of gold. Pending ADB’s selection of the appropriate successor to the 1966 dollar, the Set-Aside Resources have been valued for purposes of the accompanying financial statements in terms of the Special Drawing Right (SDR), at the value in current United States dollars as computed by the IMF. As of 31 December 2004, the value of the SDR in terms of the current United States dollar was \$1.54784 (\$1.48597 – 2003). On this basis, Set-Aside Resources amounted to \$73,692,000 (\$70,746,000 – 2003). If the capital stock of ADB as of 31 December 2004 had been valued in terms of \$12,063.50 per share, Set-Aside Resources would have been \$57,434,000.

#### NOTE H—COMPREHENSIVE INCOME

Comprehensive income has two major components: excess of revenue over expenses and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities and currency translation adjustments.

#### NOTE I—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value.

If available, quoted market values are used to determine fair values. Financial instruments for which market quotations are not readily available are valued using methodologies and assumptions which necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction, or whether they are actually exchangeable is not determinable.

The carrying amounts of ADF’s assets, liabilities, and fund balances are considered to approximate fair values for all significant financial instruments. See Notes B, C, D, and E for discussions relating to investments, loans, and notes of contributors.



#### REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank—Technical Assistance Special Fund at 31 December 2004 and 2003, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Asian Development Bank; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying statement of resources as at 31 December 2004 and summary statement of technical assistance approved and effective for the year ended 31 December 2004 are presented for purposes of additional analyses and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

Detroit, Michigan  
14 March 2005

TASF-1

**ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND****STATEMENT OF FINANCIAL POSITION****31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004	2003
<b>ASSETS</b>		
DUE FROM BANKS (Note B)	\$ 1,600	\$ 2,116
INVESTMENTS (Notes B and C)		
Time deposits	\$240,425	\$175,152
Corporate bonds	<u>—</u>	<u>53,341</u>
ACCRUED REVENUE	425	1,146
OTHER ASSETS (Note F)	6,908	7,925
<b>TOTAL</b>	<b>\$249,358</b>	<b>\$239,680</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
MISCELLANEOUS LIABILITIES (Note F)	\$ 52	\$ 15
UNDISBURSED COMMITMENTS (Notes B and E)	150,121	135,553
UNCOMMITTED BALANCES (TASF-2 and TASF-4) (Note B)		
Unrestricted net assets	99,185	104,112
<b>TOTAL</b>	<b>\$249,358</b>	<b>\$239,680</b>

The accompanying notes are an integral part of these financial statements (TASF-6).

TASF-2

**ASIAN DEVELOPMENT BANK-TECHNICAL ASSISTANCE SPECIAL FUND****STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS****For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004	2003
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
CONTRIBUTIONS (TASF-4) (Notes B and D)	\$ 50,050	\$ 80,070
REVENUE		
From investments (Notes B and C)		
Interest	\$ 5,025	\$ 6,629
Unrealized investment losses	<u>—</u>	<u>(1,301)</u>
	5,025	5,328
From other sources-net (Note E)	<u>1,371</u>	<u>6,396</u>
Total	<u>56,446</u>	<u>508</u>
	<u>56,446</u>	<u>5,836</u>
EXPENSES		
Technical assistance (TASF-5) (Notes B and E)	73,519	80,125
Financial expenses	<u>16</u>	<u>9</u>
Total	<u>73,535</u>	<u>80,134</u>
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(17,089)	5,772
EXCHANGE GAINS—net (Note B)	<u>12,162</u>	<u>30,002</u>
(DECREASE) INCREASE IN NET ASSETS	<u>(4,927)</u>	<u>35,774</u>
NET ASSETS AT BEGINNING OF YEAR	104,112	68,338
NET ASSETS AT END OF YEAR	<b>\$99,185</b>	<b>\$104,112</b>

The accompanying notes are an integral part of these financial statements (TASF-6).

TASF-3

## ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

### STATEMENT OF CASH FLOWS

**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received	\$ 50,383	\$ 80,450
Interest on investments received	6,686	7,014
Cash received from other activities	1,354	572
Technical assistance disbursed	(58,235)	(42,452)
Financial expenses paid	(16)	(9)
 Net Cash Provided by Operating Activities	 172	 45,575
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments	12,129	7,759
Maturities of investments	6,163,639	4,076,605
Purchases of investments	(6,176,504)	(4,130,238)
 Net Cash Used in Investing Activities	 (736)	 (45,874)
Effect of Exchange Rate Changes on Due from Banks	48	623
 Net (Decrease) Increase in Due from Banks	 (516)	 324
Due from Banks at Beginning of Year	2,116	1,792
 Due from Banks at End of Year	 \$ 1,600	 \$ 2,116
<b>RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
(Decrease) Increase in net assets (TASF-2)	\$ (4,927)	\$ 35,774
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Change in undisbursed commitments	14,568	38,953
Translation adjustments	(12,179)	(29,938)
Amortization of discounts/premiums	917	782
Change in advances for technical assistance to member countries	691	(1,146)
Change in accrued interest receivable and others	772	(137)
Change in contributions receivable	333	380
Change in unrealized investment (gains) losses	(4)	1,301
Loss (Gain) on sale of investments	1	(394)
 Net Cash Provided by Operating Activities	 \$ 172	 \$ 45,575

The accompanying notes are an integral part of these financial statements (TASF-6).

TASF-4

## ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

### STATEMENT OF RESOURCES

**31 December 2004**

Expressed in Thousands of United States Dollars (Note B)

	Contributions Committed During 2004	Direct Voluntary Contributions	Regularized Replenishment <sup>1</sup>	Total Contributions
<b>DIRECT VOLUNTARY CONTRIBUTIONS</b>				
Australia	\$ -	\$ 2,484	\$ 14,830	\$ 17,314
Austria	-	159	1,845	2,004
Bangladesh	-	47	-	47
Belgium	-	1,394	1,594	2,988
Canada	-	3,346	16,200	19,546
China, People's Rep. of	-	1,600	-	1,600
Denmark	-	1,963	2,040	4,003
Finland	-	237	938	1,175
France	-	1,697	11,091	12,788
Germany	-	3,315	13,694	17,009
Hong Kong, China	-	100	120	220
India	50	2,907	-	2,907
Indonesia	-	250	40	290
Italy	-	774	9,371	10,145
Japan	-	47,710	79,206	126,916
Korea, Rep. of	-	1,900	600	2,500
Malaysia	-	909	-	909
Nauru	-	-	67	67
The Netherlands	-	1,338	5,327	6,665
New Zealand	-	1,096	666	1,762
Norway	-	3,279	1,822	5,101
Pakistan	-	1,596	-	1,596
Singapore	-	1,100	-	1,100
Spain	-	190	1,709	1,899
Sri Lanka	-	6	-	6
Sweden	-	861	3,787	4,648
Switzerland	-	1,035	2,708	3,743
Taipei, China	-	200	500	700
Turkey	-	-	2,354	2,354
United Kingdom	-	5,617	8,222	13,839
United States	-	1,500	34,352	35,852
<b>Total</b>		<b>\$88,610</b>	<b>\$213,083</b>	<b>301,693</b>
Transfers to Asian Development Fund				(3,472)
Allocation from OCR Net Income	50,000			631,000
Other Resources <sup>2</sup>				132,749
<b>TOTAL</b>				<b>\$1,061,970</b>

<sup>1</sup> Represents TASF portion of contributions to the replenishment of the Asian Development Fund and the Technical Assistance Special Fund authorized by Governors' Resolution Nos. 182 and 214 at historical values.

<sup>2</sup> Represents income, repayments, and reimbursement accruing to TASF since 1980, including unrealized investment holding gains (losses).

The accompanying notes are an integral part of these financial statements (TASF-6).

TASF-5

## **ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND**

### **SUMMARY STATEMENT OF TECHNICAL ASSISTANCE APPROVED AND EFFECTIVE**

**For the Year Ended 31 December 2004**

Expressed in Thousands of United States Dollars (Note B)

Recipient	Project Preparation	Project Implementation/ Advisory	Total
Afghanistan	\$ 3,950	\$ 9,040	\$ 12,990
Azerbaijan	150	250	400
Bangladesh	1,030	278	1,308
Bhutan	(30)	597	567
Cambodia	—	477	477
China, People's Rep. of	4,572	7,386	11,958
Cook Islands	—	650	650
Fiji Islands	—	1,056	1,056
India	150	156	306
Indonesia	3,861	2,118	5,979
Kazakhstan	609	200	809
Kiribati	—	188	188
Kyrgyz Republic	—	(80)	(80)
Lao PDR	1,470	520	1,990
Maldives	—	627	627
Micronesia, Fed. States of	—	839	839
Mongolia	—	829	829
Nepal	(63)	2,075	2,012
Pakistan	735	1,947	2,682
Papua New Guinea	—	192	192
Philippines	250	1,559	1,809
Samoa	350	900	1,250
Solomon Islands	—	900	900
Sri Lanka	1,400	1,448	2,848
Tajikistan	—	597	597
Thailand	—	(108)	(108)
Timor-Leste	—	630	630
Tonga	—	232	232
Tuvalu	—	158	158
Uzbekistan	550	755	1,305
Vanuatu	(47)	682	635
Viet Nam	691	407	1,098
 Total	 <u>\$19,628</u>	 <u>\$37,505</u>	 <u>57,133</u>
Regional Activities			16,386
 <b>TOTAL</b>			 <b>\$73,519</b>

Negative amounts represent net undisbursed commitments written back to balances available for future commitments (Notes B and E).

The accompanying notes are an integral part of these financial statements (TASF-6).

TASF-6

## ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

#### NOTE A—NATURE OF OPERATIONS

The Technical Assistance Special Fund (TASF) was established to provide technical assistance on a grant basis to developing member countries of the Asian Development Bank (ADB) and for regional technical assistance. TASF resources consist of direct voluntary contributions by members, allocations from the net income of ordinary capital resources (OCR) and Asian Development Fund (ADF) contributions, and revenue from investments and other sources.

#### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Presentation of the Financial Statements*

The financial statements of the TASF are presented on the basis of unrestricted and temporarily restricted net assets.

TASF reports contributed cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. There were no restricted net assets at 31 December 2004 and 2003.

##### *Investments*

All investment securities held by TASF are reported at estimated fair value, which represents their fair market value. Realized and unrealized gains and losses are included in revenue. Time deposits are classified as "Held-to-Maturity" and are reported at cost.

##### *Contributions*

Contributions from members are included in the financial statements from the date contribution agreements become effective. Contributions from donors which are restricted by them to technical assistance (TA) projects/programs with specified procurement sources are classified as temporarily restricted contributions. Those without any stipulations as to specific use are accounted for as unrestricted contributions.

##### *Technical Assistance to Member Countries*

Technical assistance is recognized in the financial statements when the related project is approved and becomes effective. Upon completion of the TA project, any undisbursed amount is written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment is eliminated accordingly.

##### *Reporting Currency*

The financial statements of TASF are expressed in thousands of current United States dollars. As a matter of convenience, the United States dollar is the functional and reporting currency and is used to measure exchange gains and losses.

##### *Translation of Currencies*

Assets, liabilities, and uncommitted balances in currencies other than United States dollars are translated at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts in currencies other than United States dollars are translated for each semimonthly period generally at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period. Translation adjustments are accounted for as exchange gains or losses and are credited or charged to operations.

##### *Accounting Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as at the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

##### *Statement of Cash Flows*

For the purposes of the statement of cash flows, the TASF considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

## ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

#### NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. In the US dollar portfolio only and up to limited amounts, investments may be made in corporate bonds rated A or better, AAA-rated asset-backed securities, and AAA-rated mortgage-backed securities.

The currency compositions of the investment portfolio as of 31 December 2004 and 2003 expressed in United States dollars are as follows:

Currency	2004	2003
Australian dollar	\$ 9,208,000	\$ 8,359,000
Canadian dollar	144,221,000	131,321,000
Euro	16,934,000	15,315,000
United States dollar	64,841,000	68,789,000
Others	5,221,000	4,709,000
Total	<u>\$240,425,000</u>	<u>\$228,493,000</u>

The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month was 2.14% (2.78% – 2003).

#### NOTE D—FUNDING

Since inception in 1967, direct contributions have been made by 29 member countries. In 1986 and 1992, the Board of Governors, in authorizing a replenishment of the ADF, provided for an allocation to the TASF in an aggregate amount equivalent to \$72,000,000 and \$140,000,000, respectively, to be used for technical assistance to ADF borrowing developing member countries and for regional technical assistance.

In 2004, \$50,000,000 was allocated out of OCR net income to TASF bringing the accumulated allocation out of OCR net income to \$631,000,000.

Some of the direct contributions received can be subject to restricted procurement sources, while some are given on condition that the technical assistance be made on a reimbursable basis. The total contributions received for the years ended 31 December 2004 and 2003 were without restrictions.

#### NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent effective ongoing grant-financed TA projects/programs which are not yet disbursed as of the end of the year. During 2004, an amount of \$6,283,000 (\$10,136,000 – 2003) representing completed and canceled TA projects has been written back as a reduction in technical assistance of the period and the corresponding undisbursed commitment has been eliminated. The fair value of undisbursed commitments approximates the amounts undisbursed because ADB expects that grants will be made for all projects/programs covered by the commitments. For technical assistance approved prior to 1 January 2002, and provided as a project preparatory grant leading to an ADB loan, the amount of the grant exceeding \$250,000 are refunded by the borrower through the loan proceeds under the terms of that ADB loan. Refinanced amount of \$1,337,000 (\$458,000 – 2003) was charged to such loans and credited to revenue from other sources of the TASF during the year ended 31 December 2004. All project preparatory technical assistance (PPTA) funded from TASF and OCR current income approved on or after 1 January 2002 are no longer subject to cost recovery.

#### NOTE F—OTHER ASSETS AND MISCELLANEOUS LIABILITIES

Included in other assets and miscellaneous liabilities as of 31 December 2004 is an amount receivable from Agency Trust Funds of \$28,000 (\$20,000 – 2003), and amounts payable to Ordinary Capital Resources of \$51,000 (\$15,000 – 2003) and to Japan Special Fund of \$1,000 (nil – 2003).

#### NOTE G—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value and thus unrealized loss was not incurred as of 31 December 2004.

The carrying amounts of TASF's assets, liabilities, and uncommitted balances are considered to approximate fair values for all significant financial instruments. See Notes B and E for discussions with respect to investments and undisbursed commitments, respectively.



#### REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank—Japan Special Fund at 31 December 2004 and 2003, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Asian Development Bank; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Detroit, Michigan

14 March 2005

JSF-1

**ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND****STATEMENT OF FINANCIAL POSITION****31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004			2003			
	ACCSF	JSF Regular and Supplementary		Total	ACCSF	JSF Regular and Supplementary	
		ACCSF	Total			Total	ACCSF
<b>ASSETS</b>							
DUE FROM BANKS (Note B)	\$ 327	\$ 1,017	\$ 1,344	\$ 640	\$ 1,977	\$ 2,617	
INVESTMENTS (Notes A, B, and C)							
Government and government-guaranteed obligations	5,019	25,095	30,114	3,045	46,709	49,754	
Time deposits	17,324	83,506	100,830	28,820	22,781	51,601	
Other securities	11,324	102,018	113,342	5,687	150,613	156,300	
	33,667	210,619	244,286	37,552	220,103	257,655	
EQUITY INVESTMENTS (Notes A, B, and D), net	—	—	—	—	111	111	
ACCRUED REVENUE	396	1,682	2,078	172	3,218	3,390	
OTHER ASSETS (Note E)	71	2,579	2,650	275	3,538	3,813	
<b>TOTAL</b>	<b>\$34,461</b>	<b>\$215,897</b>	<b>\$250,358</b>	<b>\$38,639</b>	<b>\$228,947</b>	<b>\$267,586</b>	
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>							
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note E)	\$ 604	\$ 120	\$ 724	\$ 1,411	\$ 218	\$ 1,629	
UNDISBURSED COMMITMENTS (Notes B and F)							
Technical assistance	4,970	66,548	71,518	9,759	88,521	98,280	
NET ASSETS (JSF-2) (Note B), represented by:							
Uncommitted balances (Notes A and G)							
Unrestricted	—	149,229	149,229	—	140,208	140,208	
Temporarily restricted	26,022	—	26,022	25,067	—	25,067	
	26,022	149,229	175,251	25,067	140,208	165,275	
Net accumulated investment income (Notes A and G)							
Temporarily restricted	2,865	—	2,865	2,402	—	2,402	
	28,887	149,229	178,116	27,469	140,208	167,677	
<b>TOTAL</b>	<b>\$34,461</b>	<b>\$215,897</b>	<b>\$250,358</b>	<b>\$38,639</b>	<b>\$228,947</b>	<b>\$267,586</b>	

The accompanying notes are an integral part of these financial statements (JSF-4).

JSF-2

**ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND**
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**
**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004			2003			
	ACCSF	JSF Regular and Supplementary		Total	ACCSF	JSF Regular and Supplementary	
							Total
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>							
CONTRIBUTIONS (Notes B and G)	\$ -	\$ 24,238	\$ 24,238	\$ -	\$ 16,633	\$ 16,633	
REVENUE FROM INVESTMENTS (Notes B and C)	-	3,302	3,302	-	3,260	3,260	
REVENUE FROM EQUITY INVESTMENTS (Note D)	-	900	900	-	-	-	
REVENUE FROM OTHER SOURCES	-	111	111	-	53	53	
NET ASSETS (REVERTED BACK) RELEASED FROM RESTRICTIONS (Notes B and G)	(925)	-	(925)	1,195	-	1,195	
Total	(925)	28,551	27,626	1,195	19,946	21,141	
TRANSFER TO COOPERATION FUND FOR REGIONAL TRADE AND FINANCIAL SECURITY INITIATIVE (Note G)	-	(1,000)	(1,000)	-	-	-	
EXPENSES							
Technical assistance (Notes B and F)	(951)	18,553	17,602	1,147	38,342	39,489	
Administrative expenses	26	1,125	1,151	48	1,213	1,261	
Financial expenses	-	1	1	-	9	9	
Total	(925)	19,679	18,754	1,195	39,564	40,759	
CONTRIBUTIONS AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	-	7,872	7,872	-	(19,618)	(19,618)	
EXCHANGE GAINS (LOSSES) (Note B)	-	1,149	1,149	-	(312)	(312)	
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	-	9,021	9,021	-	(19,930)	(19,930)	
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>							
REVENUE FROM INVESTMENTS AND OTHER SOURCES (Notes B and C)	493	-	493	635	-	635	
NET ASSETS REVERTED BACK (RELEASED FROM) RESTRICTIONS (Notes B and G)	925	-	925	(1,195)	-	(1,195)	
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	1,418	-	1,418	(560)	-	(560)	
INCREASE (DECREASE) IN NET ASSETS	1,418	9,021	10,439	(560)	(19,930)	(20,490)	
NET ASSETS AT BEGINNING OF YEAR	27,469	140,208	167,677	28,029	160,138	188,167	
NET ASSETS AT END OF YEAR	\$28,887	\$149,229	\$178,116	\$27,469	\$140,208	\$167,677	

The accompanying notes are an integral part of these financial statements (JSF-4).

JSF-3

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

### STATEMENT OF CASH FLOWS

**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	2004			2003				
	ACCSF	JSF Regular and Supplementary		Total	ACCSF	JSF Regular and Supplementary		Total
		ACCSF	Supplementary			ACCSF	Supplementary	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Contributions received	\$ -	\$ 24,238	\$ 24,238	\$ -	\$ 16,633	\$ 16,633		
Interest on investments received	858	11,035	11,893	2,289	11,500	13,789		
Technical assistance disbursed	(4,441)	(39,667)	(44,108)	(11,669)	(41,718)	(53,387)		
Interest assistance paid	-	-	-	(12,536)	-	(12,536)		
Transfer to Cooperation Fund for Regional Trade and Financial Security Initiative	-	(1,000)	(1,000)	-	-	-		
Administrative expenses paid	(26)	(1,220)	(1,246)	(102)	(1,193)	(1,295)		
Financial expenses paid	-	(1)	(1)	-	(9)	(9)		
Others—net	4	112	116	3	(250)	(247)		
Net Cash Used in Operating Activities	<u>(3,605)</u>	<u>(6,503)</u>	<u>(10,108)</u>	<u>(22,015)</u>	<u>(15,037)</u>	<u>(37,052)</u>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Sales of investments	-	-	-	-	20,113	20,113		
Maturities of investments	2,949,375	5,526,446	8,475,821	1,883,001	9,871,962	11,754,963		
Purchases of investments	(2,946,083)	(5,522,822)	(8,468,905)	(1,861,002)	(9,875,773)	(11,736,775)		
Sales of equity investments	-	1,017	1,017	-	-	-		
Net Cash Provided by Investing Activities	<u>3,292</u>	<u>4,641</u>	<u>7,933</u>	<u>21,999</u>	<u>16,302</u>	<u>38,301</u>		
Effect of Exchange Rate Changes on Due from Banks	-	902	902	-	1	1		
Net (Decrease) Increase in Due from Banks	<u>(313)</u>	<u>(960)</u>	<u>(1,273)</u>	<u>(16)</u>	<u>1,266</u>	<u>1,250</u>		
Due from Banks at Beginning of Period	<u>640</u>	<u>1,977</u>	<u>2,617</u>	<u>656</u>	<u>711</u>	<u>1,367</u>		
Due from Banks at End of Period	<u>\$ 327</u>	<u>\$ 1,017</u>	<u>\$ 1,344</u>	<u>\$ 640</u>	<u>\$ 1,977</u>	<u>\$ 2,617</u>		
<b>RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:</b>								
Increase (Decrease) in net assets (JSF-2)	\$ 1,418	\$ 9,021	\$ 10,439	\$ (560)	\$ (19,930)	\$ (20,490)		
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:								
Change in undisbursed commitments	(4,789)	(21,973)	(26,762)	(9,720)	(5,910)	(15,630)		
Amortization of discounts/premiums	562	6,074	6,636	1,069	6,189	7,258		
Translation adjustment	-	(1,228)	(1,228)	-	(14)	(14)		
Gain from sales of equity investments	-	(900)	(900)	-	-	-		
Unrealized investment losses	31	125	156	49	275	324		
Net loss from sales of investments	-	-	-	-	2	2		
Others—net	<u>(827)</u>	<u>2,378</u>	<u>1,551</u>	<u>(12,853)</u>	<u>4,351</u>	<u>(8,502)</u>		
Net Cash Used in Operating Activities	<u>\$ (3,605)</u>	<u>\$ (6,503)</u>	<u>\$ (10,108)</u>	<u>\$ (22,015)</u>	<u>\$ (15,037)</u>	<u>\$ (37,052)</u>		

The accompanying notes are an integral part of these financial statements (JSF-4).

JSF-4

## ASIAN DEVELOPMENT BANK–JAPAN SPECIAL FUND

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

#### NOTE A—NATURE OF OPERATIONS

The Japan Special Fund (JSF) was established in March 1988 when Japan and the Asian Development Bank (ADB) entered into a financial arrangement whereby Japan agreed to make an initial contribution and ADB became the administrator. The purpose of JSF is to help developing member countries (DMCs) of ADB restructure their economies and broaden the scope of opportunities for new investments, thereby assisting the recycling of funds to DMCs of ADB. While JSF resources are used mainly to finance technical assistance (TA) operations, these resources may also be used for equity investment operations in ADB's DMCs. Under the agreement between ADB and Japan, ADB may invest the proceeds of JSF pending disbursement.

In March 1999, the Board approved the acceptance and administration by ADB of the Asian Currency Crisis Support Facility (ACCSF) to assist Asian currency crisis-affected member countries (CAMCs). Funded by Japan, ACCSF was established within JSF to assist in the economic recovery of CAMCs through interest payment assistance (IPA) grants, TA grants, and guarantees. With the general fulfillment of the purpose of the facility, Japan and ADB agreed to terminate the ACCSF on 22 March 2002. An amount of \$90 million in the ACCSF account, upon request of Japan, was transferred to the Japan Fund for Poverty Reduction (JFPR). JFPR, established by Japan in May 2000 supporting innovative poverty reduction and related social development activities, is one of the trust funds managed by ADB. The ACCSF account is to be kept open until the completion of all TA disbursements and the settlement of all administrative expenses.

#### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Presentation of the Financial Statements*

The financial statements of JSF are presented on the basis of unrestricted and temporarily restricted net assets. ACCSF funds are separately reported in the financial statements.

JSF reports the contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as "NET ASSETS RELEASED FROM RESTRICTIONS."

##### *Investments*

All investment securities held by JSF are reported at estimated fair value, which represents their fair market value. Realized and unrealized gains and losses are included in revenue. Time deposits are classified as "Held-to-Maturity" and are reported at cost.

##### *Contributions*

Contributions by Japan are included in the financial statements from the date indicated by Japan that funds are expected to be made available. Contributions which are restricted by the donor for specific TA projects/programs or for IPA grants are classified as temporarily restricted contributions. Those without any stipulation as to specific use are accounted for and reported as unrestricted contributions.

##### *Technical Assistance*

Technical assistance is recognized in the financial statements when the related project is approved and becomes effective. Upon completion of the TA project or cancellation of a grant, any undisbursed amount is written back as a reduction in TA for the year and the corresponding undisbursed commitment is eliminated, accordingly.

##### *Functional Currency and Reporting Currency*

The United States dollar is considered the functional currency as it has become the currency of the primary economic operating environment of the Fund. The reporting currency is the United States dollar. The financial statements are expressed in thousands of current United States dollars.

##### *Translation of Currencies*

Assets, liabilities, and uncommitted balances are translated to the reporting currency at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the year are translated at the applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts are translated for each semimonthly period at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period. Exchange

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

gains or losses on currency transactions arise on exchange differences between the date a project/program is committed and the timing of disbursements. Exchange gains or losses are credited or charged to operations.

#### *Equity Investments*

Equity investments with readily determinable fair values are reported at fair value using quoted market prices.

#### *Accounting Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year and the reported amounts of income and expenses during the year. The actual results could differ from those estimates.

#### *Statement of Cash Flows*

For the purposes of the statement of cash flows, the JSF considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

#### NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. In the US dollar portfolio only and up to limited amounts, investments may be made in corporate bonds rated A or better, AAA-rated asset-backed securities, and AAA-rated mortgage-backed securities.

The investment portfolios of both JSF and ACCSF as of 31 December 2004 and 2003 are comprised of United States dollars holdings. Included in other securities as of 31 December 2004 were all corporate bonds.

The annualized rates of return on the average investments held under ACCSF and JSF funds during the year, based on the portfolio held at the beginning and end of each month were 1.35% and 1.47%, respectively (1.45% and 1.30%, respectively - 2003).

#### NOTE D—EQUITY INVESTMENTS

ADB used JSF resources to make an equity investment in India in 1990. In 2004, JSF sold this equity investment and realized a net gain of \$900,000.

#### NOTE E—OTHER ASSETS AND LIABILITIES

Included in other assets and liabilities are advances made for TAs totaling \$2,042,000 (\$2,398,000 – 2003) and interfund transfers as follows:

	<b>2004</b>	<b>2003</b>
<b>Amounts Receivable by JSF from:</b>		
ACCSF	\$604,000	\$1,410,000
Technical Assistance Special Fund	1,000	–
<b>Total</b>	<b>\$605,000</b>	<b>\$1,410,000</b>
<b>Amounts Payable by:</b>		
JSF to: Ordinary Capital Resources	\$ 50,000	\$ 141,000
Agency Trust Funds	–	8,000
<b>Total</b>	<b>50,000</b>	<b>149,000</b>
ACCSF to: Japan Special Fund	604,000	1,410,000
<b>Total</b>	<b>\$654,000</b>	<b>\$1,559,000</b>

#### NOTE F—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent TA projects/programs which have become effective but not yet disbursed. During 2004, an amount of \$8,428,000 representing completed and partially canceled TA projects (\$7,891,000 – 2003) have been written back as a reduction in technical assistance for the year, and the corresponding undisbursed commitments have been eliminated. The fair value of undisbursed commitments approximates the amounts outstanding because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

#### NOTE G—CONTRIBUTIONS AND UNCOMMITTED BALANCES

All contributions for the years ended 31 December 2004 and 2003 were received during the respective years.

Effective 31 December 2002, all remaining temporarily restricted net assets under JSF were transferred and integrated into the unrestricted regular net assets, as concurred by Japan, in order to optimize the use of JSF. Similarly, Japan lifted the restriction over the use of net accumulated investment income, which under the original terms of agreement between ADB and Japan, may only be used for defraying JSF's administrative expenses. Japan agreed to use the net accumulated investment income as additional resources for funding future ADB's TA operations.

In June 2004, the Cooperation Fund for Regional Trade and Financial Security Initiative was established as a multi-

donor umbrella facility to support TA to developing member countries for enhancing port security and combating money laundering and terrorist financing. In July 2004, the Government of Japan agreed to transfer US\$1,000,000 to the fund from the investment income of JSF.

Uncommitted balances comprised of amounts which have not been committed by ADB as at 31 December 2004. These balances include TA projects/programs that had been approved but not yet become effective.

As of 31 December 2004 and 2003 these balances are as follows:

	2004			2003		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
Uncommitted balances	\$26,022,000	\$149,229,000	\$175,251,000	\$25,067,000	\$140,208,000	\$165,275,000
TA projects/programs approved by Japan and ADB but not yet effective	-	(27,422,000)	(27,422,000)	-	(13,830,000)	(13,830,000)
TA projects/programs approved by Japan and not yet effective	-	(3,575,000)	(3,575,000)	-	(1,300,000)	(1,300,000)
Uncommitted balances available for new commitments	<u>\$26,022,000</u>	<u>\$118,232,000</u>	<u>\$144,254,000</u>	<u>\$25,067,000</u>	<u>\$125,078,000</u>	<u>\$150,145,000</u>

The temporarily restricted uncommitted balance remaining available as of 31 December 2004 corresponds to funds under ACCSF of \$26,022,000 (\$25,067,000 - 2003) to cover completion of TA disbursements and the amount of net accumulated investment income of \$2,865,000 (\$2,402,000 - 2003) for settlement of all administrative expenses.

Net assets released from restrictions relate to commitments for technical assistance satisfying the conditions specified by the donor and, in the case of accumulated investment income, to defray the administrative expenses of the Fund.

#### NOTE H—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value and thus unrealized loss was not incurred as of 31 December 2004.

If available, quoted market values are used to determine fair values. Financial instruments for which market quotations are not readily available are valued using methodologies and assumptions which necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not determinable.

The carrying amounts of JSF's assets, liabilities, and uncommitted balances are considered to approximate fair values for all significant financial instruments. See Notes B, C, D, and F for discussions relating to investments, equity investments, and undisbursed commitments.

**PRICEWATERHOUSECOOPERS** 

REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets, and cash flows present fairly, in all material respects in terms of United States dollars, the financial position of the Asian Development Bank–Asian Development Bank Institute Special Fund at 31 December 2004 and 2003, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Asian Development Bank Institute; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Detroit, Michigan

14 March 2005

ADBISF-1

**ASIAN DEVELOPMENT BANK-ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND**

**STATEMENT OF FINANCIAL POSITION****31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
DUE FROM BANKS (Notes B and H)	\$ 1,326	\$ 11,943
INVESTMENTS (Notes B, C, and D)		
Time deposits	1,460	1,402
SECURITIES PURCHASED UNDER		
RESALE ARRANGEMENT (Notes B and C)	14,013	-
PROPERTY, FURNITURE, AND EQUIPMENT (Notes B and F)		
Leasehold Improvements	\$1,946	\$1,869
Less—allowance for depreciation	<u>1,441</u>	<u>1,197</u>
Furniture and Equipment	2,980	2,862
Less—allowance for depreciation	<u>2,784</u>	<u>2,602</u>
OTHER ASSETS (Note H)	2,472	2,030
<b>TOTAL</b>	<b>\$19,972</b>	<b>\$16,307</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Notes E, G, and H)	\$ 3,127	\$ 2,092
UNCOMMITTED BALANCES (ADBISF-2)		
Unrestricted net assets	16,845	14,215
<b>TOTAL</b>	<b>\$19,972</b>	<b>\$16,307</b>

The accompanying notes are an integral part of these financial statements (ADBISF-4).

ADBISF-2

## **ASIAN DEVELOPMENT BANK-ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND**

### **STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	<u>2004</u>	<u>2003</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
CONTRIBUTIONS (Note B)	\$ 13,142	\$ 11,805
REVENUE		
Income from investments (Notes B and C)	0	0
Income from other sources—net	1	14
Total	13,143	11,819
EXPENSES		
Administrative expenses	8,963	8,202
Program expenses	2,519	1,458
Total	11,482	9,660
CONTRIBUTIONS AND REVENUE IN EXCESS OF EXPENSES	1,661	2,159
EXCHANGE GAINS—NET	44	119
TRANSLATION ADJUSTMENTS (Note B)	925	1,540
INCREASE IN UNRESTRICTED NET ASSETS AFTER TRANSLATION ADJUSTMENTS	2,630	3,818
NET ASSETS AT BEGINNING OF YEAR	14,215	10,397
<b>NET ASSETS AT END OF YEAR</b>	<b>\$16,845</b>	<b>\$14,215</b>

0 Less than \$1 million.

The accompanying notes are an integral part of these financial statements (ADBISF-4).

ADBISF-3

**ASIAN DEVELOPMENT BANK-ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND**

**STATEMENT OF CASH FLOWS****For the Years Ended 31 December 2004 and 2003**

Expressed in Thousands of United States Dollars (Note B)

	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received	\$ 13,142	\$ 11,805
Interest on investments received	0	0
Expenses paid	(11,266)	(9,001)
Other	<u>747</u>	<u>—</u>
Net Cash Provided by Operating Activities	<u>2,623</u>	<u>2,804</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES<sup>1</sup></b>		
Maturity and sales of investment	2,773,093	20,923
Purchases of investment	<u>(2,786,615)</u>	<u>(19,224)</u>
Net Cash (Used in) Provided by Investing Activities	<u>(13,522)</u>	<u>1,699</u>
Effect of Exchange Rate Changes on Cash	<u>282</u>	<u>1,140</u>
Net (Decrease) Increase in Due from Banks	<u>(10,617)</u>	<u>5,643</u>
Due from Banks at Beginning of Year	<u>11,943</u>	<u>6,300</u>
Due from Banks at End of Year	<u>\$ 1,326</u>	<u>\$ 11,943</u>
<b>RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Increase in net unrestricted assets (ADBISF-2)	\$ 2,630	\$ 3,818
Adjustments to reconcile increase in net unrestricted assets to net cash provided by operating activities:		
Translation adjustments	(925)	(1,540)
Due to JFPPT	747	—
Depreciation	255	260
Others—net	<u>(84)</u>	<u>266</u>
Net Cash Provided by Operating Activities	<u>\$ 2,623</u>	<u>\$ 2,804</u>

0 Less than \$1 million.

1 Includes cashflows associated with securities purchased under resale arrangement.

The accompanying notes are an integral part of these financial statements (ADBISF-4).

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

---

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

---

#### NOTE A—NATURE OF OPERATIONS

In 1996, the Asian Development Bank (ADB) approved the establishment of the Asian Development Bank Institute (the Institute) in Tokyo, Japan as a subsidiary body of ADB. The Institute commenced its operations upon the receipt of the first funds from Japan on 24 March 1997, and it was inaugurated on 10 December 1997. The Institute's funds may consist of voluntary contributions, donations, and grants from ADB member countries, non-government organizations, and foundations. The objectives of the Institute, as defined under its Statute, are the identification of effective development strategies and capacity improvement for sound development management in developing member countries. In 2004, a new trust fund, Japan Fund for Public Policy Training (JFPPT) was set up under ADBI's administration.

#### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Presentation of the Financial Statements*

The financial statements of the Institute are presented on the basis of those for not-for-profit organizations.

The Institute reports donor's contributions of cash and other assets as unrestricted support as these are made available to the Institute without conditions other than for the purposes of pursuing the objectives of the Institute.

##### *Investments*

All investment securities held by the Institute are reported at estimated fair value, with realized and unrealized gains and losses included in revenue. Estimated fair value generally represents market value. Time deposits are reported at cost.

##### *Property, Furniture, and Equipment*

Property, furniture, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method.

##### *Contributions*

Contributions from donors are included in the financial statements from the date committed.

##### *Securities Purchased Under Resale Arrangement*

ADB accounts for transfers of financial assets in accordance with FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FAS 125." In general, transfers are accounted for as

sale under FAS 140 when control over the transferred assets has been relinquished. Otherwise, the transfers are accounted for as repurchase/resale agreements and collateralized financing arrangements. Securities received under resale arrangements are not recorded on ADBI's balance sheet.

##### *Functional Currency and Reporting Currency*

The functional currency of the Institute is the Japanese yen. The reporting currency is the United States dollar and the financial statements are expressed in thousands of current United States dollars.

##### *Translation of Currencies*

Assets, liabilities, and uncommitted balances are translated from the functional currency to the reporting currency at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the period are translated at the applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts in currency other than the United States dollar are translated for each semimonthly period at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period.

##### *Accounting Estimates*

The preparation of the financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year and the reported amounts of income and expenses during the year. Actual results could differ from those estimates.

##### *Statement of Cash Flows*

For the purposes of the statement of cash flows, the Institute considers that its cash and cash equivalents are limited to "DUE FROM BANKS". Due from banks include bank accounts held on behalf of the JFPPT (Note H).

#### NOTE C—INVESTMENTS

The investment portfolio was composed wholly of investments denominated in Japanese yen. As of 31 December 2004 and 2003, the estimated fair value of the investments approximated cost or amortized cost. All such investments are due within one year.

The annualized rate of return on the average investments held during the year including receivable for securities purchased under resale arrangement, based on the portfolio held

## ADBISF-4

## CONTINUED

at the beginning and end of each month was 0.002% (0.003% - 2003).

Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. Subject to these parameters, ADB administers the Institute's investment and seeks the highest possible return on its investments.

As of 31 December 2004, ADBI did not hold any investments in an unrealized loss position.

#### NOTE D—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value.

The Institute's statements of financial position carrying amounts are considered to approximate fair values for all significant financial instruments.

#### NOTE E—STAFF RETIREMENT PLAN AND POSTRETIREMENT MEDICAL BENEFITS

##### *Staff Retirement Plan*

The Institute participates in the contributory defined benefit Staff Retirement Plan (the Plan) of ADB. Every member of the professional staff, as defined under the Plan, shall, as a condition of service, become a participant from the first day of service, provided that at such a date, the staff has not reached the normal retirement age of 60. Retirement benefits are based on length of service and highest average remuneration during two years of eligible service. The Plan assets are segregated and are not included in the statement of financial position. The costs of administering the Plan are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the Plan.

Participants are required to contribute 9 1/3% of their salary to the Plan and may also make voluntary contributions. The Institute's contribution is determined at a rate sufficient to cover that part of the costs of the Plan not covered by the participants' contributions.

##### *Expected Contributions*

The expected amount of contributions to the Plan for 2005, based on the Institute's contribution rate for the coming year of 16%, and the participants' mandatory contribution are \$151,000 and \$88,000, respectively.

##### *Investment Strategy*

Contributions in excess of current benefits payments are invested in international financial markets and in a variety of investment vehicles. The Plan employs six external asset managers and one global custodian who function within the guidelines established by the Plan's Investment Committee. The investment of these assets, over the long term, is expected to produce higher returns than short-term investments. The investment policy incorporates the Plan's package of desired investment returns, and tolerance for risk, taking into account the nature and duration of the Plan's liabilities. The Plan's assets are diversified among different markets and different asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

The Plan's investment policy is periodically reviewed and revised to reflect the best interest of the Plan's participants and beneficiaries. The current policy, adopted in January 2004, specifies an asset-mix structure of 70% of assets in equities and 30% in fixed income securities. At present, investments of the Plan's assets are divided into three categories: US equity, Non-US equity, and US fixed income.

As of 31 December 2004 and 2003, the breakdown of the fair value of plan assets held is as follows:

	2004		2003	
	Amount	Percentage	Amount	Percentage
Equity Securities				
US	\$ 881,000		\$ 602,000	
Non-US	494,000		237,000	
	1,375,000	70.1%	839,000	69.6%
Fixed income securities				
Other Assets—net	471,000	24.1	362,000	30.0
	113,000	5.8	5,000	0.4
Total	\$1,959,000	100.0%	\$1,206,000	100.0%

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

### NOTES TO FINANCIAL STATEMENTS

31 December 2004 and 2003

All investments, excluding time deposits, are valued using quoted market prices. Time deposits are reported at cost. Fixed income securities include US government and government-guaranteed obligations, corporate bonds and time deposits. Other assets include forward exchange contracts in various foreign currencies transacted to hedge currency exposure in the investment portfolio, which have been marked to fair value.

For the year ended 31 December 2004 the net return on the Plan assets was 11.1% (27.7% - 2003). ADB expects the long-term rate of return on the assets to be 8%.

#### *Assumptions*

The assumed overall rate of return takes into account long-term return expectations of the underlying asset classes within the investment portfolio mix, and the expected duration of the Plan's liabilities. Return expectations are forward looking and, in general, not much weight is given to short-term experience. Unless there

is a drastic change in investment policy or market environment, the assumed investment return of 8% on the Plan's assets is expected to remain broadly the same, year to year.

#### *Postretirement Medical Benefits Plan*

The Institute participates in the cost-sharing plan of ADB for retirees' medical insurance premiums of ADB. Under the plan, the Institute is obligated to pay 75% of the Group Medical Insurance Plan premiums for retirees and their eligible dependents who elect to participate. The cost-sharing plan is currently unfunded.

Generally accepted accounting principles require an actuarially determined assessment of the periodic cost of post-retirement medical benefits.

The following table sets forth the pension and post-retirement benefits at 31 December 2004 and 31 December 2003:

	Pension Benefits		Postretirement Medical Benefits	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 2,029,000	\$1,406,000	\$ 468,000	\$ 348,000
Service cost	298,000	242,000	12,000	52,000
Interest cost	149,000	115,000	30,000	27,000
Plan participants' contributions	444,000	99,000	—	—
Actuarial gain	51,000	425,000	(85,000)	58,000
Benefits paid	(18,000)	(258,000)	(22,000)	(17,000)
Benefit obligation at end of year	<u>\$ 2,953,000</u>	<u>\$2,029,000</u>	<u>\$ 403,000</u>	<u>\$ 468,000</u>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 1,206,000	\$ 954,000	\$ —	\$ —
Actual return on plan assets	159,000	274,000	—	—
Employer's contribution	150,000	137,000	22,000	17,000
Plan participants' contributions	444,000	99,000	—	—
Benefits paid	(18,000)	(258,000)	(22,000)	(17,000)
Fair value of plan assets at end of year	<u>\$ 1,941,000</u>	<u>\$1,206,000</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	\$(1,012,000)	\$ (823,000)	\$(403,000)	\$(468,000)
Unrecognized actuarial gain	(73,000)	(60,000)	(176,000)	(101,000)
Unrecognized prior service cost	30,000	35,000	(9,000)	(11,000)
Net amount recognized	<u>\$(1,055,000)</u>	<u>\$ (848,000)</u>	<u>\$(588,000)</u>	<u>\$(580,000)</u>
<b>Amounts recognized in the statement of financial position consist of:</b>				
Accrued benefit liability	\$(1,055,000)	\$ (848,000)	\$(588,000)	\$(580,000)
Net amount recognized	<u>\$(1,055,000)</u>	<u>\$ (848,000)</u>	<u>\$(588,000)</u>	<u>\$(580,000)</u>
<b>Weighted-average assumptions as of 31 December</b>				
Discount rate	6.00%	6.25%	6.00%	6.25%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase varies with age and averages	5.00%	5.25%	5.00%	5.25%

For measurement purposes, a 6.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as at 31 December 2004. The rate was

assumed to decrease gradually to 5.75% for 2009 and remain at that level thereafter.

	<b>Pension Benefits</b>		<b>Postretirement Medical Benefits</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Components of net periodic benefit cost:</b>				
Service cost	\$ 298,000	\$242,000	\$ 12,000	\$ 52,000
Interest cost	149,000	115,000	30,000	27,000
Expected return on plan assets	(159,000)	(85,000)	–	–
Amortization of prior service cost	69,000	5,000	(2,000)	(2,000)
Recognized actuarial loss	–	(32,000)	(10,000)	(23,000)
Net periodic benefit cost	<b>\$ 357,000</b>	<b>\$245,000</b>	<b>\$ 30,000</b>	<b>\$ 54,000</b>

The accumulated benefit obligation of the pension plan as of 31 December 2004 was \$2,715,000 (\$1,783,000 – 2003).

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<b>1-Percentage-Point Increase</b>	<b>1-Percentage-Point Decrease</b>
Effect on total service and interest cost components	\$10,000	\$(8,000)
Effect on postretirement benefit obligation	89,000	(69,000)

#### *Estimated Future Benefits Payments*

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation at 31 December 2004:

	<b>Pension Benefits</b>	<b>Postretirement Medical Benefits</b>
2005	\$ 203,000	\$ 1,000
2006	158,000	6,000
2007	92,000	7,000
2008	160,000	11,000
2009	113,000	12,000
2010-2014	992,000	77,000

#### **NOTE F—LEASED ASSETS**

The Institute leases office space and other assets. Rental expenses under operating leases for the years ended 31 December 2004 and 2003 were \$3,019,000 and \$3,075,000, respectively. The

minimum rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year at 31 December 2004 follow:

<b>Year ending 31 December</b>	<b>Minimum future rentals</b>
2005	\$3,081,000
2006	3,081,000
2007	3,081,000
2008	770,000

#### **NOTE G—DUE TO ADB**

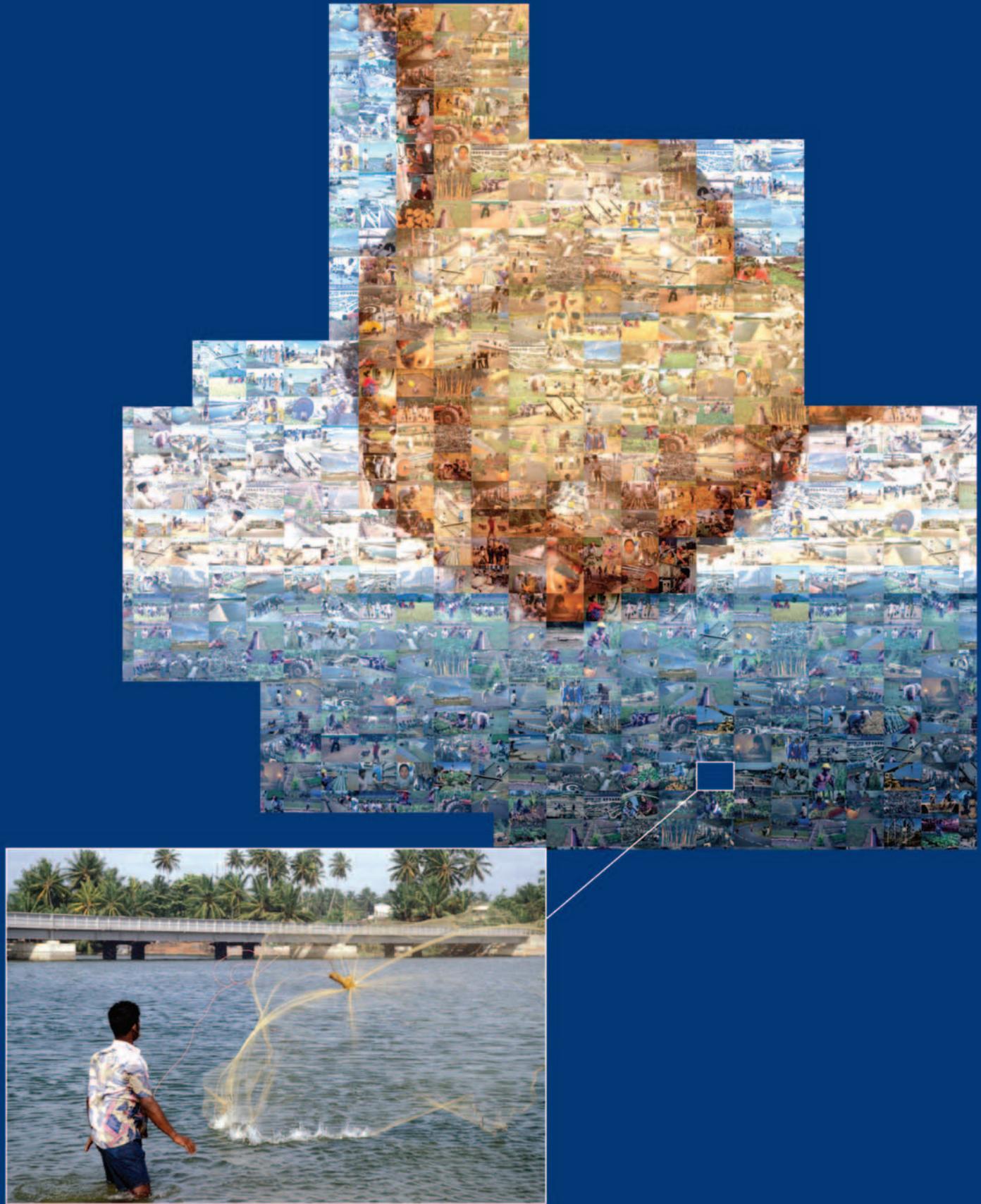
Accounts payable and other liabilities include amounts due to ADB of \$186,000 and \$317,000 at 31 December 2004 and 2003, respectively.

#### **NOTE H—DUE FROM AND DUE TO JFPPT**

Other assets include amounts due from JFPPT, which is \$247,000 at 31 December 2004 (nil – 2003). Due from banks and accounts payable and other liabilities include money held in bank accounts on behalf of the JFPPT and due to JFPPT for the money received, amounting to \$747,000 (nil – 2003), which can be used only for the purposes of pursuing the objective of the JFPPT.

#### **NOTE I—TRUST FUND**

The Government of Japan appointed ADBI as the administrator of the JFPPT, which was set up to assist developing member countries and their institutions to build their capacities for public policy training. The responsibilities of ADBI under these arrangements will include preparing, proposing and monitoring JFPPT financed activities and facilitating procurement of goods and services.



## PART 4: ANNEXES AND APPENDIXES

## STATISTICAL ANNEX

### Operational Data

- 186 Table 1: Public and Private Sector Loan Approvals by Country, 2004  
 189 Table 2: Loan Approvals by Sector: 3-Year Moving Averages, 1968–1970–2002–2004  
 190 Table 3: Loan Approvals by Sector, 2004  
 192 Table 4: Sectoral Distribution of Loans, 2004  
 192 Table 5: Loan Approvals by Country and Source of Funds, 2004  
 193 Table 6: Projects Involving Cofinancing, 2004  
 195 Table 7: Loan Disbursements, 2003 and 2004  
 195 Table 8: Program Loan Disbursements, 2004  
 196 Table 9: Private Sector Approvals and Total Project Costs by Country, 2004  
 196 Table 10: Private Sector Approvals and Total Project Costs by Sector, 2004  
 197 Table 11: Private Sector Approvals by Year, 1983–2004  
 197 Table 12: Cumulative Private Sector Approvals by Country, 1983–2004  
 198 Table 13: Number of Loans and Projects Approved and Under Administration, Project Completion Reports Circulated, Projects Completed, Loans Closed, and Project/Program Performance Audit Reports Circulated  
 200 Table 14: Amount of Loans Approved, Contracts Awarded, and Disbursements  
 202 Table 15: Contracts Awarded by Country of Origin, 2004, Project Loans—Ordinary Capital Resources (OCR)  
 203 Table 16: Contracts Awarded by Country of Origin, 2004, Project Loans—Asian Development Fund (ADF)  
 204 Table 17: Contracts Awarded by Country of Origin, 2004, Project Loans—OCR and ADF Combined  
 205 Table 18: Estimates of Payment to Supplying Countries for Foreign Procurement Under Program Lending, 2004  
 206 Table 19: Cumulative Contracts Awarded by Country of Origin—Technical Assistance Operations  
 207 Table 20: Contracts Awarded by Country of Origin, 2002–2004—Technical Assistance Operations  
 208 Table 21: Technical Assistance Grants by Country and Regional Activities, 1967–2004, 2003, 2004  
 210 Table 22: Technical Assistance Grants, 2004  
 218 Table 23: Technical Assistance Grants by Sector, 1967–2004, 2003, 2004  
 218 Table 24: Technical Assistance Loans and Grants by Sector, 2004  
 219 Table 25: Regional Technical Assistance Activities, 2004  
 222 Table 26: Net Transfer of Resources (OCR and ADF), 2002–2004  
 223 Table 27: Net Transfer of Resources (OCR and ADF Combined), 1995–2004

### Financial Resources

- 224 Table 28: Asian Development Fund Resources and Commitment Authority  
 225 Table 29: Technical Assistance Special Fund  
 226 Table 30: Japan Special Fund—Regular and Supplementary Contributions  
 226 Table 31: Japan Special Fund—Asian Currency Crisis Support Facility  
 227 Table 32: Japan Fund for Poverty Reduction, 2004  
 227 Table 33: Japan Fund For Information and Communication Technology, 2004  
 228 Table 34: Projects Financed by Thematic Funds, 2004  
 229 Table 35: External ADB-Administered Grant Components of Loan Projects, 2004

## Operational Data

**Table 1**  
**PUBLIC AND PRIVATE SECTOR LOAN APPROVALS BY COUNTRY, 2004**  
(\$ million)

	OCR	ADF	Total	Total Project Cost <sup>a</sup>	Date Approved
AFGHANISTAN					
Agriculture Sector Program	–	55.00	55.00	55.00	4 May
Afghanistan Investment Guarantee Facility	–	5.00	5.00	60.00	24 Sep
Telecom Development Company <sup>b</sup>	35.00	–	35.00	165.50	4 Nov
Regional Airports Rehabilitation Project Phase 1	–	30.00	30.00	32.10	23 Nov
Andkhoy-Qaisar Road	–	80.00	80.00	80.00	16 Dec
Subtotal	35.00	170.00	205.00	392.60	
AZERBAIJAN					
Urban Water Supply and Sanitation	10.00	20.00	30.00	39.90	7 Dec
Subtotal	10.00	20.00	30.00	39.90	
BANGLADESH					
Grameen Phone Telecommunications Expansion <sup>b</sup>	20.00	–	20.00	142.00	26 Jan
Teaching Quality Improvement in Secondary Education	–	68.91	68.91	108.65	9 Nov
Secondary Towns Integrated Flood Protection-Phase 2	–	80.00	80.00	128.88	2 Dec
Chittagong Port Trade Facilitation	30.60	–	30.60	41.30	20 Dec
Small and Medium Enterprise Sector Development Program					
– Program Loan	–	15.00	15.00	15.00	21 Dec
– Project Loan	–	30.00	30.00	257.80	21 Dec
– Technical Assistance Loan	–	5.00	5.00	8.46	21 Dec
Subtotal	50.60	198.91	249.51	702.09	
CAMBODIA					
Second Education Sector Development Program					
– Program Loan	–	20.00	20.00	20.00	9 Dec
– Project Loan	–	25.00	25.00	33.60	9 Dec
Small and Medium Enterprise Development Program	–	20.00	20.00	20.00	14 Dec
Subtotal	–	65.00	65.00	73.60	
CHINA, PEOPLE'S REPUBLIC OF					
Fujian Soil Conservation and Rural Development II	80.00	–	80.00	285.96	28 Apr
Hunan Roads Development II	312.50	–	312.50	778.10	9 Sep
Guangxi Roads Development II	200.00	–	200.00	726.00	21 Oct
Liaoning Environmental Improvement	70.00	–	70.00	161.00	25 Nov
Dali-Lijiang Railway	180.00	–	180.00	548.00	2 Dec
Gansu Roads Development	300.00	–	300.00	882.00	13 Dec
Coal Mine Methane Development	117.40	–	117.40	237.00	20 Dec
Subtotal	1,259.90	–	1,259.90	3,618.06	
INDIA					
Torrent Power Generation, Ltd. <sup>b</sup>	54.40	–	54.40	688.00	25 Nov
Assam Governance and Public Resource Management Sector Development Program					
– Program Loan (Subprogram I)	125.00	–	125.00	125.00	16 Dec
– Project Loan	25.00	–	25.00	38.00	16 Dec
Power Grid Transmission (Sector)	400.00	–	400.00	568.00	20 Dec
National Highway Sector II	400.00	–	400.00	670.60	21 Dec
Multisector Project for Infrastructure Rehabilitation in Jammu and Kashmir	250.00	–	250.00	358.00	21 Dec
Subtotal	1,254.40	–	1,254.40	2,447.60	
INDONESIA					
State Audit Reform Sector Development Program					
– Program Loan	200.00	–	200.00	200.00	13 Dec
– Project Loan	–	25.00	25.00	42.73	13 Dec
Subtotal	200.00	25.00	225.00	242.73	

– Data not applicable.

a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and subborrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

b Private sector loan without government guarantee.

CONTINUED

	OCR	ADF	Total	Total Project Cost <sup>a</sup>	Date Approved
<b>KYRGYZ REPUBLIC</b>					
Southern Transport Corridor Road Rehabilitation	—	32.80	32.80	43.40	23 Nov
Subtotal	—	32.80	32.80	43.40	
<b>LAO PEOPLE'S DEMOCRATIC REPUBLIC</b>					
Roads for Rural Development Project	—	17.70	17.70	39.20	28 Jun
Northern Community-Managed Irrigation Sector	—	10.00	10.00	12.90	5 Jul
Subtotal	—	27.70	27.70	52.10	
<b>MICRONESIA, FEDERATED STATES OF</b>					
Omnibus Infrastructure Development	4.80	14.20	19.00	30.20	5 Nov
Subtotal	4.80	14.20	19.00	30.20	
<b>MONGOLIA</b>					
Trade and Development Bank of Mongolia <sup>b</sup>	4.50	—	4.50	6.10	20 Apr
Regional Road Development	—	37.13	37.13	78.13	22 Jul
Subtotal	4.50	37.13	41.63	84.23	
<b>NEPAL</b>					
Decentralized Rural Infrastructure and Livelihood	—	40.00	40.00	62.30	24 Sep
Subregional Transport Facilitation	—	20.00	20.00	26.70	4 Nov
Community-Managed Irrigated Agriculture Sector	—	20.00	20.00	38.60	17 Nov
Skills for Employment	—	20.00	20.00	25.00	25 Nov
Gender Equality and Empowerment of Women	—	10.00	10.00	15.50	17 Dec
Subtotal	—	110.00	110.00	168.10	
<b>PAKISTAN</b>					
North-West Frontier Province Road Development					
Sector and Subregional Connectivity	296.20	5.00	301.20	423.60	18 Nov
Balochistan Resource Management Program	110.00	20.00	130.00	130.00	25 Nov
Supporting Public Resource Management Reforms in Balochistan (Technical Assistance Loan)	—	3.00	3.00	6.56	25 Nov
Sustainable Livelihoods in Barani Areas	—	41.00	41.00	58.60	14 Dec
Restructuring of the Technical Education and Vocational Training System Project (Balochistan Province)	—	16.00	16.00	22.90	14 Dec
Restructuring of the Technical Education and Vocational Training System (North-West Frontier Province)	—	11.00	11.00	15.70	14 Dec
Punjab Devolved Social Services Program	75.00	75.00	150.00	180.00	20 Dec
Multisector Rehabilitation and Improvement for Azad Jammu and Kashmir	—	57.00	57.00	76.00	21 Dec
Subtotal	481.20	228.00	709.20	913.36	
<b>PAPUA NEW GUINEA</b>					
Community Water Transport	—	19.01	19.01	28.14	24 Mar
Subtotal	—	19.01	19.01	28.14	
<b>PHILIPPINES</b>					
PS Peso Swap and Financing Project <sup>b</sup>	200.00	—	200.00	200.00	13 Jan
National Home Mortgage Finance Corporation Nonperforming Loans Disposition <sup>b</sup>	33.0	—	33.0	179.60	15 Dec
Health Sector Development Program					
— Program Loan	200.00	—	200.00	200.00	15 Dec
— Project Loan	13.00	—	13.00	23.33	15 Dec
Subtotal	446.00	—	446.00	602.93	

<sup>a</sup> Data not applicable.<sup>a</sup> Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and subborrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.<sup>b</sup> Private sector loan without government guarantee.

## CONTINUED

	OCR	ADF	Total	Total Project Cost <sup>a</sup>	Date Approved
SRI LANKA					
Road Project Preparatory Facility	-	15.00	15.00	20.00	13 Apr
North East Community Restoration and Development—Extension	-	10.00	10.00	14.30	15 Jun
Secondary Education Modernization II	-	35.00	35.00	47.00	25 Oct
Fiscal Management Reform Program	45.00	-	45.00	45.00	14 Dec
Modernization of the Revenue Administration	15.00	-	15.00		14 Dec
Institutional Strengthening of Fiscal Management Institutions	-	10.00	10.00	33.40	14 Dec
Financial Markets Program for Private Sector Development					
- Program Loan	60.00	-	60.00	60.00	15 Dec
- Technical Assistance Loan	-	5.00	5.00	6.00	15 Dec
Subtotal	120.00	75.00	195.00	225.70	
TAJIKISTAN					
Irrigation Rehabilitation	-	22.72	22.72	29.01	10 Dec
Subtotal	-	22.72	22.72	29.01	
TUVALU					
Maritime Training (Supplementary)	-	1.97	1.97	2.02	3 Aug
Subtotal	-	1.97	1.97	2.02	
UZBEKISTAN					
Woman and Child Health Development	40.00	-	40.00	70.00	23 Sep
Second Textbook Development	25.00	-	25.00	55.00	29 Sep
Subtotal	65.00	-	65.00	125.00	
VIET NAM					
Health Care in the Central Highlands	-	20.00	20.00	30.60	9 Jan
Small and Medium-Sized Enterprise Development Program (Subprogram I)	-	60.00	60.00	94.52	21 Oct
Second Lower Secondary Education Development	-	55.00	55.00	80.00	26 Nov
Second Financial Sector Program (Subprogram II)	-	35.00	35.00	35.00	3 Dec
Support to Implementation of Poverty Reduction Program	-	6.40	6.40	184.40	9 Dec
Northern Power Transmission Sector	120.00	-	120.00	273.60	13 Dec
Subtotal	120.00	176.40	296.40	698.12	
REGIONAL					
Regional Customs Modernization and Infrastructure Development					
- Kyrgyz Republic	-	7.50	7.50	9.37	26 Nov
- Tajikistan	-	10.70	10.70	13.38	26 Nov
Subtotal	-	18.20	18.20	22.75	
<b>TOTAL</b>	<b>4,051.40</b>	<b>1,242.04</b>	<b>5,293.44</b>	<b>10,541.64</b>	

- Data not applicable.

a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and subborrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

**Table 2**  
**LOAN APPROVALS BY SECTOR: 3-YEAR MOVING AVERAGES, 1968–1970–2002–2004**

Total Lending <sup>a</sup> (\$ million)					Health, Nutrition, and Social Protection		Industry and Trade	Law, Economic Mgmt, and Public Policy	Transport and Communi- cations	Water Supply, Sanitation, and Waste Mgmt	Multi- sector
	Agriculture and Natural Resources	Education	Energy	Finance							
Average during	(percent of total lending)										
1968–1970	128.44	18.32	0.78	11.98	14.27	0.00	24.92	0.00	24.03	5.32	0.38
1969–1971	199.25	19.16	0.50	25.38	13.45	0.00	15.89	0.00	21.68	3.70	0.24
1970–1972	271.92	13.86	0.82	33.06	10.71	0.00	9.95	0.00	21.49	9.93	0.18
1971–1973	330.53	12.72	1.02	32.18	11.29	0.00	7.68	0.00	23.88	11.23	0.00
1972–1974	428.42	14.17	0.79	26.71	12.73	0.00	8.46	0.00	21.32	13.33	2.49
1973–1975	543.15	16.57	1.28	23.03	13.36	0.00	16.03	0.00	17.68	9.16	2.89
1974–1976	661.29	17.48	0.73	20.74	14.67	0.00	14.53	0.00	16.61	9.06	6.18
1975–1977	774.22	17.85	1.49	21.50	13.09	0.00	12.17	0.00	16.97	8.42	8.51
1976–1978	940.36	17.56	2.95	21.11	11.01	1.36	10.16	0.00	15.98	8.97	10.90
1977–1979	1,098.92	19.65	5.13	22.84	9.54	1.17	9.55	0.00	12.10	8.71	11.31
1978–1980	1,282.01	22.81	5.56	23.74	7.71	1.41	8.42	0.00	12.38	8.04	9.93
1979–1981	1,454.96	24.70	5.35	26.21	7.28	1.72	9.21	0.00	9.41	7.67	8.45
1980–1982	1,598.97	29.52	4.41	27.61	6.04	2.00	7.43	0.00	11.53	5.87	5.59
1981–1983	1,751.46	31.78	5.19	26.60	6.61	2.91	8.00	0.00	7.52	6.87	4.52
1982–1984	1,937.03	34.36	5.33	28.98	4.09	1.88	4.05	0.00	12.12	5.94	3.25
1983–1985	1,978.52	31.63	5.27	24.63	4.48	2.42	3.75	0.00	12.75	8.36	6.71
1984–1986	2,013.77	32.17	4.95	25.27	3.82	2.02	2.23	0.00	14.40	6.02	9.12
1985–1987	2,081.84	27.37	3.97	17.47	7.80	2.19	7.53	0.00	20.54	4.75	8.38
1986–1988	2,512.17	22.78	5.20	18.76	8.07	1.60	12.68	0.00	23.12	1.47	6.32
1987–1989	3,053.72	19.80	4.97	16.07	12.25	1.91	12.47	0.00	23.47	3.41	5.65
1988–1990	3,564.93	22.53	6.33	20.48	10.96	1.35	7.58	0.00	20.68	3.38	6.71
1989–1991	4,115.49	22.51	5.26	25.79	9.43	1.43	6.79	0.00	17.93	3.09	7.77
1990–1992	4,610.39	18.03	5.00	28.91	7.96	1.14	6.40	0.00	20.60	2.05	9.91
1991–1993	5,022.89	11.37	5.18	31.01	6.60	1.26	8.48	0.09	23.47	3.07	9.47
1992–1994	4,665.65	9.19	4.90	29.63	6.11	1.56	5.08	0.09	29.31	4.43	9.70
1993–1995	4,791.51	10.83	5.74	31.67	5.61	1.13	3.58	0.09	26.79	6.34	8.22
1994–1996	4,806.49	14.06	5.64	27.55	6.15	1.65	1.52	1.77	25.64	5.63	10.39
1995–1997	6,718.17	10.34	6.71	18.66	30.05	1.70	1.31	1.84	16.33	5.21	7.85
1996–1998	6,883.72	7.34	5.46	11.67	34.77	5.50	1.21	2.02	18.49	3.87	9.67
1997–1999	6,776.72	5.50	4.64	9.76	34.13	6.76	2.00	4.38	16.83	4.92	11.08
1998–2000	5,499.56	7.77	4.01	13.94	12.54	8.09	4.64	5.30	23.49	4.64	15.58
1999–2001	5,284.95	10.83	4.96	15.92	3.60	3.58	5.02	10.96	23.99	4.23	16.91
2000–2002	5,526.40	11.09	5.35	17.02	8.60	1.58	3.83	9.51	27.04	2.98	13.00
2001–2003	5,693.81	9.18	4.10	14.27	7.44	1.35	2.61	10.40	33.23	5.32	12.10
2002–2004	5,678.72	6.43	4.23	14.89	8.69	2.61	2.98	8.52	36.87	4.92	9.86
Cumulative (1968–2004)	110,298.03	15,397.15	5,439.88	22,322.45	13,690.98	2,973.67	5,482.54	3,618.94	25,299.68	5,245.08	10,827.66

0.00 Data negligible.

a Total may not add due to rounding.

**Table 3**  
**LOAN APPROVALS BY SECTOR, 2004**

			\$ Million		
			OCR	ADF	Total
<b>AGRICULTURE AND NATURAL RESOURCES</b>					
AFG	Agriculture Sector Program		-	55.00	55.00
LAO	Northern Community-Managed Irrigation Sector		-	10.00	10.00
NEP	Decentralized Rural Infrastructure and Livelihood		-	40.00	40.00
NEP	Community-Managed Irrigated Agriculture Sector		-	20.00	20.00
NEP	Gender Equality and Empowerment of Women		-	10.00	10.00
PAK	Sustainable Livelihoods in Barani Areas		-	41.00	41.00
TAJ	Irrigation Rehabilitation		-	22.72	22.72
	Subtotal		-	198.72	198.72
<b>EDUCATION</b>					
BAN	Teaching Quality Improvement in Secondary Education		-	68.91	68.91
CAM	Second Education Sector Development Program		-		
	- Program Loan		-	20.00	20.00
	- Project Loan		-	25.00	25.00
NEP	Skills for Employment		-	20.00	20.00
PAK	Restructuring of the Technical Education and Vocational Training System (Balochistan Province)		-	16.00	16.00
PAK	Restructuring of the Technical Education and Vocational Training System (North-West Frontier Province)		-	11.00	11.00
SRI	Secondary Education Modernization II		-	35.00	35.00
TUV	Maritime Training (Supplementary Loan)		-	1.97	1.97
UZB	Second Textbook Development		25.00	-	25.00
VIE	Second Lower Secondary Education Development		-	55.00	55.00
	Subtotal		25.00	252.88	277.88
<b>ENERGY</b>					
IND	Torrent Power Generation, Ltd. <sup>a</sup>		54.40	-	54.40
IND	Power Grid Transmission (Sector)		400.00	-	400.00
PRC	Liaoning Environmental Improvement		70.00	-	70.00
PRC	Coal Mine Methane Development		117.40	-	117.40
VIE	Northern Power Transmission Sector		120.00	-	120.00
	Subtotal		761.80	-	761.80
<b>FINANCE</b>					
MON	Trade and Development Bank of Mongolia <sup>a</sup>		4.50	-	4.50
PHI	PS Peso Swap and Financing Project <sup>a</sup>		200.00	-	200.00
PHI	National Home Mortgage Finance Corporation				
	Nonperforming Loans Disposition <sup>a</sup>		33.0	-	33.0
SRI	Financial Markets Program for Private Sector Development				
	- Program Loan		60.00	-	60.00
	- Technical Assistance Loan		-	5.00	5.00
VIE	Second Financial Sector Program (Subprogram II)		-	35.00	35.00
	Subtotal		297.50	40.00	337.50
<b>HEALTH, NUTRITION, AND SOCIAL PROTECTION</b>					
PHI	Health Sector Development Program				
	- Program Loan		200.00	-	200.00
	- Project Loan		13.00	-	13.00
UZB	Woman and Child Health Development		40.00	-	40.00
VIE	Health Care in the Central Highlands		-	20.00	20.00
	Subtotal		253.00	20.00	273.00
<b>INDUSTRY AND TRADE</b>					
BAN	Small and Medium Enterprise Sector Development Program				
	- Program Loan		-	15.00	15.00
	- Project Loan		-	30.00	30.00
	- Technical Assistance Loan		-	5.00	5.00
CAM	Small and Medium Enterprise Development Program		-	20.00	20.00

- Data not applicable.

<sup>a</sup> Private sector loan without government guarantee.

Key: AFG (Afghanistan), BAN (Bangladesh), CAM (Cambodia), IND (India), LAO (Lao People's Democratic Republic), MON (Mongolia), NEP (Nepal), PAK (Pakistan), PHI (Philippines), PRC (People's Republic of China), SRI (Sri Lanka), TAJ (Tajikistan), TUV (Tuvalu), UZB (Uzbekistan), and VIE (Viet Nam).

CONTINUED

			\$ Million	
		OCR	ADF	Total
<b>INDUSTRY AND TRADE</b>				
REG	Regional Customs Modernization and Infrastructure Development			
	– Kyrgyz Republic	–	7.50	7.50
	– Tajikistan	–	10.70	10.70
VIE	Small and Medium-Sized Enterprise Development Program (Subprogram I)	–	60.00	60.00
	Subtotal	<u>–</u>	<u>148.20</u>	<u>148.20</u>
<b>LAW, ECONOMIC MANAGEMENT, AND PUBLIC POLICY</b>				
IND	Assam Governance and Public Resource Management Sector Development Program			
	– Program Loan (Subprogram I)	125.00	–	125.00
	– Project Loan	25.00	–	25.00
INO	State Audit Reform Sector Development Program			
	– Program Loan	200.00	–	200.00
	– Project Loan	–	25.00	25.00
PAK	Balochistan Resource Management Program Supporting Public Resource Management Reforms in Balochistan			
	–	110.00	20.00	130.00
	–	–	3.00	3.00
SRI	Fiscal Management Reform Program			
	Modernization of the Revenue Administration	45.00	–	45.00
	Institutional Strengthening of Fiscal Management Institutions	15.00	–	15.00
VIE	Support to Implementation of Poverty Reduction Program			
	Subtotal	<u>–</u>	<u>10.00</u>	<u>10.00</u>
	Subtotal	<u>520.00</u>	<u>64.40</u>	<u>584.40</u>
<b>TRANSPORT AND COMMUNICATIONS</b>				
AFG	Telecom Development Company <sup>a</sup>	35.00	–	35.00
AFG	Regional Airports Rehabilitation Phase I	–	30.00	30.00
AFG	Andkhoy-Qaisar Road	–	80.00	80.00
BAN	Grameen Phone Telecommunications Expansion <sup>a</sup>	20.00	–	20.00
BAN	Chittagong Port Trade Facilitation	30.60	–	30.60
IND	National Highway Sector II	400.00	–	400.00
KGZ	Southern Transport Corridor Road Rehabilitation	–	32.80	32.80
LAO	Roads for Rural Development	–	17.70	17.70
MON	Regional Road Development	–	37.13	37.13
NEP	Subregional Transport Facilitation	–	20.00	20.00
PAK	North-West Frontier Province Road Development Sector and Subregional Connectivity	296.20	5.00	301.20
PNG	Community Water Transport	–	19.01	19.01
PRC	Hunan Roads Development II	312.50	–	312.50
PRC	Guangxi Roads Development II	200.00	–	200.00
PRC	Dali-Lijiang Railway	180.00	–	180.00
PRC	Gansu Roads Development	300.00	–	300.00
SRI	Road Project Preparatory Facility	–	15.00	15.00
	Subtotal	<u>1,774.30</u>	<u>256.64</u>	<u>2,030.94</u>
<b>WATER SUPPLY, SANITATION, AND WASTE MANAGEMENT</b>				
AZE	Urban Water Supply and Sanitation	10.00	20.00	30.00
	Subtotal	<u>10.00</u>	<u>20.00</u>	<u>30.00</u>
<b>MULTISECTOR</b>				
AFG	Afghanistan Investment Guarantee Facility	–	5.00	5.00
BAN	Secondary Towns Integrated Flood Protection-Phase 2	–	80.00	80.00
FSM	Omnibus Infrastructure Development	4.80	14.20	19.00
IND	Multisector Project for Infrastructure Rehabilitation in Jammu and Kashmir	250.00	–	250.00
PAK	Punjab Devolved Social Services Program	75.00	75.00	150.00
PAK	Multisector Rehabilitation and Improvement for Azad Jammu and Kashmir	–	57.00	57.00
PRC	Fujian Soil Conservation and Rural Development II	80.00	–	80.00
SRI	North East Community Restoration and Development—Extension	–	10.00	10.00
	Subtotal	<u>409.80</u>	<u>241.20</u>	<u>651.00</u>
<b>TOTAL</b>		<b><u>4,051.40</u></b>	<b><u>1,242.04</u></b>	<b><u>5,293.44</u></b>

<sup>a</sup> Data not applicable.<sup>a</sup> Private sector loan without government guarantee.

Key: AFG (Afghanistan), AZE (Azerbaijan), BAN (Bangladesh), FSM (Federated States of Micronesia), IND (India), INO (Indonesia), KGZ (Kyrgyz Republic), LAO (Lao People's Democratic Republic), MON (Mongolia), NEP (Nepal), PAK (Pakistan), PNG (Papua New Guinea), PRC (People's Republic of China), REG (Regional), SRI (Sri Lanka), and VIE (Viet Nam).

**Table 4**  
**SECTORAL DISTRIBUTION OF LOANS,<sup>a</sup> 2004**

	OCR		ADF		Total		%
	No. of Loans	\$ Million	No. of Loans	\$ Million	No. of Projects <sup>b</sup>	\$ Million	
Agriculture and Natural Resources	–	–	7	198.72	7	198.72	3.75
Education	1	25.00	9	252.88	9	277.88	5.25
Energy	5	761.80	–	–	5	761.80	14.39
Finance	4	297.50	2	40.00	5	337.50	6.37
Health, Nutrition, and Social Protection	3	253.00	1	20.00	3	273.00	5.16
Industry and Trade	–	–	7	148.20	4	148.20	2.80
Law, Economic Management, and Public Policy	6	520.00	5	64.40	5	584.40	11.04
Transport and Communications	9	1,774.30	9	256.64	17	2,030.94	38.37
Water Supply, Sanitation, and Waste Management	1	10.00	1	20.00	1	30.00	0.57
Multisector	4	409.80	6	241.20	8	651.00	12.30
<b>TOTAL</b>	<b>33</b>	<b>4,051.40</b>	<b>47</b>	<b>1,242.04</b>	<b>64</b>	<b>5,293.44</b>	<b>100.00</b>

– Data not applicable.

a Includes private sector loans.

b A project with multiple loans is counted as one project.

**Table 5**  
**LOAN APPROVALS BY COUNTRY AND SOURCE OF FUNDS,<sup>a</sup> 2004**  
(amounts in \$ million)

	OCR	ADF	Total	%
Afghanistan	35.00	170.00	205.00	3.87
Azerbaijan	10.00	20.00	30.00	0.57
Bangladesh	50.60	198.91	249.51	4.71
Cambodia	–	65.00	65.00	1.23
China, People's Rep. of	1,259.90	–	1,259.90	23.80
India	1,254.40	–	1,254.40	23.70
Indonesia	200.00	25.00	225.00	4.25
Kyrgyz Republic	–	32.80	32.80	0.62
Lao PDR	–	27.70	27.70	0.52
Micronesia, Federated States of	4.80	14.20	19.00	0.36
Mongolia	4.50	37.13	41.63	0.79
Nepal	–	110.00	110.00	2.08
Pakistan	481.20	228.00	709.20	13.40
Papua New Guinea	–	19.01	19.01	0.36
Philippines	446.00	–	446.00	8.42
Sri Lanka	120.00	75.00	195.00	3.68
Tajikistan	–	22.72	22.72	0.43
Tuvalu	–	1.97	1.97	0.04
Uzbekistan	65.00	–	65.00	1.23
Viet Nam	120.00	176.40	296.40	5.60
Regional	–	18.20	18.20	0.34
<b>TOTAL</b>	<b>4,051.40</b>	<b>1,242.04</b>	<b>5,293.44</b>	<b>100.00</b>

– Data not applicable.

a Includes loans to private sector without government guarantee.

**Table 6**  
**PROJECTS INVOLVING COFINANCING, 2004**  
(\$ million)

ADB Amount <sup>a</sup>	Cofinancing			Source of Cofinancing
	Official		Com- mercial <sup>b</sup>	
	Grants	Loans		
<b>AFGHANISTAN</b>				
Afghanistan Investment Guarantee Facility	5.00	–	–	10.00 Commercial lenders with ADB Political Risk Guarantee
		–	–	10.00 Commercial lenders with a guarantee from Multilateral Investment Guarantee Agency
		–	5.00	– International Development Association (IDA)
Regional Airports Rehabilitation Phase I	30.00	2.00	–	– United Nations Office of Project Services
Telecom Development Company <sup>c</sup>	35.00	–	–	36.10 Vendor debt-financed
<b>BANGLADESH</b>				
Grameenphone Telecommunications Expansion <sup>c</sup>	20.00	–	30.00	– International Finance Corporation
		–	10.00	– Norwegian Investment Fund for Developing Countries
Secondary Towns Integrated Flood Protection Phase 2	80.00	–	15.00	– OPEC Fund for International Development (OPEC Fund)
Small and Medium Enterprise Sector Development Program	30.00	–	10.00	– World Bank
Teaching Quality Improvement in Secondary Education	68.91	18.00 <sup>d</sup>	–	– Canadian International Development Agency (CIDA)
<b>CHINA, PEOPLE'S REPUBLIC OF</b>				
Coal Mine Methane Development	117.40	–	–	37.90 Industrial Commercial Bank of China, People's Republic of China (PRC)
		–	20.00	– Japan Bank for International Cooperation (JBIC) (non-ODA)
		0.50	–	– United States Trade Development Agency
Dali-Lijiang Railway	180.00	–	40.00	– Agence Francaise de Développement (AFD)
Fujian Soil Conservation and Rural Development II	80.00	–	–	22.85 Domestic banks in the PRC
Gansu Roads Development	300.00	–	–	263.40 China Development Bank (CDB), PRC
Guangxi Roads Development II	200.00	–	–	271.40 CDB, PRC
Hunan Roads Development II	312.50	–	–	319.20 Domestic banks in the PRC
Liaoning Environmental Improvement	70.00	–	–	30.74 Domestic banks in the PRC
<b>INDIA</b>				
Petronet Liquefied Natural Gas Ltd.	9.67 <sup>e</sup>	–	–	65.30 Commercial lenders with ADB Partial Credit Guarantee
		–	–	234.17 Commercial banks in India
Rajasthan Urban Infrastructure Development	60.00	–	85.00	– JBIC (ODA)
Torrent Power Generation, Ltd. <sup>c</sup>	54.40	–	–	427.00 Commercial banks in India
<b>INDONESIA</b>				
State Audit Reform Sector Development Program	25.00	5.00	–	– The Netherlands
<b>KYRGYZ REPUBLIC</b>				
Southern Transport Corridor Road Rehabilitation	32.80	–	4.00	– OPEC Fund
<b>LAO PEOPLE'S DEMOCRATIC REPUBLIC</b>				
Roads for Rural Development	17.70	–	7.30	– Nordic Development Fund
		–	6.00	– OPEC Fund

a Cofinancing is provided in conjunction with ADB-assisted projects and programs. Cofinancing opportunities therefore depend on ADB's lending and investment program.

b Comprising debt cofinancing (e.g., syndicated loans, bonds, and floating rate notes) from commercial/market sources and guarantees.

c Private sector loan.

d ADB-administered grant fund.

e Equity investment.

## CONTINUED

	ADB Amount <sup>a</sup>	Cofinancing			Source of Cofinancing
		Official Grants	Loans	Com- mercial <sup>b</sup>	
MONGOLIA					
Regional Road Development	37.13	1.50	–	–	PRC
		–	23.90	–	Korean International Development Agency, Republic of Korea
NEPAL					
Community-Managed Irrigated Agriculture Sector	20.00	–	7.00	–	OPEC Fund
Decentralized Rural Infrastructure and Livelihood	40.00	0.70	–	–	Deutsche Gesellschaft für Technische Zusammernarbeit (GTZ), Germany
		1.90	–	–	SDC
PAKISTAN					
Balochistan Resource Management Program	3.00	1.92 <sup>c</sup>	–	–	The Netherlands
Punjab Devolved Social Services Program	150.00	30.00 <sup>c</sup>	–	–	Department for International Development, United Kingdom (DFID)
PAPUA NEW GUINEA					
Community Water Transport	19.01	–	4.00	–	OPEC Fund
PHILIPPINES					
National Home Mortgage Finance Corporation Nonperforming Loans Disposition <sup>d</sup>	33.00	–	40.60	–	International Finance Corporation
UZBEKISTAN					
Woman and Child Health Development	40.00	6.00	–	–	Japan International Cooperation Agency
		–	20.00	–	International Bank for Reconstruction and Development
		–	20.00	–	IDA
VIET NAM					
Second Financial Sector Program (Subprogram II)	35.00	–	15.50	–	AFD
Health Care in the Central Highlands	20.00	5.58 <sup>c</sup>	–	–	Swedish International Development Cooperation Agency
Northern Power Transmission Sector	120.00	–	50.00	–	AFD
Small and Medium-Sized Enterprise Development Program (Subprogram I)	60.00	–	18.00	–	AFD
		–	17.00	–	Kreditanstalt für Wiederaufbau (KfW), Germany
Support to Implementation of Poverty Reduction Program	6.40	5.00	–	–	CIDA
		10.00	–	–	Denmark
		36.00	–	–	DFID
		18.00	–	–	European Commission
		–	18.00	–	JBIC (ODA)
		5.00	–	–	The Netherlands
		–	100.00	–	IDA
TOTAL	2,311.92	147.10	566.30	1,728.06	

a Cofinancing is provided in conjunction with ADB-assisted projects and programs. Cofinancing opportunities therefore depend on ADB's lending and investment program.

b Comprising debt cofinancing (e.g., syndicated loans, bonds, and floating rate notes) from commercial/market sources.

c ADB-administered grant fund.

d Private sector loan.

**Table 7**  
**LOAN DISBURSEMENTS, 2003 AND 2004**  
(amounts in \$ thousand)

	2 0 0 3			% of Total Total	% of Total Disbursements
	OCR	% of Total OCR	ADF		
<b>Project<sup>a</sup></b>					
Nondevelopment Finance Institution	1,394,923	52	661,961	59	2,056,884
Development Finance Institution	78,014	3	61	0	78,075
Total Project Loans	1,472,937	55	662,022	59	2,134,959
<b>Program<sup>b</sup></b>	873,847	33	251,194	22	1,125,041
<b>Sector<sup>c</sup></b>	228,091	8	214,840	19	442,931
<b>Private Sector<sup>d</sup></b>	113,281	4	—	—	113,281
<b>TOTAL</b>	<b>2,688,156</b>	<b>100</b>	<b>1,128,056</b>	<b>100</b>	<b>3,816,212</b>
	2 0 0 4			% of Total Disbursements	% Change (2004/2003)
	OCR	% of Total OCR	ADF		
<b>Project<sup>a</sup></b>					
Nondevelopment Finance Institution	1,219,033	49	607,040	57	1,826,073
Development Finance Institution	33,320	1	—	—	33,320
Total Project Loans	1,252,353	50	607,040	57	1,859,393
<b>Program<sup>b</sup></b>	908,688	36	230,328	22	1,139,016
<b>Sector<sup>c</sup></b>	237,614	10	217,727	21	455,341
<b>Private Sector<sup>d</sup></b>	109,414	4	—	—	109,414
<b>TOTAL</b>	<b>2,508,069</b>	<b>100</b>	<b>1,055,095</b>	<b>100</b>	<b>3,563,164</b>

0 Data negligible.

— Data not applicable.

( ) Negative.

a A project loan is a loan provided to finance specific projects. ADB uses development finance institutions in its developing member countries (DMCs) as vehicles to finance small to medium-sized projects in the private sector.

b A program loan is a loan provided to support DMCs' efforts to improve the policy, institutional, and investment environment of sector development. It helps meet short-term costs that policy adjustments entail.

c A sector loan is a loan provided to develop a specific sector or subsector. It finances a large number of subprojects in a single sector or subsector.

d Excludes equity investments.

**Table 8**  
**PROGRAM LOAN DISBURSEMENTS, 2004**  
(\$ million)

	OCR	ADF	Total
Afghanistan	—	31.23	31.23
Bangladesh	50.00	—	50.00
Cambodia	—	20.90	20.90
India	45.00	—	45.00
Indonesia	247.50	—	247.50
Kyrgyz Republic	—	28.33	28.33
Micronesia, Fed. States of	—	0.65	0.65
Mongolia	—	8.99	8.99
Pakistan	505.94	105.32	611.26
Sri Lanka	30.25	—	30.25
Uzbekistan	30.00	—	30.00
Viet Nam	—	34.91	34.91
<b>TOTAL</b>	<b>908.69</b>	<b>230.33</b>	<b>1,139.02</b>

— Data not applicable.

**Table 9**  
**PRIVATE SECTOR APPROVALS AND TOTAL PROJECT COSTS BY COUNTRY, 2004**  
(\$ million)

	Equity Invest- ment Loan	Total ADB Funds	Complementary Loan/Political Risk Guarantee Coguarantor Program	Partial Credit Guarantee	Political Risk Guarantee	Swap with DMCs	Total ADB Approvals	Project Cost/ Fund Size
AFGHANISTAN								
Afghanistan International Bank	-	2.60	2.60	-	-	-	2.60	20.00
Afghanistan Investment Guarantee Facility	-	-	-	-	10.00	-	10.00	60.00
Roshan Cellular Telecommunications	35.00	-	35.00	-	-	-	35.00	165.50
BANGLADESH								
Grameenphone Telecommunications Expansion	20.00	-	20.00	-	-	-	20.00	142.00
CHINA, PEOPLE'S REPUBLIC OF								
Yangtze Special Situations Fund (formerly Colony China Opportunity Fund LP)	-	45.00	45.00	-	-	-	45.00	450.00
Shenzhen Orientwise Guarantee and Investment Co. Ltd.	-	10.00	10.00	-	-	-	10.00	60.00
Actis China Fund 2 LP	-	45.00	45.00	-	-	-	45.00	200.00
INDIA								
Petronet LNG Ltd. (formerly Dahej Liquefied Natural Gas Terminal Project)	-	9.70	9.70	-	65.30	-	75.00	546.70
Torrent Power Generation, Ltd.	54.40	20.60	75.00	-	-	-	75.00	724.00
Baring India Private Equity Fund	-	20.00	20.00	-	-	-	20.00	150.00
MONGOLIA								
Trade and Development Bank of Mongolia	4.50	1.60	6.10	-	-	-	6.10	40.00
PHILIPPINES								
PS Peso Swap and Financing	200.00	-	200.00	-	-	200.00	400.00	-
LGU Guarantee Corporation National Home Mortgage Finance Corporation NPL Disposition	-	2.00	2.00	-	-	-	2.00	8.00
33.00	1.00	34.00	-	-	-	-	34.00	250.00
REGIONAL								
ADM Maculus Fund L.P.	-	25.00	25.00	-	-	-	25.00	120.00
Shorecap International Fund	-	2.50	2.50	-	-	-	2.50	15.50
<b>TOTAL</b>	<b>346.90</b>	<b>185.00</b>	<b>531.90</b>	<b>-</b>	<b>65.30</b>	<b>10.00</b>	<b>200.00</b>	<b>807.20</b>
								<b>2,951.70</b>

- Data not applicable.

**Table 10**  
**PRIVATE SECTOR APPROVALS AND TOTAL PROJECT COSTS BY SECTOR, 2004**  
(\$ million)

	Equity Invest- ment Loan	Total ADB Funds	Complementary Loan/Political Risk Guarantee Coguarantor Program	Partial Credit Guarantee	Political Risk Guarantee	Swap with DMCs	Total ADB Approvals	Total Project Cost
Infrastructure	109.40	30.30	139.70	-	65.30	-	205.00	1,578.20
Investment Funds and Financial Institutions	237.50	154.70	392.20	-	-	10.00	200.00	602.20
Others	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>346.90</b>	<b>185.00</b>	<b>531.90</b>	<b>-</b>	<b>65.30</b>	<b>10.00</b>	<b>200.00</b>	<b>807.20</b>
								<b>2,951.70</b>

- Data not applicable.

**Table 11**  
**PRIVATE SECTOR APPROVALS BY YEAR, 1983–2004**  
(amounts in \$ million)

	No. of Projects <sup>a</sup>	Loan	Equity Investment <sup>b</sup>	Total ADB Funds	Complementary Loan/Political Risk Guarantee Coguarantor Program	Partial Credit Guarantee	Political Risk Guarantee	Swap with DMCs	Total ADB Approvals <sup>a</sup>	Total Project Cost
1983	2	–	2.96	2.96	–	–	–	–	2.96	36.00
1984	1	–	0.42	0.42	–	–	–	–	0.42	2.80
1985	5	–	3.40	3.40	–	–	–	–	3.40	39.68
1986	5	6.46	6.01	12.47	–	–	–	–	12.47	42.72
1987	8	20.50	27.61	48.11	5.00	–	–	–	53.11	524.34
1988	12	58.00	35.67	93.67	–	–	–	–	93.67	524.24
1989	16	95.70	67.59	163.29	51.10	–	–	–	214.39	1,178.55
1990	17	78.85	35.94	114.79	24.00	–	–	–	138.79	2,051.63
1991	10	156.80	20.52	177.32	–	–	–	–	177.32	1,330.07
1992	4	50.00	5.42	55.42	81.50	–	–	–	136.92	409.39
1993	9	182.10	20.70	202.80	19.30	–	–	–	222.10	1,513.70
1994	9	–	48.70	48.70	–	–	–	–	48.70	919.20
1995	8	68.00	99.41	167.41	5.83	–	–	–	173.24	1,050.32
1996	8	98.50	80.15	178.65	91.50	–	–	–	270.15	1,788.77
1997	5	45.00	49.50	94.50	–	50.00	–	–	144.50	1,239.69
1998	6	136.12	39.44	175.56	151.08	65.00	–	–	319.64	1,152.70
1999	3	101.50	7.40	108.90	61.50	–	–	–	170.40	847.70
2000	11	152.00	77.65	229.65	45.00	–	101.00	–	375.65	1,629.84
2001	6	37.50	30.36	67.86	–	–	–	–	67.86	648.00
2002	7	110.00	35.53	145.53	–	–	60.00	–	205.53	1,176.60
2003	7	167.00	35.65	202.65	100.00	170.00	70.00	–	542.65	2,300.00
2004	16 <sup>c</sup>	346.90	185.00	531.90	–	65.30	10.00	200.00	807.20	2,951.70
<b>TOTAL</b>	<b>175</b>	<b>1,910.93</b>	<b>915.03</b>	<b>2,825.96</b>	<b>635.81</b>	<b>350.30</b>	<b>241.00</b>	<b>200.00</b>	<b>4,253.07</b>	<b>23,357.64</b>

– Data not applicable.

a Net of cancellations.

b Includes equity investments, lines of equity, and equity underwritings.

c Includes an approved project for the expansion of the Grameenphone Telecommunications in Bangladesh.

**Table 12**  
**CUMULATIVE PRIVATE SECTOR APPROVALS BY COUNTRY, 1983–2004**  
(amounts in \$ million)

	No. of Projects <sup>a</sup>	Loan	Equity Investment <sup>b</sup>	Total ADB Funds	Complementary Loan/Political Risk Guarantee Coguarantor Program	Partial Credit Guarantee	Political Risk Guarantee	Swap with DMCs	Total ADB Approvals <sup>a</sup>	Total Project Cost
Afghanistan	3	35.00	2.60	37.60	–	–	10.00	–	47.60	245.50
Bangladesh	8 <sup>c</sup>	137.20	14.98	152.18	20.00	–	70.00	–	242.18	890.36
Bhutan	1	–	0.53	0.53	–	–	–	–	0.53	0.79
China, People's Rep. of	11	116.50	182.30	298.80	171.50	–	–	–	470.30	2,699.80
India	30	292.10	166.75	458.85	5.00	65.30	–	–	529.15	4,332.86
Indonesia	12	82.00	23.65	105.65	63.50	–	–	–	169.15	714.22
Korea, Rep. of	5	–	8.96	8.96	–	–	–	–	8.96	292.23
Malaysia	1	–	2.00	2.00	–	–	–	–	2.00	3.64
Mongolia	1	4.50	1.60	6.10	–	–	–	–	6.10	40.00
Nepal	4	49.55	3.26	52.81	5.83	–	–	–	58.64	218.03
Pakistan	28	241.80	30.63	272.43	129.90	65.00	–	–	467.33	1,810.99
Philippines	21	470.32	39.85	510.17	113.58	–	–	200.00	823.75	2,650.22
Samoa	1	–	0.40	0.40	–	–	–	–	0.40	1.60
Sri Lanka	9	72.00	13.58	85.58	–	115.00	31.00	–	231.58	519.73
Thailand	10	71.46	77.07	148.53	100.00	–	70.00	–	318.53	3,071.80
Viet Nam	6	168.50	–	168.50	26.50	–	60.00	–	255.00	1,470.00
Regional	24	170.00	346.87	516.87	–	105.00	–	–	621.87	4,395.87
<b>TOTAL</b>	<b>175</b>	<b>1,910.93</b>	<b>915.03</b>	<b>2,825.96</b>	<b>635.81</b>	<b>350.30</b>	<b>241.00</b>	<b>200.00</b>	<b>4,253.07</b>	<b>23,357.64</b>

– Data not applicable.

a Net of cancellations.

b Includes equity investments, lines of equity, and equity underwritings.

c Includes an approved project for the expansion of the Grameenphone Telecommunications in Bangladesh.

**Table 13**

**NUMBER OF LOANS AND PROJECTS APPROVED AND UNDER ADMINISTRATION, PROJECT COMPLETION REPORTS (PCRs) CIRCULATED, PROJECTS COMPLETED, LOANS CLOSED, AND PROJECT/PROGRAM PERFORMANCE AUDIT REPORTS (PPARs) CIRCULATED**

(as of 31 December 2004)

	Cumulative No. of Loans Approved <sup>a</sup>	Cumulative No. of Effective Loans	Cumulative No. of Projects Approved <sup>b</sup>	Cumulative No. of Blended Loans	Cumulative No. of Supplementary Loans	Cumulative No. of Cofinanced Projects
Afghanistan	16	11	15	—	1	5
Azerbaijan	3	1	2	1	—	—
Bangladesh	165	158	150	9	5	74
Bhutan	19	19	18	—	—	7
Cambodia	35	30	28	2	1	14
China, People's Rep. of	111	103	109	—	—	58
Cook Islands	12	12	12	—	—	1
Fiji Islands	15	15	15	—	—	6
Hong Kong, China	5	5	5	—	—	—
India	91	82	78	3	—	24
Indonesia	271	265	241	21	2	58
Kazakhstan	12	11	8	2	—	2
Kiribati	6	6	6	—	—	1
Korea, Rep. of	81	81	80	—	—	8
Kyrgyz Republic	24	22	18	—	—	6
Lao PDR	62	61	56	—	3	33
Malaysia	76	76	74	1	1	9
Maldives	13	12	13	—	—	4
Marshall Islands	12	12	11	1	—	1
Micronesia, Fed. States of	8	6	6	1	—	—
Mongolia	36	34	30	—	—	8
Myanmar	32	32	28	2	2	12
Nauru	1	1	1	—	—	—
Nepal	114	108	102	2	9	45
Pakistan	239	227	184	34	5	74
Papua New Guinea	57	57	46	10	—	12
Philippines	192	188	162	18	4	65
Samoa	30	29	26	—	4	9
Singapore	14	14	14	—	—	2
Solomon Islands	16	16	15	—	—	5
Sri Lanka	128	121	110	10	5	42
Taipei, China	12	12	12	—	—	—
Tajikistan	17	14	13	2	—	3
Thailand	84	84	80	2	2	37
Timor-Leste	—	—	—	—	—	—
Tonga	15	14	15	—	—	3
Turkmenistan	—	—	—	—	—	—
Tuvalu	3	2	2	—	1	—
Uzbekistan	19	17	16	2	—	4
Vanuatu	9	9	8	—	1	3
Viet Nam	67	60	58	3	—	30
Regional	5	5	12 <sup>e</sup>	1	—	5
<b>TOTAL</b>	<b>2,127</b>	<b>2,032</b>	<b>1,879</b>	<b>127</b>	<b>46</b>	<b>670</b>

<sup>a</sup> Nil or data not applicable.<sup>a</sup> Includes special implementation assistance loans, special assistance, and private sector loans; excludes loans withdrawn by borrowers.<sup>b</sup> A project with multiple loans is counted as one project. Supplementary loans and special implementation assistance loans, and subprogram loans of program loan clusters are not counted as separate projects.<sup>c</sup> Includes projects/loans that have been approved but still awaiting effectiveness, inactive loans, fully disbursed private sector loans without government guarantee but still under administration; excludes projects/loans exclusively financed from other sources.<sup>d</sup> Projects that were physically completed in 2004.

No. of Loans Under Administration <sup>c</sup>	No. of Projects Under Administration <sup>a,c</sup>	Cumulative No. of PCRs Circulated/ Prepared	No. of Projects Completed in 2004 <sup>d</sup>	No. of Loans Closed in 2004	No. of PCRs Circulated in 2004	No. of PPARs Circulated in 2004	
7	7	—	—	—	—	—	Afghanistan
3	2	—	—	—	—	—	Azerbaijan
38	30	106	2	3	4	1	Bangladesh
5	5	11	1	—	1	—	Bhutan
24	20	7	5	—	2	—	Cambodia
37	37	64	4	10	13	1	China, People's Rep. of
1	1	11	1	—	—	1	Cook Islands
3	3	10	—	—	—	—	Fiji Islands
—	—	5	—	—	—	—	Hong Kong, China
40	35	40	2	—	4	1	India
42	35	164	10	16	9	3	Indonesia
4	3	6	—	1	1	—	Kazakhstan
1	1	4	1	—	—	—	Kiribati
—	—	61	—	—	—	—	Korea, Rep. of
12	12	7	4	3	1	—	Kyrgyz Republic
23	22	30	3	2	1	1	Lao PDR
2	2	54	—	—	1	—	Malaysia
6	6	6	1	1	—	—	Maldives
2	2	8	1	—	3	—	Marshall Islands
5	3	2	—	1	—	—	Micronesia, Fed. States of
15	13	16	—	1	1	—	Mongolia
—	—	26	—	—	—	—	Myanmar
—	—	1	—	—	—	—	Nauru
27	25	73	—	4	3	3	Nepal
64	41	122	7	6	7	2	Pakistan
11	11	33	—	1	1	—	Papua New Guinea
32	26	115	5	10	8	—	Philippines
4	4	20	—	—	1	—	Samoa
—	—	7	—	—	—	—	Singapore
2	2	14	1	—	—	—	Solomon Islands
50	39	67	6	1	4	1	Sri Lanka
—	—	1	—	—	—	—	Taipei, China
14	12	3	2	1	2	1	Tajikistan
2	2	57	1	3	1	1	Thailand
—	—	2	—	—	2	1	Timor-Leste
—	—	15	—	—	—	—	Tonga
—	—	—	—	—	—	—	Turkmenistan
2	1	1	—	—	—	—	Tuvalu
16	14	1	2	—	—	—	Uzbekistan
—	—	8	—	—	—	—	Vanuatu
39	36	18	6	3	5	1	Viet Nam
1	2	3	—	—	—	—	Regional
534	454	1,199	65	67	75	18	TOTAL

e Includes the regional projects—Greater Mekong Subregion (GMS): Phnom Penh to Ho Chi Minh City Highway (Cambodia and Viet Nam); GMS: Mekong Tourism Development (Cambodia, Lao People's Democratic Republic, and Viet Nam); GMS: East-West Corridor (Lao PDR and Viet Nam); Almaty-Bishkek Regional Road Rehabilitation (Kazakhstan and Kyrgyz Republic); Regional Trade Facilitation and Customs Cooperation Program (Kyrgyz Republic and Tajikistan); Regional Customs Modernization and Infrastructure Development Project (Kyrgyz Republic and Tajikistan); Asian Finance and Investment Corporation Ltd.; Trade Finance Facilitation Program; and Regional Power Transmission Modernization Project (Tajikistan and Uzbekistan).

**Table 14**  
**AMOUNT OF LOANS APPROVED, CONTRACTS AWARDED, AND DISBURSEMENTS**  
(as of 31 December 2004; amounts in \$ million)

	Cumulative Loan Amounts Approved <sup>a</sup>	Cumulative Net Effective Loans <sup>b,c</sup>	Contracts Awarded in 2004 <sup>c,d,e</sup>	Cumulative Contracts Awarded <sup>c,d,f</sup>
Afghanistan	617.28	427.19	99.16	286.22
Azerbaijan	52.00	23.78	–	–
Bangladesh	7,569.89	6,835.16	205.58	5,320.35
Bhutan	111.16	107.39	9.58	98.21
Cambodia	840.24	718.54	62.37	519.50
China, People's Rep. of	14,875.88	12,142.50	685.82	9,549.12
Cook Islands	26.67	25.12	–	25.04
Fiji Islands	224.90	217.27	9.05	166.40
Hong Kong, China	101.50	94.50	–	94.50
India	14,550.30	10,305.52	550.49	8,025.73
Indonesia	19,582.81	15,818.99	516.77	14,191.70
Kazakhstan	501.60	439.15	6.87	434.22
Kiribati	15.14	14.06	–	12.14
Korea, Rep. of	6,338.33	5,560.33	–	5,560.33
Kyrgyz Republic	573.00	537.65	48.21	453.42
Lao PDR	1,113.14	1,108.45	54.77	866.79
Malaysia	1,987.54	1,417.03	3.49	1,405.29
Maldives	83.68	83.12	0.77	52.92
Marshall Islands	78.13	74.64	1.02	63.51
Micronesia, Fed. States of	75.14	57.03	1.06	35.30
Mongolia	610.34	577.03	31.74	478.66
Myanmar	530.86	411.83	–	411.83
Nauru	5.00	2.30	–	2.30
Nepal	2,214.98	1,892.61	38.17	1,376.96
Pakistan	14,258.94	12,468.03	643.39	9,771.59
Papua New Guinea	873.99	799.76	22.64	630.08
Philippines	8,619.03	6,574.18	138.81	5,808.79
Samoa	121.92	121.62	3.85	102.90
Singapore	181.08	144.44	–	144.44
Solomon Islands	79.31	66.31	0.19	55.50
Sri Lanka	3,450.25	3,248.96	183.62	2,463.03
Taipei, China	100.39	91.14	–	91.14
Tajikistan	244.34	209.83	30.89	101.60
Thailand	5,388.07	4,214.48	7.28	4,117.53
Tonga	57.79	52.26	–	52.26
Tuvalu	7.82	6.11	–	4.15
Uzbekistan	859.70	694.36	105.86	337.36
Vanuatu	51.25	48.99	–	48.99
Viet Nam	3,154.67	2,813.18	116.00	1,684.66
Regional <sup>h</sup>	170.00	170.00	–	–
<b>TOTAL</b>	<b>110,298.03</b>	<b>90,614.84</b>	<b>3,577.44</b>	<b>74,844.45</b>

– Nil or data not applicable.

a Includes special assistance loans and private sector loans but excludes loans terminated. The US dollar equivalent is in accordance with the exchange rate prevailing in ADB at the time of loan approval.

b Net refers to effective loan amounts less cancellations.

c The US dollar equivalent is in accordance with the exchange rate prevailing in ADB on 31 December 2004.

d Excludes private sector loans without government guarantee.

% of Cumulative Contracts Awarded to Cumulative Net Effective Loans <sup>c</sup>	Disbursements in 2004	Cumulative Disbursements <sup>g</sup>	% of Cumulative Disbursements to Cumulative Net Effective Loans	
67.00	43.19	227.74	53.31	Afghanistan
-	-	-	-	Azerbaijan
77.84	214.24	5,292.45	77.43	Bangladesh
91.46	7.00	86.36	80.42	Bhutan
72.30	76.66	480.12	66.82	Cambodia
78.64	635.70	9,028.14	74.35	China, People's Rep. of
99.70	1.68	24.98	99.44	Cook Islands
76.59	9.55	146.49	67.42	Fiji Islands
100.00	-	94.50	100.00	Hong Kong, China
77.88	401.56	7,446.35	72.26	India
89.71	593.53	14,097.96	89.12	Indonesia
98.88	30.04	406.52	92.57	Kazakhstan
86.31	2.49	11.99	85.22	Kiribati
100.00	-	5,560.32	100.00	Korea, Rep. of
84.33	54.42	422.01	78.49	Kyrgyz Republic
78.20	48.49	812.00	73.26	Lao PDR
99.17	3.94	1,395.76	98.50	Malaysia
63.66	2.19	52.31	62.93	Maldives
85.08	1.64	63.20	84.67	Marshall Islands
61.89	1.11	35.04	61.44	Micronesia, Fed. States of
82.95	43.90	462.06	80.07	Mongolia
100.00	-	411.83	100.00	Myanmar
100.00	-	2.30	100.00	Nauru
72.75	21.98	1,393.53	73.63	Nepal
78.37	638.78	9,967.19	79.94	Pakistan
78.78	19.20	612.51	76.59	Papua New Guinea
88.36	172.82	6,000.39	91.27	Philippines
84.61	2.80	100.00	82.22	Samoa
100.00	-	144.44	100.00	Singapore
83.70	0.86	55.16	83.18	Solomon Islands
75.81	185.67	2,367.91	72.88	Sri Lanka
100.00	-	91.14	100.00	Taipei, China
48.42	19.62	73.52	35.04	Tajikistan
97.70	36.85	4,162.02	98.76	Thailand
100.00	-	52.26	100.00	Tonga
67.81	0.05	4.15	67.90	Tuvalu
48.59	89.32	282.61	40.70	Uzbekistan
100.00	-	48.99	100.00	Vanuatu
59.88	198.90	1,729.28	61.47	Viet Nam
-	5.00	103.96	61.16	Regional
82.60	3,563.16	73,749.49	81.39	TOTAL

e Contracts awarded for development finance institution/credit loans are based on the amount of subloan contracts.

f Inclusive of interests, commitment fees and other charges.

g The cumulative disbursements may exceed the cumulative contracts awarded due to disbursed amount without procurement contract summary sheet, e.g., interest during construction, contingencies, and private sector loans that do not require procurement.

h Private sector loans to the Asian Finance and Investment Corporation Ltd.

**Table 15**  
**CONTRACTS AWARDED BY COUNTRY OF ORIGIN,<sup>a</sup> 2004**  
**PROJECT LOANS—ORDINARY CAPITAL RESOURCES** (amounts in \$ million)

	Goods and Related Services, and Civil Works	% Distribution	Consulting Services	% Distribution	Total Contracts Awarded	% Distribution
Afghanistan	0.00	0.00	0.00	0.00	0.00	0.00
Australia	1.46	0.09	5.50	9.48	6.96	0.43
Austria	1.50	0.10	0.00	0.00	1.50	0.09
Azerbaijan	0.00	0.00	0.00	0.00	0.00	0.00
Bangladesh	4.35	0.28	0.00	0.00	4.35	0.27
Belgium	0.70	0.05	0.00	0.00	0.70	0.04
Bhutan	0.00	0.00	0.00	0.00	0.00	0.00
Cambodia	0.00	0.00	0.00	0.00	0.00	0.00
Canada	0.21	0.01	0.22	0.38	0.42	0.03
China, People's Rep. of	574.43	37.04	4.01	6.90	578.44	35.95
Cook Islands	0.00	0.00	0.00	0.00	0.00	0.00
Denmark	0.00	0.00	3.50	6.02	3.50	0.22
Fiji Islands	0.24	0.02	0.00	0.00	0.24	0.02
Finland	0.00	0.00	0.00	0.00	0.00	0.00
France	46.73	3.01	4.09	7.04	50.81	3.16
Germany	18.18	1.17	0.00	0.00	18.18	1.13
Hong Kong, China	1.97	0.13	2.68	4.62	4.65	0.29
India	481.28	31.04	8.29	14.27	489.57	30.43
Indonesia	184.92	11.92	4.49	7.72	189.41	11.77
Italy	5.02	0.32	0.00	0.00	5.02	0.31
Japan	48.17	3.11	2.71	4.66	50.87	3.16
Kazakhstan	0.00	0.00	0.00	0.00	0.00	0.00
Kiribati	0.00	0.00	0.00	0.00	0.00	0.00
Korea, Rep. of	17.49	1.13	0.00	0.00	17.49	1.09
Kyrgyz Republic	0.00	0.00	0.00	0.00	0.00	0.00
Lao PDR	0.00	0.00	0.00	0.00	0.00	0.00
Luxembourg	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	1.10	0.07	0.39	0.68	1.49	0.09
Maldives	0.00	0.00	0.00	0.00	0.00	0.00
Marshall Islands	0.00	0.00	0.00	0.00	0.00	0.00
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia	0.00	0.00	0.00	0.00	0.00	0.00
Myanmar	0.00	0.00	0.00	0.00	0.00	0.00
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	0.00	0.00	0.00	0.00	0.00	0.00
The Netherlands	4.14	0.27	0.00	0.00	4.14	0.26
New Zealand	8.71	0.56	2.11	3.64	10.82	0.67
Norway	0.00	0.00	0.00	0.00	0.00	0.00
Pakistan	0.00	0.00	2.27	3.90	2.27	0.14
Palau	0.00	0.00	0.00	0.00	0.00	0.00
Papua New Guinea	9.05	0.58	0.53	0.92	9.59	0.60
Philippines	48.70	3.14	0.44	0.76	49.14	3.05
Portugal	0.00	0.00	0.00	0.00	0.00	0.00
Samoa	0.00	0.00	0.00	0.00	0.00	0.00
Singapore	1.19	0.08	0.00	0.00	1.19	0.07
Solomon Islands	0.00	0.00	0.00	0.00	0.00	0.00
Spain	9.67	0.62	0.00	0.00	9.67	0.60
Sri Lanka	0.00	0.00	0.00	0.00	0.00	0.00
Sweden	8.42	0.54	0.00	0.00	8.42	0.52
Switzerland	9.34	0.60	0.00	0.00	9.34	0.58
Taipei, China	0.05	0.00	0.00	0.00	0.05	0.00
Tajikistan	0.00	0.00	0.06	0.10	0.06	0.00
Thailand	11.34	0.73	0.02	0.04	11.37	0.71
Timor-Leste	0.00	0.00	0.00	0.00	0.00	0.00
Tonga	0.00	0.00	0.00	0.00	0.00	0.00
Turkey	5.14	0.33	0.22	0.38	5.36	0.33
Turkmenistan	0.00	0.00	0.00	0.00	0.00	0.00
Tuvalu	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.86	0.06	4.26	7.33	5.11	0.32
United States	3.63	0.23	11.66	20.08	15.29	0.95
Uzbekistan	37.79	2.44	0.64	1.11	38.43	2.39
Vanuatu	0.00	0.00	0.00	0.00	0.00	0.00
Viet Nam	0.00	0.00	0.00	0.00	0.00	0.00
Regional	4.97	0.32	0.00	0.00	4.97	0.31
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>1,550.76</b>	<b>100.00</b>	<b>58.07</b>	<b>100.00</b>	<b>1,608.83</b>	<b>100.00</b>

0.00 Data negligible.

Note: Total may not add due to rounding.

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

**Table 16**  
**CONTRACTS AWARDED BY COUNTRY OF ORIGIN,<sup>a</sup> 2004**  
**PROJECT LOANS—ASIAN DEVELOPMENT FUND** (amounts in \$ million)

	Goods and Related Services, and Civil Works	% Distribution	Consulting Services	% Distribution	Total Contracts Awarded	% Distribution
Afghanistan	0.03	0.00	1.89	2.11	1.92	0.26
Australia	1.93	0.29	3.19	3.56	5.11	0.68
Austria	0.00	0.00	0.00	0.00	0.00	0.00
Azerbaijan	0.00	0.00	0.00	0.00	0.00	0.00
Bangladesh	65.77	9.99	2.22	2.48	67.99	9.09
Belgium	0.32	0.05	0.00	0.00	0.32	0.04
Bhutan	3.67	0.56	0.00	0.00	3.67	0.49
Cambodia	22.88	3.47	3.18	3.55	26.06	3.48
Canada	0.00	0.00	3.96	4.42	3.96	0.53
China, People's Rep. of	27.28	4.14	0.00	0.00	27.28	3.65
Cook Islands	0.00	0.00	0.00	0.00	0.00	0.00
Denmark	2.32	0.35	6.12	6.83	8.44	1.13
Fiji Islands	0.00	0.00	0.05	0.05	0.05	0.01
Finland	0.00	0.00	0.04	0.04	0.04	0.01
France	8.03	1.22	0.07	0.08	8.09	1.08
Germany	5.45	0.83	3.96	4.42	9.41	1.26
Hong Kong, China	0.04	0.01	0.00	0.00	0.04	0.00
India	21.78	3.31	0.00	0.00	21.78	2.91
Indonesia	63.05	9.57	12.22	13.65	75.27	10.06
Italy	0.24	0.04	0.00	0.00	0.24	0.03
Japan	9.49	1.44	6.04	6.74	15.53	2.08
Kazakhstan	0.50	0.08	0.00	0.00	0.50	0.07
Kiribati	0.00	0.00	0.00	0.00	0.00	0.00
Korea, Rep. of	71.98	10.93	2.88	3.22	74.86	10.00
Kyrgyz Republic	16.69	2.53	1.37	1.52	18.06	2.41
Lao PDR	26.20	3.98	4.82	5.38	31.02	4.15
Luxembourg	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	1.14	0.17	0.00	0.00	1.14	0.15
Maldives	0.69	0.10	0.02	0.02	0.70	0.09
Marshall Islands	0.23	0.03	0.00	0.00	0.23	0.03
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia	7.41	1.12	0.44	0.49	7.85	1.05
Myanmar	0.00	0.00	0.00	0.00	0.00	0.00
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	17.96	2.73	5.09	5.68	23.05	3.08
The Netherlands	0.68	0.10	5.77	6.44	6.45	0.86
New Zealand	0.68	10.58	2.17	2.42	2.85	0.38
Norway	0.00	0.00	0.00	0.00	0.00	0.00
Pakistan	79.15	12.02	7.65	8.54	86.81	11.60
Palau	0.00	0.00	0.00	0.00	0.00	0.00
Papua New Guinea	7.15	1.09	0.06	0.07	7.21	0.96
Philippines	5.81	0.88	3.67	4.09	9.48	1.27
Portugal	0.00	0.00	0.07	0.07	0.07	0.01
Samoa	2.52	0.38	0.00	0.00	2.52	0.34
Singapore	3.54	0.54	0.00	0.00	3.54	0.47
Solomon Islands	0.19	0.03	0.00	0.00	0.19	0.03
Spain	0.11	0.02	0.00	0.00	0.11	0.01
Sri Lanka	111.82	16.98	2.50	2.79	114.32	15.28
Sweden	0.51	0.08	0.59	0.66	1.10	0.15
Switzerland	0.07	0.01	1.10	1.23	1.17	0.16
Taipei, China	0.15	0.02	0.00	0.00	0.15	0.02
Tajikistan	2.80	0.43	0.22	0.25	3.02	0.40
Thailand	11.86	1.80	0.65	0.73	12.51	1.67
Timor-Leste	0.00	0.00	0.00	0.00	0.00	0.00
Tonga	0.00	0.00	0.00	0.00	0.00	0.00
Turkey	1.90	0.29	0.00	0.00	1.90	0.25
Turkmenistan	0.00	0.00	0.00	0.00	0.00	0.00
Tuvalu	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	2.82	0.43	3.47	3.87	6.29	0.84
United States	7.51	1.14	3.39	3.78	10.90	1.46
Uzbekistan	2.69	0.41	0.00	0.00	2.69	0.36
Vanuatu	0.00	0.00	0.00	0.00	0.00	0.00
Viet Nam	41.57	6.31	0.74	0.82	42.31	5.65
Regional	0.08	0.01	0.00	0.00	0.08	0.01
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>658.67</b>	<b>100.00</b>	<b>89.57</b>	<b>100.00</b>	<b>748.25</b>	<b>100.00</b>

0.00 Data negligible.

Note: Total may not add due to rounding.

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

**Table 17**  
**CONTRACTS AWARDED BY COUNTRY OF ORIGIN,<sup>a</sup> 2004**  
**PROJECT LOANS—ORDINARY CAPITAL RESOURCES AND ASIAN DEVELOPMENT FUND COMBINED**  
(amounts in \$ million)

	Goods and Related Services, and Civil Works	% Distribution	Consulting Services	% Distribution	Total Contracts Awarded <sup>b</sup>	% Distribution
Afghanistan	0.03	0.00	1.89	1.28	1.92	0.08
Australia	3.39	0.15	8.69	5.89	12.08	0.51
Austria	1.50	0.07	0.00	0.00	1.50	0.06
Azerbaijan	0.00	0.00	0.00	0.00	0.00	0.00
Bangladesh	70.12	3.17	2.22	1.50	72.34	3.07
Belgium	1.02	0.05	0.00	0.00	1.02	0.04
Bhutan	3.67	0.17	0.00	0.00	3.67	0.16
Cambodia	22.88	1.04	3.18	2.15	26.06	1.11
Canada	0.21	0.01	4.18	2.83	4.38	0.19
China, People's Rep. of	601.71	27.23	4.01	2.71	605.71	25.70
Cook Islands	0.00	0.00	0.00	0.00	0.00	0.00
Denmark	2.32	0.11	9.61	6.51	11.94	0.51
Fiji Islands	0.24	0.01	0.05	0.03	0.29	0.01
Finland	0.00	0.00	0.04	0.03	0.04	0.00
France	54.75	2.48	4.16	2.81	58.91	2.50
Germany	23.64	1.07	3.96	2.68	27.60	1.17
Hong Kong, China	2.00	0.09	2.68	1.82	4.68	0.20
India	503.07	22.77	8.29	5.61	511.35	21.69
Indonesia	247.97	11.22	16.71	11.32	264.68	11.23
Italy	5.26	0.24	0.00	0.00	5.26	0.22
Japan	57.66	2.61	8.74	5.92	66.40	2.82
Kazakhstan	0.50	0.02	0.00	0.00	0.50	0.02
Kiribati	0.00	0.00	0.00	0.00	0.00	0.00
Korea, Rep. of	89.47	4.05	2.88	1.95	92.35	3.92
Kyrgyz Republic	16.69	0.76	1.37	0.93	18.06	0.77
Lao PDR	26.20	1.19	4.82	3.26	31.02	1.32
Luxembourg	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	2.24	0.10	0.39	0.27	2.63	0.11
Maldives	0.69	0.03	0.02	0.01	0.70	0.03
Marshall Islands	0.23	0.01	0.00	0.00	0.23	0.01
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia	7.41	0.34	0.44	0.30	7.85	0.33
Myanmar	0.00	0.00	0.00	0.00	0.00	0.00
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	17.96	0.81	5.09	3.45	23.05	0.98
The Netherlands	4.82	0.22	5.77	3.91	10.59	0.45
New Zealand	9.39	0.43	4.28	2.90	13.68	0.58
Norway	0.00	0.00	0.00	0.00	0.00	0.00
Pakistan	79.15	3.58	9.92	6.72	89.07	3.78
Palau	0.00	0.00	0.00	0.00	0.00	0.00
Papua New Guinea	16.20	0.73	0.59	0.40	16.80	0.71
Philippines	54.51	2.47	4.11	2.78	58.62	2.49
Portugal	0.00	0.00	0.07	0.05	0.07	0.00
Samoa	2.52	0.11	0.00	0.00	2.52	0.11
Singapore	4.73	0.21	0.00	0.00	4.73	0.20
Solomon Islands	0.19	0.01	0.00	0.00	0.19	0.01
Spain	9.78	0.44	0.00	0.00	9.78	0.41
Sri Lanka	111.82	5.06	2.50	1.70	114.32	4.85
Sweden	8.94	0.40	0.59	0.40	9.53	0.40
Switzerland	9.41	0.43	1.10	0.74	10.51	0.45
Taipei, China	0.19	0.01	0.00	0.00	0.19	0.01
Tajikistan	2.80	0.13	0.28	0.19	3.08	0.13
Thailand	23.21	1.05	0.67	0.46	23.88	1.01
Timor-Leste	0.00	0.00	0.00	0.00	0.00	0.00
Tonga	0.00	0.00	0.00	0.00	0.00	0.00
Turkey	7.04	0.32	0.22	0.15	7.26	0.31
Turkmenistan	0.00	0.00	0.00	0.00	0.00	0.00
Tuvalu	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	3.68	0.17	7.72	5.23	11.40	0.48
United States	11.14	0.50	15.05	10.19	26.19	1.11
Uzbekistan	40.48	1.83	0.64	0.44	41.12	1.74
Vanuatu	0.00	0.00	0.00	0.00	0.00	0.00
Viet Nam	41.57	1.88	0.74	0.50	42.31	1.79
Regional	5.05	0.23	0.00	0.00	5.05	0.21
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>2,209.43</b>	<b>100.00</b>	<b>147.65</b>	<b>100.00</b>	<b>2,357.08</b>	<b>100.00</b>

0.00 Data negligible.

Note: Total may not add due to rounding.

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

**Table 18**
**ESTIMATES OF PAYMENT TO SUPPLYING COUNTRIES FOR FOREIGN PROCUREMENT  
UNDER PROGRAM LENDING,<sup>a</sup> 2004**

	Ordinary Capital Resources (OCR)		Asian Development Fund (ADF)		Combined OCR and ADF	
	\$ Million	% Distribution	\$ Million	% Distribution	\$ Million	% Distribution
Afghanistan	0.38	0.05	0.20	0.09	0.58	0.06
Australia	8.12	1.00	2.36	1.06	10.48	1.02
Austria	0.93	0.11	0.32	0.15	1.25	0.12
Azerbaijan	0.06	0.01	0.10	0.05	0.16	0.02
Bangladesh	49.89	6.17	0.22	0.10	50.11	4.86
Belgium	3.03	0.37	1.68	0.76	4.71	0.46
Bhutan	0.01	0.00	0.00	0.00	0.01	0.00
Cambodia	0.01	0.00	0.11	0.05	0.12	0.01
Canada	2.26	0.28	1.16	0.52	3.42	0.33
China, People's Rep. of	14.16	1.75	17.25	7.78	31.41	3.05
Cook Islands	0.00	0.00	0.00	0.00	0.00	0.00
Denmark	0.49	0.06	0.35	0.16	0.85	0.08
Fiji Islands	0.03	0.00	0.01	0.00	0.04	0.00
Finland	1.19	0.15	0.30	0.13	1.49	0.14
France	3.03	0.37	1.74	0.78	4.77	0.46
Germany	12.49	1.54	7.49	3.38	19.98	1.94
Hong Kong, China	4.93	0.61	5.86	2.64	10.78	1.05
India	47.75	5.90	3.22	1.45	50.97	4.94
Indonesia	103.34	12.77	2.41	1.09	105.75	10.26
Italy	3.80	0.47	1.66	0.75	5.47	0.53
Japan	31.51	3.89	12.73	5.74	44.24	4.29
Kazakhstan	2.34	0.29	10.63	4.79	12.97	1.26
Kiribati	0.00	0.00	0.00	0.00	0.00	0.00
Korea, Rep. of	19.94	2.46	15.29	6.90	35.23	3.42
Kyrgyz Republic	1.00	0.12	0.02	0.01	1.02	0.10
Lao PDR	0.00	0.00	0.25	0.11	0.25	0.02
Luxembourg	0.00	0.00	0.01	0.00	0.01	0.00
Malaysia	11.25	1.39	5.49	2.48	16.74	1.62
Maldives	0.00	0.00	0.00	0.00	0.00	0.00
Marshall Islands	0.00	0.00	0.65	0.29	0.65	0.06
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia	0.00	0.00	0.00	0.00	0.01	0.00
Myanmar	0.22	0.03	0.09	0.04	0.31	0.03
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	0.02	0.00	0.01	0.00	0.03	0.00
The Netherlands	3.71	0.46	1.96	0.89	5.67	0.55
New Zealand	0.93	0.12	0.09	0.04	1.02	0.10
Norway	0.18	0.02	0.09	0.04	0.26	0.03
Pakistan	363.89	44.97	80.84	36.47	444.73	43.14
Palau	0.00	0.00	0.00	0.00	0.00	0.00
Papua New Guinea	0.18	0.02	0.00	0.00	0.18	0.02
Philippines	0.28	0.03	0.25	0.11	0.53	0.05
Portugal	0.06	0.01	0.03	0.02	0.09	0.01
Samoa	0.01	0.00	0.00	0.00	0.01	0.00
Singapore	15.22	1.88	11.93	5.38	27.15	2.63
Solomon Islands	0.03	0.00	0.00	0.00	0.03	0.00
Spain	1.44	0.18	0.56	0.25	1.99	0.19
Sri Lanka	30.46	3.76	0.34	0.15	30.80	2.99
Sweden	1.66	0.21	0.74	0.34	2.41	0.23
Switzerland	4.72	0.58	2.26	1.02	6.98	0.68
Taipei, China	9.31	1.15	0.00	0.00	9.31	0.90
Tajikistan	2.15	0.27	0.13	0.06	2.28	0.22
Thailand	6.92	0.86	9.74	4.40	16.66	1.62
Timor-Leste	0.00	0.00	0.00	0.00	0.00	0.00
Tonga	0.00	0.00	0.00	0.00	0.00	0.00
Turkey	3.23	0.40	1.56	0.70	4.78	0.46
Turkmenistan	0.23	0.03	0.36	0.16	0.58	0.06
Tuvalu	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	7.03	0.87	2.92	1.32	9.95	0.97
United States	33.64	4.16	8.18	3.69	41.82	4.06
Uzbekistan	0.28	0.03	2.97	1.34	3.25	0.32
Vanuatu	0.02	0.00	0.00	0.00	0.02	0.00
Viet Nam	1.37	0.17	1.49	0.67	2.86	0.28
Regional	0.00	0.00	3.67	1.66	3.67	0.36
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>809.11</b>	<b>100.00</b>	<b>221.70</b>	<b>100.00</b>	<b>1,030.81</b>	<b>100.00</b>

0.00 Data negligible.

Note: Total may not add due to rounding.

a Estimates are based on import data drawn from the latest information available on borrowers' trade statistics compiled by the International Monetary Fund *Direction of Trade Statistics*.

**Table 19**
**CUMULATIVE CONTRACTS AWARDED BY COUNTRY OF ORIGIN,<sup>a</sup>  
TECHNICAL ASSISTANCE OPERATIONS (as of 31 December 2004; amounts in \$ million)**

	ADB's Own Resources	% Distribution	Administered Trust Funds	% Distribution	Japan Special Fund	% Distribution	Total Contracts Awarded	% Distribution
Afghanistan	0.48	0.05	0.54	0.17	0.02	0.00	1.04	0.05
Australia	127.12	12.64	27.80	8.58	101.04	13.10	255.96	12.18
Austria	0.79	0.08	0.00	0.00	0.01	0.00	0.81	0.04
Azerbaijan	0.33	0.03	0.01	0.00	0.00	0.00	0.33	0.02
Bangladesh	9.06	0.90	2.80	0.86	4.00	0.52	15.86	0.75
Belgium	3.54	0.35	0.92	0.28	2.23	0.29	6.68	0.32
Bhutan	0.22	0.02	0.02	0.01	0.06	0.01	0.29	0.01
Cambodia	0.83	0.08	1.15	0.36	0.25	0.03	2.24	0.11
Canada	72.62	7.22	34.97	10.79	59.58	7.72	167.17	7.95
China, People's Rep. of	8.37	0.83	1.37	0.42	6.88	0.89	16.63	0.79
Cook Islands	0.05	0.00	0.17	0.05	0.00	0.00	0.22	0.01
Denmark	10.65	1.06	2.32	0.72	15.33	1.99	28.30	1.35
Fiji Islands	0.53	0.05	0.26	0.08	0.14	0.02	0.93	0.04
Finland	7.01	0.70	5.77	1.78	7.46	0.97	20.24	0.96
France	20.46	2.03	12.37	3.81	20.09	2.60	52.93	2.52
Germany	18.89	1.88	7.06	2.18	30.90	4.00	56.85	2.71
Hong Kong, China	18.35	1.82	4.68	1.44	20.02	2.59	43.04	2.05
India	34.97	3.48	11.74	3.62	13.81	1.79	60.52	2.88
Indonesia	12.60	1.25	3.38	1.04	10.22	1.32	26.21	1.25
Italy	4.85	0.48	0.78	0.24	2.59	0.34	8.21	0.39
Japan	23.45	2.33	10.67	3.29	20.47	2.65	54.59	2.60
Kazakhstan	0.46	0.05	1.00	0.31	0.07	0.01	1.53	0.07
Kiribati	0.00	0.00	0.03	0.01	0.01	0.00	0.03	0.00
Korea, Rep. of	4.57	0.45	0.99	0.31	3.57	0.46	9.13	0.43
Kyrgyz Republic	0.96	0.10	0.03	0.01	0.03	0.00	1.02	0.05
Lao PDR	2.76	0.27	0.31	0.10	0.84	0.11	3.91	0.19
Luxembourg	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	9.36	0.93	0.22	0.07	3.13	0.41	12.70	0.60
Maldives	0.09	0.01	0.00	0.00	0.03	0.00	0.12	0.01
Marshall Islands	0.09	0.01	0.00	0.00	0.00	0.00	0.09	0.00
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia	0.92	0.09	0.32	0.10	0.55	0.07	1.78	0.08
Myanmar	0.84	0.08	0.52	0.16	0.00	0.00	1.36	0.06
Nauru	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	6.19	0.62	1.37	0.42	1.37	0.18	8.93	0.42
The Netherlands	20.51	2.04	23.01	7.10	26.40	3.42	69.92	3.33
New Zealand	55.53	5.52	12.44	3.84	51.44	6.67	119.41	5.68
Norway	3.75	0.37	7.27	2.24	3.36	0.44	14.39	0.68
Pakistan	15.89	1.58	2.39	0.74	2.76	0.36	21.04	1.00
Palau	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Papua New Guinea	1.20	0.12	0.05	0.01	1.04	0.13	2.28	0.11
Philippines	65.94	6.56	13.70	4.23	27.62	3.58	107.26	5.10
Portugal	0.00	0.00	0.00	0.00	0.09	0.01	0.09	0.00
Samoa	0.85	0.08	0.01	0.00	0.86	0.11	1.71	0.08
Singapore	13.18	1.31	0.31	0.10	8.90	1.15	22.40	1.07
Solomon Islands	0.39	0.04	0.02	0.00	0.27	0.04	0.67	0.03
Spain	2.39	0.24	1.86	0.57	0.80	0.10	5.06	0.24
Sri Lanka	10.90	1.08	2.41	0.74	3.02	0.39	16.33	0.78
Sweden	5.86	0.58	3.33	1.03	6.62	0.86	15.81	0.75
Switzerland	9.85	0.98	4.65	1.43	10.39	1.35	24.88	1.18
Taipei, China	1.04	0.10	0.07	0.02	2.05	0.27	3.15	0.15
Tajikistan	0.19	0.02	0.05	0.01	0.02	0.00	0.26	0.01
Thailand	11.80	1.17	4.08	1.26	10.59	1.37	26.47	1.26
Timor-Leste	0.20	0.02	0.00	0.00	0.01	0.00	0.20	0.01
Tonga	0.28	0.03	0.00	0.00	0.15	0.02	0.43	0.02
Turkey	0.25	0.02	0.10	0.03	0.05	0.01	0.41	0.02
Turkmenistan	0.02	0.00	0.00	0.00	0.00	0.00	0.03	0.00
Tuvalu	0.06	0.01	0.00	0.00	0.00	0.00	0.06	0.00
United Kingdom	148.86	14.80	49.82	15.37	120.74	15.65	319.42	15.20
United States	206.35	20.52	58.62	18.08	159.18	20.63	424.15	20.18
Uzbekistan	0.23	0.02	0.10	0.03	0.05	0.01	0.37	0.02
Vanuatu	0.74	0.07	0.01	0.00	1.20	0.16	1.94	0.09
Viet Nam	2.71	0.27	1.33	0.41	2.19	0.28	6.22	0.30
Regional	2.15	0.21	0.97	0.30	2.18	0.28	5.30	0.25
International Organizations	23.21	2.31	4.07	1.25	4.90	0.63	32.17	1.53
<b>TOTAL</b>	<b>1,005.70</b>	<b>100.00</b>	<b>324.18</b>	<b>100.00</b>	<b>771.58</b>	<b>100.00</b>	<b>2,101.47</b>	<b>100.00</b>

0.00 Data negligible.

Note: Total may not add due to rounding.

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

**Table 20**  
**CONTRACTS AWARDED BY COUNTRY OF ORIGIN,<sup>a</sup> 2002–2004**  
**TECHNICAL ASSISTANCE OPERATIONS** (amounts in \$ million)

	2002		2003		2004	
	Value	%	Value	%	Value	%
Afghanistan	0.16	0.12	0.56	0.36	0.27	0.18
Australia	20.38	15.79	19.32	12.35	17.42	11.65
Austria	0.01	0.01	0.00	0.00	0.00	0.00
Azerbaijan	0.05	0.04	0.04	0.02	0.11	0.07
Bangladesh	0.81	0.63	1.21	0.77	1.61	1.08
Belgium	0.60	0.46	1.10	0.70	0.30	0.20
Bhutan	0.00	0.00	0.07	0.05	0.09	0.06
Cambodia	0.36	0.28	0.71	0.45	0.56	0.38
Canada	7.65	5.93	15.91	10.17	7.49	5.01
China, People's Rep. of	1.64	1.27	2.38	1.52	2.53	1.69
Cook Islands	0.19	0.15	0.03	0.02	0.00	0.00
Denmark	0.45	0.35	2.05	1.31	0.24	0.16
Fiji Islands	0.08	0.07	0.25	0.16	0.05	0.03
Finland	0.88	0.68	1.59	1.02	2.39	1.60
France	1.55	1.20	5.77	3.69	3.47	2.32
Germany	2.12	1.64	6.59	4.21	5.09	3.40
Hong Kong, China	6.11	4.73	2.37	1.51	4.43	2.97
India	3.16	2.44	3.32	2.12	10.35	6.92
Indonesia	3.39	2.63	3.46	2.21	1.88	1.26
Italy	0.13	0.10	0.31	0.20	0.11	0.08
Japan	2.54	1.97	4.32	2.76	7.83	5.23
Kazakhstan	0.19	0.15	0.17	0.11	0.67	0.45
Kiribati	0.01	0.01	0.00	0.00	0.00	0.00
Korea, Rep. of	0.17	0.13	0.38	0.24	0.09	0.06
Kyrgyz Republic	0.04	0.03	0.17	0.11	0.39	0.26
Lao PDR	0.20	0.16	0.22	0.14	0.47	0.31
Luxembourg	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	0.45	0.35	1.01	0.65	1.29	0.86
Maldives	0.02	0.02	0.00	0.00	0.02	0.02
Marshall Islands	0.00	0.00	0.00	0.00	0.01	0.01
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia	0.14	0.11	0.23	0.15	0.48	0.32
Myanmar	0.05	0.04	0.01	0.01	0.12	0.08
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	0.51	0.39	0.65	0.42	0.96	0.64
The Netherlands	1.89	1.46	4.08	2.61	1.75	1.17
New Zealand	8.79	6.81	6.53	4.17	11.56	7.73
Norway	0.18	0.14	1.03	0.66	4.30	2.88
Pakistan	2.51	1.95	3.97	2.54	4.42	2.95
Palau	0.00	0.00	0.00	0.00	0.00	0.00
Papua New Guinea	0.88	0.68	0.09	0.05	0.00	0.00
Philippines	7.87	6.10	12.07	7.72	7.49	5.01
Portugal	0.00	0.00	0.00	0.00	0.00	0.00
Samoa	0.05	0.04	0.03	0.02	0.10	0.07
Singapore	0.91	0.71	2.05	1.31	1.40	0.94
Solomon Islands	0.25	0.19	0.00	0.00	0.04	0.03
Spain	0.10	0.08	1.35	0.86	1.08	0.72
Sri Lanka	0.41	0.32	1.15	0.73	1.65	1.11
Sweden	0.20	0.15	1.52	0.97	0.68	0.45
Switzerland	1.98	1.53	0.40	0.26	0.42	0.28
Taipei, China	0.02	0.02	0.00	0.00	0.00	0.00
Tajikistan	0.05	0.04	0.06	0.04	0.08	0.05
Thailand	2.50	1.94	1.71	1.09	3.02	2.02
Timor-Leste	0.87	0.67	0.52	0.33	0.02	0.01
Tonga	0.00	0.00	0.06	0.04	0.18	0.12
Turkey	0.05	0.04	0.03	0.02	0.10	0.07
Turkmenistan	0.01	0.01	0.02	0.01	0.00	0.00
Tuvalu	0.03	0.02	0.00	0.00	0.00	0.00
United Kingdom	15.93	12.34	22.76	14.55	18.96	12.68
United States	28.85	22.35	22.11	14.14	18.08	12.09
Uzbekistan	0.04	0.03	0.05	0.03	0.12	0.08
Vanuatu	0.00	0.00	0.00	0.00	0.09	0.06
Viet Nam	0.03	0.02	0.00	0.00	1.42	0.95
Regional	0.65	0.51	0.65	0.42	1.87	1.25
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>129.09</b>	<b>100.00</b>	<b>156.43</b>	<b>100.00</b>	<b>149.52</b>	<b>100.00</b>

0.00 Data negligible.

Note: Total may not add due to rounding.

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

**Table 21**  
**TECHNICAL ASSISTANCE GRANTS BY COUNTRY AND REGIONAL ACTIVITIES,<sup>a</sup> 1967–2004, 2003, 2004**  
(amounts in \$ thousand)

	1 9 6 7–2 0 0 4 <sup>b</sup>			2 0 0 3					
	No.	Amount	%	No.	OCR and TASF Financing	JSF Financing	Other Sources	Total	%
Afghanistan	39	41,757.70	1.62	9	10,000.00	–	450.00	10,450.00	5.96
Azerbaijan	16	7,602.00	0.29	5	1,300.00	1,100.00	–	2,400.00	1.37
Bangladesh	300	157,788.33	6.10	10	1,570.00	2,950.00	600.00	5,120.00	2.92
Bhutan	90	33,675.15	1.30	4	1,050.00	500.00	–	1,550.00	0.88
Cambodia	120	77,514.60	3.00	13	2,562.00	2,100.00	1,645.00	6,307.00	3.60
China, People's Rep. of	447	238,475.05	9.22	24	9,150.00	450.00	3,360.00	12,960.00	7.40
Cook Islands	27	8,645.00	0.33	2	650.00	–	–	650.00	0.37
Fiji Islands	74	23,874.80	0.92	4	933.00	1,170.00	–	2,103.00	1.20
India	205	110,461.86	4.21	22	2,200.00	1,200.00	11,295.00	14,695.00	8.39
Indonesia	475	230,119.17	8.96	20	4,298.00	3,000.00	5,167.40	12,465.40	7.11
Kazakhstan	54	25,067.00	0.97	6	1,177.00	350.00	250.00	1,777.00	1.01
Kiribati	34	11,410.70	0.44	1	300.00	–	–	300.00	0.17
Korea, Rep. of	33	5,010.15	0.19	–	–	–	–	–	–
Kyrgyz Republic	59	35,371.40	1.37	2	–	1,100.00	–	1,100.00	0.63
Lao PDR	209	101,877.78	3.94	7	1,420.00	1,600.00	320.00	3,340.00	1.91
Malaysia	92	25,202.30	0.97	–	–	–	–	–	–
Maldives	50	17,208.00	0.67	3	1,050.00	–	–	1,050.00	0.60
Marshall Islands	43	18,057.00	0.70	2	500.00	500.00	–	1,000.00	0.57
Micronesia, Fed. States of	39	22,678.00	0.88	3	900.00	–	333.00	1,233.00	0.70
Mongolia	118	57,220.65	2.21	3	150.00	1,150.00	–	1,300.00	0.74
Myanmar	38	10,716.00	0.41	–	–	–	–	–	–
Nauru	5	1,244.00	0.05	–	–	–	–	–	–
Nepal	244	111,838.70	4.33	9	2,120.00	1,350.00	715.00	4,185.00	2.39
Pakistan	283	137,939.40	5.34	20	5,094.00	1,000.00	3,934.00	10,028.00	5.72
Papua New Guinea	123	43,363.60	1.68	2	450.00	600.00	–	1,050.00	0.60
Philippines	309	136,934.25	5.30	7	3,100.00	800.00	450.00	4,350.00	2.48
Samoa	79	22,026.50	0.85	4	1,325.00	400.00	–	1,725.00	0.98
Singapore	2	577.42	0.02	–	–	–	–	–	–
Solomon Islands	54	12,750.24	0.49	–	–	–	–	–	–
Sri Lanka	213	88,475.60	3.42	11	3,100.00	1,100.00	1,150.00	5,350.00	3.05
Taipei, China	1	100.00	0.00	–	–	–	–	–	–
Tajikistan	43	21,285.00	0.82	9	600.00	2,540.00	220.00	3,360.00	1.92
Thailand	143	51,653.60	2.00	2	210.00	–	–	210.00	0.12
Timor-Leste	24	10,050.90	0.39	1	550.00	–	–	550.00	0.31
Tonga	51	13,741.50	0.53	3	915.00	–	–	915.00	0.52
Turkmenistan	3	565.00	0.02	–	–	–	–	–	–
Tuvalu	18	4,487.00	0.17	3	560.00	–	–	560.00	0.32
Uzbekistan	57	29,680.00	1.15	9	950.00	1,900.00	350.00	3,200.00	1.83
Vanuatu	53	14,964.76	0.58	2	400.00	–	–	400.00	0.23
Viet Nam	173	109,500.46	4.24	15	3,170.00	2,830.00	2,610.00	8,610.00	4.91
Subtotal	4,440	2,070,910.56	80.10	237	61,754.00	29,690.00	32,849.40	124,293.40	70.94
Regional	1,218	514,581.73	19.90	76	24,467.58	7,200.00	19,238.03	50,905.61	29.06
<b>TOTAL</b>	<b>5,658</b>	<b>2,585,492.30</b>	<b>100.00</b>	<b>313</b>	<b>86,221.58</b>	<b>36,890.00</b>	<b>52,087.43</b>	<b>175,199.01</b>	<b>100.00</b>

0.00 Data negligible.

– Nil or data not applicable.

<sup>a</sup> Excludes technical assistance financed under loans; these are included in ADB's loan data.

<sup>b</sup> Cumulative data are adjusted to exclude technical assistance projects withdrawn by governments.

No.	2 0 0 4					
	TASF Financing	JSF Financing	Other Sources	Total	%	
14	8,900.00	–	4,706.00	13,606.00	6.92	Afghanistan
5	750.00	1,800.00	–	2,550.00	1.30	Azerbaijan
12	2,030.00	3,840.00	420.00	6,290.00	3.20	Bangladesh
5	750.00	600.00	300.00	1,650.00	0.84	Bhutan
12	2,300.00	600.00	1,688.00	4,588.00	2.33	Cambodia
32	11,154.00	800.00	4,750.00	16,704.00	8.50	China, People's Rep. of
–	–	–	–	–	–	Cook Islands
3	295.00	600.00	–	895.00	0.46	Fiji Islands
16	2,800.00	1,250.00	7,150.00	11,200.00	5.70	India
24	5,530.00	2,806.50	9,240.00	17,576.50	8.94	Indonesia
4	750.00	950.00	–	1,700.00	0.86	Kazakhstan
1	800.00	–	–	800.00	0.41	Kiribati
–	–	–	–	–	–	Korea, Rep. of
7	600.00	2,600.00	700.00	3,900.00	1.98	Kyrgyz Republic
11	1,870.00	1,300.00	2,950.00	6,120.00	3.11	Lao PDR
–	–	–	–	–	–	Malaysia
3	1,000.00	–	–	1,000.00	0.51	Maldives
2	760.00	–	150.00	910.00	0.46	Marshall Islands
3	550.00	300.00	–	850.00	0.43	Micronesia, Fed. States of
7	1,214.00	850.00	586.00	2,650.00	1.35	Mongolia
–	–	–	–	–	–	Myanmar
–	–	–	–	–	–	Nauru
10	1,254.00	1,630.00	300.00	3,184.00	1.62	Nepal
23	3,530.00	2,285.00	23,105.00	28,920.00	14.71	Pakistan
1	300.00	–	200.00	500.00	0.25	Papua New Guinea
10	2,670.00	2,700.00	625.00	5,995.00	3.05	Philippines
3	300.00	400.00	–	700.00	0.36	Samoa
–	–	–	–	–	–	Singapore
3	1,200.00	–	650.00	1,850.00	0.94	Solomon Islands
4	1,500.00	850.00	1,600.00	3,950.00	2.01	Sri Lanka
–	–	–	–	–	–	Taipei, China
5	1,000.00	1,000.00	800.00	2,800.00	1.42	Tajikistan
–	–	–	–	–	–	Thailand
3	400.00	500.00	–	900.00	0.46	Timor-Leste
3	450.00	250.00	–	700.00	0.36	Tonga
–	–	–	–	–	–	Turkmenistan
1	–	300.00	–	300.00	0.15	Tuvalu
6	1,625.00	875.00	–	2,500.00	1.27	Uzbekistan
2	1,100.00	–	200.00	1,300.00	0.66	Vanuatu
16	1,650.00	2,650.00	3,380.00	7,680.00	3.91	Viet Nam
251	59,032.00	31,736.50	63,500.00	154,268.50	78.47	Subtotal
72	20,882.00	7,785.00	13,653.50	42,320.50	21.53	Regional
323	79,914.00	39,521.50	77,153.50	196,589.00	100.00	

**Table 22**  
**TECHNICAL ASSISTANCE GRANTS, 2004 (\$ thousand)**

	Project Preparatory	Advisory and Operational	Sector
<b>AFGHANISTAN</b>			
National Power Transmission Grid	750.00		Energy
Master Plan for Road Network Improvement	2,000.00		Transport and Communications
Western Basins Water Resources Management and Irrigated Agriculture Development	1,960.00 <sup>a</sup>		Agriculture and Natural Resources
Capacity Building for Reconstruction and Development (Supplementary)	361.00 <sup>b</sup>		Multisector
Capacity Building for Agriculture Policy Reform	1,000.00		Agriculture and Natural Resources
Security of ADB-Financed Projects in Afghanistan	990.00		Law, Economic Management, and Public Policy
Establishing a Gas Regulatory Framework	750.00		Energy
Kabul Air Quality Management	450.00 <sup>c</sup>		Transport and Communications
Poverty Reduction and Rural Renewable Energy Development	750.00 <sup>d</sup>		Energy
Capacity Building for Land Policy and Administration Reform	850.00 <sup>e</sup>		Agriculture and Natural Resources
Capacity Building of the Ministry of Finance	960.00		Law, Economic Management, and Public Policy
Cross-Border Trade and Transport Facilitation	550.00		Transport and Communications
Natural Resources Management and Poverty Reduction	1,785.00 <sup>f</sup>		Agriculture and Natural Resources
Capacity Building for Impact Monitoring and Evaluation	450.00		Agriculture and Natural Resources
Subtotal	4,710.00	8,896.00	
<b>AZERBAIJAN</b>			
Feasibility Study on the Yevlax-Ganja Road Rehabilitation	150.00		Transport and Communications
Social Infrastructure for Internally Displaced Persons and Vulnerable Population	500.00 <sup>g</sup>		Water Supply, Sanitation, and Waste Management
Institutional Strengthening of Water Supply and Sanitation Sector in Secondary Towns	500.00 <sup>g</sup>		Water Supply, Sanitation, and Waste Management
Capacity Building for Ministry of Economic Development	600.00		Law, Economic Management, and Public Policy
Developing Microfinance Regulations and Collateral Framework	800.00 <sup>g</sup>		Finance
Subtotal	650.00	1,900.00	
<b>BANGLADESH</b>			
Gas Sector Development	480.00		Energy
Power Sector Development Program II	840.00 <sup>g</sup>		Energy
Second Rural Infrastructure Improvement	400.00 <sup>g</sup>		Agriculture and Natural Resources
Secondary Education Sector Improvement II	600.00 <sup>g</sup>		Education
Secondary Towns Water Supply and Sanitation	800.00 <sup>g</sup>		Water Supply, Sanitation, and Waste Management
Social Protection of Poor Female Workers in the Garment Sector in the Context of Changing Trade Environments	420.00 <sup>d</sup>		Health, Nutrition, and Social Protection
Support to the Roads and Highways Department for Safeguard Policy Compliance	500.00		Transport and Communications
Chittagong Port Efficiency Improvement	700.00 <sup>g</sup>		Transport and Communications
Support Program Implementation and Coordination of the Small and Medium Enterprise Sector Development Program	600.00		Industry and Trade
Development of a National Involuntary Resettlement Policy	350.00		Health, Nutrition, and Social Protection
Promoting Private Sector Participation in the Energy Sector	500.00 <sup>g</sup>		Energy
Support to Good Governance Initiatives (Supplementary)	100.00		Finance
Subtotal	3,120.00	3,170.00	
<b>BHUTAN</b>			
Urban Infrastructure Development	600.00 <sup>g</sup>		Water Supply, Sanitation, and Waste Management
Strengthening of the Payment and Settlement System	275.00		Finance
Strengthening the Debt Management Capacity of the Department of Aid and Debt Management	225.00		Law, Economic Management, and Public Policy
Small and Medium Enterprise Development	300.00 <sup>h</sup>		Industry and Trade

<sup>a</sup> Of this amount, \$1.2 million is to be financed from the Technical Assistance Special Fund (TASF) and \$760,000 by the Government of Canada with ADB acting as executing agency.

<sup>b</sup> Of this amount, \$271,000 is to be financed by the Government of Australia and \$90,000 by the Government of Denmark with ADB acting as executing agency.

<sup>c</sup> To be financed by the Government of Denmark with ADB acting as executing agency.

<sup>d</sup> To be financed from the Poverty Reduction Cooperation Fund (PRF).

<sup>e</sup> Of this amount, \$250,000 is to be financed from the TASF and \$600,000 by the Government of the United Kingdom with ADB acting as executing agency.

<sup>f</sup> Of this amount, \$975,000 is to be financed from the Global Environment Facility and \$810,000 from the PRF.

<sup>g</sup> To be financed from the Japan Special Fund (JSF).

<sup>h</sup> To be financed by the Government of Denmark with ADB acting as executing agency.

## CONTINUED

	Project Preparatory	Advisory and Operational	Sector
Strengthening the National Statistical System Phase 2		250.00	Law, Economic Management, and Public Policy
Subtotal	600.00	1,050.00	
<b>CAMBODIA</b>			
Chong Kneas Environmental Improvement (Supplementary)	113.00 <sup>a</sup>		Multisector
Harmonizing Loan Project Implementation Procedures	600.00 <sup>b</sup>		Law, Economic Management, and Public Policy
Preventing Poverty and Empowering Female Garment Workers Affected by the Changing International Trade Environment (Supplementary)	100.00 <sup>c</sup>		Industry and Trade
Capacity Building for the Tonle Sap Poverty Reduction Initiative	500.00 <sup>c</sup>		Agriculture and Natural Resources
Participatory Poverty Assessment of the Tonle Sap (Supplementary)	75.00 <sup>c</sup>		Law, Economic Management, and Public Policy
Establishment of the Tonle Sap Basin Management Organization II	300.00		Multisector
Strengthening National Program Budgeting for the Agriculture Sector	250.00 <sup>d</sup>		Agriculture and Natural Resources
Support to Public Financial Management Reform Program	600.00		Law, Economic Management, and Public Policy
Implementation of the Action Plan for Gender Mainstreaming in the Agriculture Sector	300.00 <sup>e</sup>		Agriculture and Natural Resources
Education Regulatory Reform and Governance for Decentralization	500.00		Education
Small and Medium Enterprise Development	850.00 <sup>f</sup>		Industry and Trade
Enhancing the Resettlement Legal Framework and Capacity Building	400.00		Health, Nutrition, and Social Protection
Subtotal	113.00	4,475.00	
<b>CHINA, PEOPLE'S REPUBLIC OF</b>			
Sanjiang Plains Wetland Protection (Supplementary)	115.00		Agriculture and Natural Resources
Hunan Flood Management	700.00 <sup>g</sup>		Agriculture and Natural Resources
Xi'an-Zhengzhou Railway	500.00		Transport and Communications
Hunan Roads Development III	500.00		Transport and Communications
Guangxi Nanning Urban Infrastructure Development	560.00		Multisector
Wuhan Wastewater and Stormwater Management	700.00		Water Supply, Sanitation, and Waste Management
Poverty Impact of Area-Wide Road Networks	1,000.00 <sup>c</sup>		Transport and Communications
World Trade Organization—Policy Reform Support to the Ministry of Railways	400.00		Transport and Communications
Flood Management Strategy Study	500.00		Agriculture and Natural Resources
Town-Based Urbanization Strategy Study	750.00 <sup>h</sup>		Law, Economic Management, and Public Policy
National Food Safety Regulatory and Strategic Framework	400.00 <sup>b</sup>		Health, Nutrition, and Social Protection
Strengthening of the Statistical System of the China Banking Regulatory Commission	400.00		Finance
Development of Small and Medium-Sized Enterprise Credit Guarantee Companies	550.00		Finance
Policy Reform in Road Transport	500.00		Transport and Communications
Capacity Building to Combat Land Degradation	1,000.00		Agriculture and Natural Resources
Support for Reforms in Compulsory Education Financing	500.00		Education
Facility for Policy Reform	450.00		Law, Economic Management, and Public Policy
Waste Coal Utilization Study	400.00		Energy
Agricultural Taxation Reform	500.00		Law, Economic Management, and Public Policy
Rural Income and Sustainable Development	900.00 <sup>c</sup>		Agriculture and Natural Resources
Heating Supply for Urban Poor in Liaoning Province	500.00 <sup>c</sup>		Energy
Implementation of the National Strategy for Soil and Water Conservation	379.00		Agriculture and Natural Resources
Capacity Strengthening of Power Planning Process	500.00		Energy
Rural Finance Reforms and Development of Microfinance Institutions	1,000.00 <sup>c</sup>		Finance
Evaluation of Environmental Policy and Investment for Water Pollution Control in the Huai River Basin and the Taihu Lake Basin	500.00		Agriculture and Natural Resources

<sup>a</sup> To be financed by the Government of Finland with ADB acting as executing agency.<sup>b</sup> To be financed from the JSF.<sup>c</sup> To be financed from the PRF.<sup>d</sup> To be financed from the Governance Cooperation Fund (GCF).<sup>e</sup> To be financed from the Gender and Development Cooperation Fund (GDCF).<sup>f</sup> Of this amount, \$500,000 is to be financed from the TASF and \$350,000 by the Government of Denmark with ADB acting as executing agency.<sup>g</sup> Of this amount, \$150,000 is to be financed from the TASF and \$550,000 by the Government of Spain with ADB acting as executing agency.<sup>h</sup> Of this amount, \$250,000 is to be financed from the TASF and \$500,000 by the Government of Spain with ADB acting as executing agency.

## CONTINUED

	Project Preparatory	Advisory and Operational	Sector
Developing a Poverty Monitoring System at the County Level		300.00 <sup>a</sup>	Law, Economic Management, and Public Policy
Support to Ethnic Minorities Development Plan		150.00	Transport and Communications
Exploring New Areas of Operation		250.00	Multisector
Formulation of the Regulation for Selection and Engagement of Consultants for Government-Financed Projects		300.00	Law, Economic Management, and Public Policy
Energy Development Strategy for the Inner Mongolia Autonomous Region		500.00	Energy
Competition Policy and Laws		600.00	Law, Economic Management, and Public Policy
Support for Environmental Legislation		400.00 <sup>b</sup>	Agriculture and Natural Resources
Subtotal	<u>3,075.00</u>	<u>13,629.00</u>	
FIJI ISLANDS			
Fourth Road Upgrading (Sector)	600.00 <sup>b</sup>		Transport and Communications
Strengthening Public Sector Banking and Cash Management		145.00	Law, Economic Management, and Public Policy
Fisheries Sector Review		150.00	Agriculture and Natural Resources
Subtotal	<u>600.00</u>	<u>295.00</u>	
INDIA			
North Eastern Region Urban Development	1,000.00 <sup>c</sup>		Multisector
High Priority National Highways	1,000.00		Transport and Communications
North Eastern State Roads	800.00 <sup>c</sup>		Transport and Communications
Uttaranchal Power Sector Development	150.00		Energy
Administration of Justice	750.00 <sup>c</sup>		Law, Economic Management, and Public Policy
Small and Medium Enterprise Finance Sector Development	800.00 <sup>c</sup>		Industry and Trade
Northeastern States Trade and Investment Creation Initiative	500.00		Industry and Trade
North East Power Development	750.00		Energy
Preparation of the Jammu and Kashmir Urban Infrastructure Development Project	500.00 <sup>c</sup>		Multisector
Karnataka Urban Infrastructure Development III	400.00		Water Supply, Sanitation, and Waste Management
Agribusiness Development Support	1,000.00 <sup>c</sup>		Agriculture and Natural Resources
West Bengal Development Finance		800.00 <sup>c</sup>	Law, Economic Management, and Public Policy
Capacity Building for Clean Development Mechanism		700.00 <sup>d</sup>	Energy
Capacity Building for Municipal Service Delivery in Kerala		800.00 <sup>c</sup>	Law, Economic Management, and Public Policy
Capacity Building for Kerala Sustainable Urban Development		500.00 <sup>b</sup>	Water Supply, Sanitation, and Waste Management
State-Level Pension Reforms		750.00 <sup>b</sup>	Finance
Subtotal	<u>7,650.00</u>	<u>3,550.00</u>	
INDONESIA			
Community Water Services and Health Project: Meeting the Millennium Development Goals in the Decentralized Context	150.00		Multisector
Gas Transportation Project through Public-Private Partnership	910.00 <sup>b</sup>		Energy
Urban Air Quality Improvement Sector Development Program	700.00 <sup>b</sup>		Multisector
Institutionalization of Participatory Approaches to Shelter Provision	50.00 <sup>c</sup>		Law, Economic Management, and Public Policy
Financing Integrated Settlements Development	800.00 <sup>c</sup>		Finance
Integrated Coastal Fisheries Resource Management	790.00 <sup>c</sup>		Agriculture and Natural Resources
Integrated Citarum Water Resources Management	1,000.00		Agriculture and Natural Resources
Urban Nutrition	400.00		Health, Nutrition, and Social Protection
Water Supply and Sanitation	900.00 <sup>e</sup>		Water Supply, Sanitation, and Waste Management
Social Development for the Interisland Transport Development	150.00		Transport and Communications

<sup>a</sup> To be financed from the PRF.<sup>b</sup> To be financed from the JSF.<sup>c</sup> To be financed by the Government of the United Kingdom with ADB acting as executing agency.<sup>d</sup> To be financed by the Government of Canada with ADB acting as executing agency.<sup>e</sup> Of this amount, \$200,000 is to be financed from the TASF and \$700,000 by the Government of the United Kingdom with ADB acting as executing agency.

## CONTINUED

	Project Preparatory	Advisory and Operational	Sector
Madrasah Education Development	1,200.00 <sup>a</sup>		Education
Decentralized Senior Secondary Education (Supplementary)	400.00		Education
Gas Generation from Waste		500.00 <sup>b</sup>	Energy
Strengthening the Capacity of the Commission for Eradication of Corruption in Indonesia		250.00	Law, Economic Management, and Public Policy
Support for Decentralized Education Management II		500.00	Education
Support for the Implementation of the State Audit Reform Program		1,300.00 <sup>c</sup>	Law, Economic Management, and Public Policy
Support for the Implementation of the State Audit Reform Investment		3,700.00 <sup>c</sup>	Law, Economic Management, and Public Policy
Gender Responsive Public Policy and Administration		400.00 <sup>d</sup>	Law, Economic Management, and Public Policy
Institutionalizing the Clean Development Mechanism		750.00	Energy
Sustaining Decentralization and Local Governance Reforms		900.00 <sup>e</sup>	Law, Economic Management, and Public Policy
Development of an Anti-Money Laundering Regime II		500.00 <sup>f</sup>	Finance
Marine and Fisheries Sector Strategy Study		880.00	Agriculture and Natural Resources
Analysis and Dissemination of Lessons from Poverty Reduction Program for Local Government		150.00 <sup>d</sup>	Law, Economic Management, and Public Policy
Strengthening the National Secretariat for Regional Cooperation		296.50 <sup>e</sup>	Law, Economic Management, and Public Policy
<b>Subtotal</b>	<b>7,450.00</b>	<b>10,126.50</b>	
<b>KAZAKHSTAN</b>			
Environmental Monitoring and Information Management System for Sustainable Land Use		600.00	Agriculture and Natural Resources
Financial Sector Governance		800.00 <sup>e</sup>	Finance
Formulation of State Roads Development Plan		150.00	Transport and Communications
Institutional Strengthening of the Committee on Water Resources		150.00 <sup>e</sup>	Water Supply, Sanitation, and Waste Management
<b>Subtotal</b>		<b>1,700.00</b>	
<b>KYRGYZ REPUBLIC</b>			
Second Agriculture Area Development	800.00 <sup>e</sup>		Agriculture and Natural Resources
The Study on Pricing Systems and Cost-Recovery Mechanisms for Irrigation		300.00 <sup>g</sup>	Agriculture and Natural Resources
A Study of the Impact of Land Reform on Agriculture, Poverty Reduction, and Environment		400.00 <sup>g</sup>	Agriculture and Natural Resources
Agricultural Strategy Formulation		600.00	Agriculture and Natural Resources
Improving Road Maintenance and Strengthening the Transport Corridor Management Department		800.00 <sup>e</sup>	Transport and Communications
Awareness and Prevention of Human Immunodeficiency Virus (HIV)/Acquired Immuno Deficiency Syndrome (AIDS), Sexually Transmitted Infections, and Human Trafficking		500.00 <sup>e</sup>	Health, Nutrition, and Social Protection
Capacity Building and Institutional Strengthening for Customs Modernization and Infrastructure Development		500.00 <sup>e</sup>	Industry and Trade
<b>Subtotal</b>	<b>800.00</b>	<b>3,100.00</b>	
<b>KIRIBATI</b>			
Outer Island Growth Centers	800.00		Multisector
<b>Subtotal</b>	<b>800.00</b>		
<b>LAO PEOPLE'S DEMOCRATIC REPUBLIC</b>			
Greater Mekong Subregion: Nam Theun 2 Hydropower Development Phase II	1,000.00		Energy
Northern and Central Region Water Supply and Urban Development	200.00		Water Supply, Sanitation, and Waste Management

a Of this amount, \$600,000 is to be financed from the TASF and \$600,000 by the Government of Australia with ADB acting as executing agency.

b Of this amount, \$250,000 is to be financed from the TASF and \$250,000 by the Government of Canada with ADB acting as executing agency.

c To be financed by the Government of the Netherlands with ADB acting as executing agency.

d To be financed by the Government of the United Kingdom with ADB acting as executing agency.

e To be financed from the JSF.

f To be financed from the Cooperation Fund for Regional Trade and Financial Security Initiative.

g To be financed from the PRF.

## CONTINUED

	Project Preparatory	Advisory and Operational	Sector
Preparing the Forest Plantations Sector Project	270.00		Agriculture and Natural Resources
Basic Education Development	600.00 <sup>a</sup>		Education
Private Sector Development Program	700.00 <sup>a</sup>		Industry and Trade
Study of Gender Inequality in Women's Access to Land, Forests, and Water		250.00 <sup>b</sup>	Health, Nutrition, and Social Protection
Marketing Support for Organic Produce of Ethnic Minorities		600.00 <sup>b</sup>	Agriculture and Natural Resources
Capacity Building for Smallholder Livestock Systems		550.00 <sup>b</sup>	Agriculture and Natural Resources
Poverty Reduction Through Land Tenure Consolidation, Participatory Natural Resources Management and Local Communities Skills Building		850.00 <sup>b</sup>	Multisector
Integrating the Poor in Regional Trade through Industrial Standard Development-Phase II		700.00 <sup>b</sup>	Industry and Trade
Institutional Strengthening for Poverty Monitoring and Evaluation		400.00	Law, Economic Management, and Public Policy
Subtotal	<u>2,770.00</u>	<u>3,350.00</u>	
<b>MALDIVES</b>			
Domestic Maritime Transport	500.00		Transport and Communications
Commercialization of Agriculture		150.00	Agriculture and Natural Resources
Strengthening the Framework of Education Toward Vision 2020		350.00	Education
Subtotal	<u>500.00</u>	<u>500.00</u>	
<b>MARSHALL ISLANDS</b>			
Improving the Environment for Private Sector Development		760.00	Law, Economic Management, and Public Policy
Increasing Ownership and Effective Demand for Improved Education		150.00 <sup>c</sup>	Education
Subtotal		<u>910.00</u>	
<b>MICRONESIA, FEDERATED STATES OF</b>			
Public Utilities Corporate Governance		400.00	Multisector
Strengthening Public Sector Audit Function		300.00 <sup>a</sup>	Law, Economic Management, and Public Policy
Legislation for Private Sector Development		150.00	Finance
Subtotal		<u>850.00</u>	
<b>MONGOLIA</b>			
Third Education Development	500.00 <sup>a</sup>		Education
Developing an Urban Development and Housing Sector Strategy		350.00	Law, Economic Management, and Public Policy
Agriculture Sector Strategy Study		350.00 <sup>a</sup>	Agriculture and Natural Resources
Awareness and Prevention of HIV/AIDS and Human Trafficking		350.00	Health, Nutrition, and Social Protection
Participatory Poverty Assessment and Monitoring		300.00 <sup>d</sup>	Law, Economic Management, and Public Policy
Establishing an Effective Anti-Money Laundering Regime		500.00 <sup>e</sup>	Finance
Formulating a Transport Strategy (2005–2015)		300.00	Transport and Communications
Subtotal	<u>500.00</u>	<u>2,150.00</u>	
<b>NEPAL</b>			
Kathmandu Valley Water Management Support (Supplementary)	100.00 <sup>f</sup>		Water Supply, Sanitation, and Waste Management
Transport Connectivity Sector	600.00 <sup>a</sup>		Transport and Communications
Rural Electrification and Renewable Energy	600.00 <sup>a</sup>		Energy
Second Rural Infrastructure Development (Supplementary)	34.00 <sup>g</sup>		Agriculture and Natural Resources
Education Sector Development Policy and Strategy		350.00	Education
Promoting Pro-Poor and Gender-Responsive Service Delivery		200.00 <sup>b</sup>	Agriculture and Natural Resources
Capacity Building in Rural Infrastructure Institutions		400.00 <sup>a</sup>	Agriculture and Natural Resources
Preparation of National Resettlement Policy Framework		150.00	Law, Economic Management, and Public Policy

<sup>a</sup> To be financed from the JSF.<sup>b</sup> To be financed from the PRF.<sup>c</sup> To be financed from the GCF.<sup>d</sup> To be financed from the Cooperation Fund for National Poverty Reduction Strategies (CFNPRS).<sup>e</sup> Of this amount, \$214,000 is to be financed from the TASF and \$286,000 by the Government of Spain with ADB acting as executing agency.<sup>f</sup> To be financed by the Government of Norway with ADB acting as executing agency.<sup>g</sup> Of this amount, \$4,000 is to be financed from the TASF and \$30,000 from the JSF.

## CONTINUED

	Project Preparatory	Advisory and Operational	Sector
Strengthening National Accounts System		350.00	Law, Economic Management, and Public Policy
Restructuring of Nepal Electricity Authority		400.00	Energy
Subtotal	1,334.00	1,850.00	
<b>PAKISTAN</b>			
Balochistan Devolved Social Services Program	400.00		Multisector
Balochistan Rural Development and Drought Mitigation	600.00 <sup>a</sup>		Agriculture and Natural Resources
Renewable Energy Development	550.00 <sup>b</sup>		Energy
Facilitating Public-Private Partnership Initiative in National Highway Development	150.00		Transport and Communications
Sindh Coastal and Inland Community Development	650.00 <sup>b</sup>		Agriculture and Natural Resources
Sindh Basic Urban Services	795.00 <sup>b</sup>		Water Supply, Sanitation, and Waste Management
Balochistan Resource Management Program (Supplementary)	165.00 <sup>c</sup>		Law, Economic Management, and Public Policy
Determinants and Drivers of Poverty Reduction and ADB's Contribution in Rural Pakistan	400.00 <sup>d</sup>		Multisector
Coordination of Devolved Social Services Programs	280.00		Multisector
Transport Policy Support	290.00 <sup>b</sup>		Transport and Communications
Non-Formal Primary Education and Functional Literacy for Rural Women in Selected Barani Areas of Punjab	400.00 <sup>d</sup>		Education
Capacity Building for Environmental Management in Sindh	400.00		Water Supply, Sanitation, and Waste Management
Water Sector Irrigation Development	300.00		Agriculture and Natural Resources
Mobilization of Grassroots Stakeholders for Pro-Poor Social Service Delivery (Sindh)	500.00 <sup>d</sup>		Multisector
Strengthening Program Implementation	400.00		Law, Economic Management, and Public Policy
Road and Road Sector Assessment Study	150.00		Transport and Communications
Capacity Building of the Alternative Energy Development Board	150.00 <sup>e</sup>		Energy
Punjab Devolved Social Services Program	20,000.00 <sup>f</sup>		Multisector
Support for Subprogram 2 of the Punjab Resource Management Program	250.00		Law, Economic Management, and Public Policy
Strengthening Coordination and Alignment of Government Operations to Devolution	450.00		Law, Economic Management, and Public Policy
Implementing Public Safety Reforms in Four Districts of the Province of Punjab	950.00 <sup>d</sup>		Law, Economic Management, and Public Policy
Improving Governance in the Nonprofit Sector of Pakistan	240.00 <sup>g</sup>		Law, Economic Management, and Public Policy
Streamlining Procedures to Reduce Delays in Start-Up of Development Projects	450.00		Law, Economic Management, and Public Policy
Subtotal	3,310.00	25,610.00	
<b>PAPUA NEW GUINEA</b>			
Strengthening the Capacity of the Parliamentary Accounts Committee	500.00 <sup>h</sup>		Law, Economic Management, and Public Policy
Subtotal	500.00		
<b>PHILIPPINES</b>			
Intermodal Transport Development	1,000.00 <sup>b</sup>		Transport and Communications
Agrarian Reform Communities II	250.00		Agriculture and Natural Resources
Strengthening Governance of Securities Trading Markets	250.00		Finance
Strengthening Provincial and Local Planning and Expenditure Management	350.00		Law, Economic Management, and Public Policy

<sup>a</sup> Of this amount, \$300,000 is to be financed from the TASF and \$300,000 by the Government of Denmark with ADB acting as executing agency.<sup>b</sup> To be financed from the JSF.<sup>c</sup> To be financed by the Government of the Netherlands with ADB acting as executing agency.<sup>d</sup> To be financed from the PRF.<sup>e</sup> To be financed by the Government of Denmark with ADB acting as executing agency.<sup>f</sup> To be financed by the Government of the United Kingdom with ADB acting as executing agency.<sup>g</sup> To be financed from GCF.<sup>h</sup> Of this amount, \$300,000 is to be financed from the TASF and \$200,000 by the Government of Australia with ADB acting as executing agency.

## CONTINUED

	Project Preparatory	Advisory and Operational	Sector
Strengthening Small and Medium Enterprise Credit Management Systems	500.00 <sup>a</sup>	Industry and Trade	
Development of Basic Education in the Autonomous Region in Muslim Mindanao	375.00 <sup>b</sup>	Education	
Enhancing Access of the Poor to Microfinance Services in Frontier Areas	250.00 <sup>c</sup>	Finance	
Master Plan for the Agusan River Basin	970.00	Agriculture and Natural Resources	
Local Government Finance and Budget Reform	850.00	Law, Economic Management, and Public Policy	
Institutional Strengthening of Energy Regulatory Commission and Privatization of National Power Corporation	1,200.00 <sup>a</sup>	Energy	
Subtotal	1,250.00	4,745.00	
<b>SAMOA</b>			
Privatization Support	150.00	Law, Economic Management, and Public Policy	
Preparing the Education Policy and Strategic Plan 2006–2014	150.00	Education	
Strengthening State-Owned Enterprise Corporate Governance	400.00 <sup>a</sup>	Law, Economic Management, and Public Policy	
Subtotal	700.00		
<b>SOLOMON ISLANDS</b>			
State-Owned Enterprise Reforms and Private Sector Participation	800.00 <sup>d</sup>	Law, Economic Management, and Public Policy	
Institutional Strengthening of the Ministry of Infrastructure and Development	700.00	Law, Economic Management, and Public Policy	
Diagnostic Assessment of Interisland Transport	350.00 <sup>e</sup>	Transport and Communications	
Subtotal	1,850.00		
<b>SRI LANKA</b>			
Greater Colombo Wastewater	850.00 <sup>a</sup>	Water Supply, Sanitation, and Waste Management	
Road Sector Master Plan	1,000.00	Transport and Communications	
Implementing Products and Services for the Domestic Debt Market (technical assistance cluster)	1,700.00 <sup>f</sup>	Finance	
Psychosocial Health in Conflict-Affected Areas	400.00 <sup>g</sup>	Health, Nutrition, and Social Protection	
Subtotal	850.00	3,100.00	
<b>TAJIKISTAN</b>			
Dushanbe-Kyrgyz Border Road Rehabilitation (Phase II)	500.00 <sup>a</sup>	Transport and Communications	
Development of Community Based Micro-Hydropower Supply in Remote Rural Areas	800.00 <sup>g</sup>	Energy	
Capacity Building and Institutional Strengthening for Customs Modernization and Infrastructure Development	500.00 <sup>a</sup>	Industry and Trade	
Support for Monitoring Policy Reforms and Improving Farm and Water Management	500.00	Agriculture and Natural Resources	
Improving Aid Coordination and Portfolio Management	500.00	Law, Economic Management, and Public Policy	
Subtotal	500.00	2,300.00	
<b>TIMOR-LESTE</b>			
Capacity Building in the Ministry of Planning and Finance to Monitor the National Development Plan	150.00	Law, Economic Management, and Public Policy	
Strengthening Microfinance Operations	500.00 <sup>a</sup>	Finance	
Strengthening Financial Management Capacity	250.00	Law, Economic Management, and Public Policy	
Subtotal	900.00		

<sup>a</sup> To be financed from the JSF.<sup>b</sup> To be financed by the Government of Australia with ADB acting as executing agency.<sup>c</sup> To be financed from the GCF.<sup>d</sup> Of this amount, \$300,000 is to be financed from the TASF and \$500,000 by the Government of Australia with ADB acting as executing agency.<sup>e</sup> Of this amount, \$200,000 is to be financed from the TASF and \$150,000 by the Government of Australia with ADB acting as executing agency.<sup>f</sup> Of this amount, \$500,000 is to be financed from the TASF and \$1.2 million by the Government of Sweden with ADB acting as executing agency.<sup>g</sup> To be financed from the PRF.

## CONTINUED

	Project Preparatory	Advisory and Operational	Sector
<b>TONGA</b>			
Youth Microenterprise Development		250.00 <sup>a</sup>	Industry and Trade
Integrated Strategic Planning, Medium-Term Fiscal Framework and Budgeting		300.00	Law, Economic Management, and Public Policy
Rationalization of Public Enterprises (Phase 2)		150.00	Law, Economic Management, and Public Policy
Subtotal		700.00	
<b>TUVALU</b>			
Education Sector Reform and Development	300.00 <sup>a</sup>		Education
Subtotal	300.00		
<b>UZBEKISTAN</b>			
Land Improvement	550.00		Agriculture and Natural Resources
Kashkadarya and Navoi Rural Water Supply	575.00 <sup>a</sup>		Water Supply, Sanitation, and Waste Management
Information and Communications Technology in Basic Education	600.00		Education
Agricultural Sector Review and Planning	325.00		Agriculture and Natural Resources
Capacity Building for Woman and Child Health Development	300.00 <sup>a</sup>		Health, Nutrition, and Social Protection
Country Assistance Program Evaluation on Uzbekistan	150.00		Law, Economic Management, and Public Policy
Subtotal	1,725.00	775.00	
<b>VANUATU</b>			
Development of a Medium-Term Strategic Framework		500.00	Law, Economic Management, and Public Policy
Secured Transactions Reforms		800.00 <sup>b</sup>	Finance
Subtotal		1,300.00	
<b>VIET NAM</b>			
Upper Secondary and Professional Teacher Development	800.00 <sup>c</sup>		Education
Rural Infrastructure for Sustainable Livelihood Improvement in Central Region	800.00 <sup>a</sup>		Agriculture and Natural Resources
Northern Power Transmission and Expansion	500.00 <sup>a</sup>		Energy
Preparation of Song Bung 4 Hydropower: Phase I	150.00		Energy
Central Region Small and Medium Towns Development	950.00 <sup>a</sup>		Water Supply, Sanitation, and Waste Management
HIV/AIDS Prevention Among Youth	400.00 <sup>a</sup>		Health, Nutrition, and Social Protection
Support for Pro-Poor Health Policies		500.00 <sup>d</sup>	Health, Nutrition, and Social Protection
Improving Risk Management in the Viet Nam Bank for Agriculture and Rural Development		150.00	Finance
Development of the Transport Sector, Review of Policy and Regulations		150.00	Transport and Communications
Capacity Building for Small and Medium-Sized Enterprise Development		1,400.00 <sup>e</sup>	Industry and Trade
Support for Official Development Assistance Management and Implementation		150.00	Law, Economic Management, and Public Policy
Gender Mainstreaming Action Plan for Agriculture and Rural Development		250.00 <sup>f</sup>	Agriculture and Natural Resources
Supporting the Preparation of the Law on Gender Equality		370.00 <sup>d</sup>	Law, Economic Management, and Public Policy
Capacity Building Support to Government Inspectorate of Viet Nam		150.00 <sup>g</sup>	Law, Economic Management, and Public Policy
Developing Agricultural Insurance		600.00 <sup>d</sup>	Agriculture and Natural Resources
Capacity Building for Water Resources Management (Supplementary)		360.00 <sup>h</sup>	Agriculture and Natural Resources
Subtotal	3,600.00	4,080.00	
<b>TOTAL</b>	46,207.00	108,061.50	

<sup>a</sup> To be financed from the JSF.<sup>b</sup> Of this amount, \$600,000 is to be financed from the TASF and \$200,000 by the Government of Australia with ADB acting as executing agency.<sup>c</sup> Of this amount, \$550,000 is to be financed from the TASF and \$250,000 by the Government of Denmark with ADB acting as executing agency.<sup>d</sup> To be financed from the PRF.<sup>e</sup> Of this amount, \$500,000 is to be financed from the TASF and \$300,000 by the Government of Denmark, and \$600,000 by the Government of Switzerland with ADB acting as executing agency.<sup>f</sup> To be financed by the GDCF.<sup>g</sup> To be financed by the GCF.<sup>h</sup> To be financed by the Government of the Netherlands with ADB acting as executing agency.

**Table 23**  
**TECHNICAL ASSISTANCE GRANTS BY SECTOR,<sup>a</sup> 1967–2004, 2003, 2004**

	1967–2004 <sup>b</sup>			2003			2004		
	No.	\$ Thousand	%	No.	\$ Thousand	%	No.	\$ Thousand	%
Agriculture and Natural Resources	1,017	472,279.42	22.81	29	17,307.00	13.92	46	27,184.00	17.62
Education	267	121,728.72	5.88	14	5,730.00	4.61	17	8,275.00	5.36
Energy	447	198,214.05	9.57	22	13,058.00	10.51	25	15,080.00	9.78
Finance	403	183,247.91	8.85	24	11,464.00	9.22	18	10,275.00	6.66
Health, Nutrition, and Social Protection	159	72,440.90	3.50	22	11,407.40	9.22	12	4,670.00	3.03
Industry and Trade	257	104,755.00	5.06	12	5,970.00	4.80	14	7,750.00	5.02
Law, Economic Management, and Public Policy	826	389,358.55	18.80	69	36,489.00	29.36	56	28,626.50	18.56
Transport and Communications	563	257,856.45	12.45	25	12,715.00	10.23	29	15,890.00	10.30
Water Supply, Sanitation, and Waste Management	230	96,373.45	4.65	11	5,753.00	4.63	17	9,070.00	5.88
Multisector	271	174,656.12	8.43	9	4,400.00	3.54	17	27,448.00	17.79
<b>TOTAL<sup>c</sup></b>	<b>4,440</b>	<b>2,070,910.56</b>	<b>100.00</b>	<b>237</b>	<b>124,293.40</b>	<b>100.00</b>	<b>251</b>	<b>154,268.50</b>	<b>100.00</b>

a Excludes loan-financed technical assistance (included in loan data) and regional activities.

b Cumulative data adjusted to exclude technical assistance grants withdrawn by governments.

c Total may not add due to rounding.

**Table 24**  
**TECHNICAL ASSISTANCE LOANS AND GRANTS BY SECTOR, 2004**  
(amounts in \$ million)

	Loan	Grant <sup>a</sup>	Total	%
Agriculture and Natural Resources	9.94	27.18	37.12	11.1
Education	19.33	8.28	27.61	8.2
Energy	3.97	15.08	19.05	5.7
Finance	5.00	10.28	15.28	4.6
Health, Nutrition, and Social Protection	3.11	4.67	7.78	2.3
Industry and Trade	6.26	7.75	14.01	4.2
Law, Economic Management, and Public Policy	28.48	28.63	57.11	17.0
Transport and Communications	72.28	15.89	88.17	26.3
Water Supply, Sanitation, and Waste Management	4.09	9.07	13.16	3.9
Multisector	28.59	27.45	56.04	16.7
<b>TOTAL<sup>b</sup></b>	<b>181.05</b>	<b>154.27</b>	<b>335.32</b>	<b>100.0</b>

a Excludes regional technical assistance grants.

b Total may not add due to rounding.

**Table 25**  
**REGIONAL TECHNICAL ASSISTANCE ACTIVITIES, 2004**

	\$ Thousand
CONFERENCE	
Upscaling Successful Poverty Reduction Initiatives	90.00
High-Level Conference on Asia's Economic Cooperation and Integration	150.00
Fourteenth Tax Conference	150.00 <sup>a</sup>
Regional Workshops in Preparation for the Second High-Level Forum on Harmonization and Alignment for Aid Effectiveness	150.00
Implementation of the ADB-Organisation for Economic Co-operation and Development Anti-Corruption Initiative for Asia-Pacific	250.00
Asia-Pacific Justice Forum	92.00
Challenges in Implementing Access to Justice Reforms	75.00
Capacity Building on Selected World Trade Organization and Doha Development Agenda Issues	400.00 <sup>a</sup>
Symposium on Judicial Reform and Human Security	110.00
Subtotal	1,467.00
RESEARCH	
Strengthening and Collection of Purchasing Power Parity Data in Selected Developing Member Countries (Supplementary)	1,650.00 <sup>b</sup>
Establishing Legal Identity for Social Inclusion	575.00 <sup>c</sup>
Better Air Quality Management in Asia (Supplementary)	245.00 <sup>d</sup>
Long-Term Scenarios for Asian Growth and Trade, 2005–2020	300.00
Ninth Agriculture and Natural Resources Research at International Agricultural Research Centers	3,000.00
Human Immunodeficiency Virus (HIV)/Acquired Immuno Deficiency Syndrome (AIDS) in the Pacific: ADB's Response	150.00
Subtotal	5,920.00
STUDY	
Pacific Regional Transport Analysis	467.00
Study on Cooperation Opportunities between ADB and Mekong River Commission	45.00 <sup>e</sup>
Road Safety in the Association of Southeast Asian Nations (ASEAN) (Supplementary)	422.00 <sup>f</sup>
Selected Evaluation Studies for 2004	1,400.00
Reviewing the Poverty Impact of Regional Economic Integration in the Greater Mekong Subregion	750.00 <sup>g</sup>
Strengthening the Response to HIV/AIDS in Asia and the Pacific	150.00
Support to Strategize Regional Cooperation in Southeast Asia	350.00
Making Resource Allocation Pro-Poor and Participatory in the Pacific	500.00 <sup>c</sup>
Mainstreaming Gender into Poverty Reduction Strategies in Four Central Asian Republics	350.00 <sup>g</sup>
Greater Mekong Subregion Tourism Sector Strategy	800.00
Preparation of the Asian Environment Outlook 2005: Corporate Responsibility for Environmental Performance in Asia and the Pacific	400.00
Development of International Prudential Standards for Islamic Financial Services	400.00 <sup>h</sup>
Central Asia Regional Cooperation in Trade, Transport and Transit	350.00
Supporting Network of Research Institutes and Think Tanks in South Asia	150.00
Greater Mekong Subregion Infrastructure Connections in Northern Lao PDR	150.00
Greater Mekong Subregion Regional Communicable Diseases Control	600.00 <sup>a</sup>

a To be financed from the Japan Special Fund (JSF).

b Of this amount, \$400,000 is to be financed from the Technical Assistance Special Fund (TASF), \$450,000 from the JSF, and \$800,000 from the Poverty Reduction Cooperation Fund (PRF).

c To be financed from the PRF.

d To be financed from private sector contributions.

e To be financed by the Government of Sweden with ADB acting as executing agency.

f Of this amount, \$118,000 is to be financed from private sector contributions and \$304,000 by the Government of Sweden with ADB acting as executing agency.

g To be financed from the Cooperation Fund for National Poverty Reduction Strategies (CFNPRS).

h Of this amount, \$200,000 is to be financed from the TASF and \$200,000 by the Islamic Financial Services Board with ADB acting as executing agency.

## CONTINUED

	\$ Thousand
Greater Mekong Subregion Transport Sector Strategy Study	950.00
Diagnostic Studies for Secured Transactions Reforms in the Pacific Region	870.00 <sup>a</sup>
Pacific Regional Social Protection Systems Assessment	500.00 <sup>a</sup>
Southeast Asia Workers' Remittance Study	500.00 <sup>a</sup>
ASEAN+3 Regional Guarantee Mechanism (Supplementary)	400.00 <sup>b</sup>
Decentralization in Social Sectors	400.00
Coordinating the Greater Mekong Subregion: North-South Economic Corridor Bridge	415.00 <sup>a</sup>
Facilitating Cross-Border Trade and Investment in the Greater Mekong Subregion	600.00 <sup>a</sup>
Improving the Outreach of Formal Financial Institutions	150.00
<b>Subtotal</b>	<b>12,069.00</b>
<b>TRAINING</b>	
Greater Mekong Subregion Phnom Penh Plan for Development Management (Supplementary)	350.00 <sup>c</sup>
Building Capacity for Participatory Approaches to Poverty Reduction in ADB Operations	600.00 <sup>d</sup>
2004–2006 Orientation Program for Officials of the Asian Development Bank's Developing Member Countries	725.00
Capacity Building of Selected Credit Rating Agencies in Asia Phase III	300.00 <sup>a</sup>
Capacity Building for Promoting Sustainable Development in the Greater Mekong Subregion	500.00 <sup>a</sup>
Technical Training and Capacity Building in Support of ASEAN Economic Surveillance Process Phase IV	310.00
Regional Trade Facilitation and Customs Cooperation Program (Phase II)	900.00
Pacific Financial Technical Assistance Centre 2004	433.00
Small and Medium-Sized Enterprise Growth and Development Phase II	300.00
Capacity Building for Project Implementation and Administration 2005–2006	800.00
Strengthening Capacity and Regional Cooperation in Advanced Agricultural Science and Technology in the Greater Mekong Subregion	1,000.00 <sup>a</sup>
Leadership Enhancement and Advancement Program	600.00
Pilot Testing Participatory Assessment Methodologies for Sustainable and Equitable Water Supply and Sanitation Services	550.00 <sup>c</sup>
South Asia Subregional Economic Cooperation Human Resource Development and Capacity Building in the Tourism Sector	600.00 <sup>a</sup>
<b>Subtotal</b>	<b>7,968.00</b>
<b>OTHERS</b>	
Pilot Project on Institutionalizing Civil Society Participation to Create Local Pro-Poor Budgets	400.00 <sup>e</sup>
Clean Air Initiative for Asian Cities (Supplementary)	466.50 <sup>f</sup>
Emergency Regional Support to Address the Outbreak of Severe Acute Respiratory Syndrome (Supplementary)	500.00 <sup>g</sup>
Nongovernment Organizations Partnerships for Poverty Reduction (Supplementary)	500.00 <sup>e</sup>
Electronic-Rural Demonstration in the Pacific	230.00
Strengthening the Greater Mekong Subregion Economic Cooperation Program	1,000.00
Promoting South Asian Regional Economic Cooperation	500.00
Preventing the Trafficking of Women and Children and Promoting Safe Migration in the Greater Mekong Subregion	700.00 <sup>e</sup>
Transboundary Animal Disease Control in the Greater Mekong Subregion	1,000.00

<sup>a</sup> To be financed from the JSF.<sup>b</sup> Of this amount, \$300,000 is to be financed from the TASF and \$100,000 by the Korea Securities Depository with ADB acting as executing agency.<sup>c</sup> To be financed by the Government of New Zealand with ADB acting as executing agency.<sup>d</sup> Of this amount, \$300,000 is to be financed from the CFNPRS and \$300,000 from the PRF.<sup>e</sup> To be financed from the PRF.<sup>f</sup> Of this amount, \$20,000 is to be financed by the Societe Generale de Surveillance SA, \$12,500 by the Emission Technologies Inc., and \$434,000 by the Government of Sweden with ADB acting as executing agency.<sup>g</sup> To be financed by the International Cooperation and Development Fund with ADB acting as executing agency.

## CONTINUED

	\$ Thousand
Supporting the Achievement of the Millennium Development Goals in the Asia-Pacific Region	350.00
Greater Silk Road Initiative 2005	900.00
Asian Development Outlook 2005	250.00
Mainstreaming Environmental Considerations in Economic and Development Planning Processes in Selected Pacific Developing Member Countries	600.00
Greater Mekong Subregion Biodiversity Conservation Corridors Initiative	400.00 <sup>a</sup>
Public-Private Infrastructure Advisory Facility	500.00
Promoting Effective Water Management Policies and Practices—Phase 4	5,600.00 <sup>b</sup>
Formulating and Implementing an Intergovernmental Agreement of the Shanghai Cooperation Organization Member States on Facilitation of International Road Transport	500.00
Developing and Implementing the Pacific Plan for Strengthening Regional Cooperation and Integration	500.00 <sup>a</sup>
Subtotal	<u>14,896.50</u>
<b>TOTAL</b>	<b>42,320.50</b>

a To be financed from the JSF.

b To be financed from the Cooperation Fund for the Water Sector.

**Table 26**  
**NET TRANSFER OF RESOURCES**  
**(ORDINARY CAPITAL RESOURCES AND ASIAN DEVELOPMENT FUND)<sup>a,b</sup> 2002–2004**  
(\$ million)

	OCR			ADF		
	2002	2003	2004	2002	2003	2004
Afghanistan	–	–	1.65	82.99	54.54	40.48
Azerbaijan	–	–	–	–	–	–
Bangladesh	21.71	20.19	89.61	50.25	47.69	(70.07)
Bhutan	(0.11)	(0.06)	(0.07)	12.82	3.34	5.35
Cambodia	–	–	–	76.40	68.40	70.87
China, People's Rep. of	(246.41)	(1,977.89)	0.49	–	–	–
Cook Islands	–	–	–	(0.33)	(0.02)	1.14
Fiji Islands	(2.98)	0.92	4.11	–	–	–
Hong Kong, China	–	–	–	–	–	–
India	(122.96)	(1,197.14)	(1,036.01)	–	–	–
Indonesia	114.76	(432.15)	(282.67)	1.02	30.08	28.93
Kazakhstan	(27.01)	(19.73)	(85.67)	0.51	0.16	0.22
Kiribati	–	–	–	0.72	2.27	2.32
Korea, Rep. of	(136.36)	(2,122.84)	(66.84)	–	–	–
Kyrgyz Republic	–	–	–	24.17	22.18	50.36
Lao PDR	–	–	–	37.65	40.53	31.00
Malaysia	(49.42)	(69.04)	(59.48)	–	–	–
Maldives	–	–	–	5.59	3.91	0.94
Marshall Islands	1.30	0.22	(0.34)	6.30	3.98	0.74
Micronesia, Fed. States of	–	–	–	1.08	2.42	0.63
Mongolia	–	–	6.00	22.67	34.52	32.54
Myanmar	–	(1.44)	–	–	–	–
Nauru	–	–	–	–	–	–
Nepal	(6.62)	(6.08)	(6.01)	(2.64)	(0.43)	(17.34)
Pakistan	(59.27)	10.86	(922.29)	117.48	(14.18)	59.31
Papua New Guinea	(12.96)	(13.09)	(14.57)	(3.99)	(4.63)	(0.10)
Philippines	(188.81)	(54.82)	(194.47)	(7.90)	(17.43)	(24.07)
Samoa	–	–	–	(1.22)	(0.81)	(0.17)
Singapore	–	–	–	–	–	–
Solomon Islands	–	–	–	–	(2.98)	(0.71)
Sri Lanka	54.15	36.37	36.64	71.11	129.37	79.66
Taipei, China	–	–	–	–	–	–
Tajikistan	–	–	–	13.81	14.24	19.00
Thailand	(1,459.34)	(223.22)	(98.67)	(3.08)	(3.56)	(3.55)
Timor-Leste	–	–	–	–	–	–
Tonga	–	–	–	4.14	5.02	(1.26)
Turkmenistan	–	–	–	–	–	–
Tuvalu	–	–	–	(0.04)	0.09	0.01
Uzbekistan	9.65	29.01	68.39	6.70	3.22	2.43
Vanuatu	–	–	–	(0.24)	(0.84)	(0.92)
Viet Nam	21.24	60.62	6.79	201.79	219.69	160.80
Regional	(8.23)	(2.58)	(6.32)	–	–	–
<b>TOTAL</b>	<b>(2,097.67)</b>	<b>(5,961.86)</b>	<b>(2,559.73)</b>	<b>717.75</b>	<b>640.76</b>	<b>468.54</b>

– Data not applicable.

( ) Negative.

Note: Total may not add due to rounding.

a Net transfer of resources for OCR defined as loan disbursements less principal repayments/prepayments and interest/charges received. Includes private sector loans and net equity investments.

b Net transfer of resources for the ADF defined as loan disbursements less principal repayments and interest/charges received. Includes private sector loans.

**Table 27**  
**NET TRANSFER OF RESOURCES**  
**(ORDINARY CAPITAL RESOURCES AND ASIAN DEVELOPMENT FUND COMBINED)<sup>a</sup> 1995–2004**  
(\$ million)

	1995–1999 Average	2000	2001	2002	2003	2004
Afghanistan	–	–	–	82.99	54.54	42.13
Azerbaijan	–	–	–	–	–	–
Bangladesh	175.52	160.73	104.33	71.96	67.88	19.54
Bhutan	3.27	5.76	5.57	12.71	3.28	5.28
Cambodia	26.07	49.29	46.42	76.40	68.40	70.87
China, People's Rep. of	456.47	400.53	555.26	(246.41)	(1,977.89)	0.49
Cook Islands	1.70	0.11	0.21	(0.33)	(0.02)	1.14
Fiji Islands	(4.56)	(2.90)	(2.74)	(2.98)	0.92	4.11
Hong Kong, China	–	–	–	–	–	–
India	272.36	(137.91)	(218.21)	(122.96)	(1,197.14)	(1,036.01)
Indonesia	(23.57)	29.39	(44.26)	115.78	(402.07)	(253.74)
Kazakhstan	52.63	4.66	(15.10)	(26.50)	(19.57)	(85.45)
Kiribati	(0.04)	0.97	1.32	0.72	2.27	2.32
Korea, Rep. of	585.58	(320.69)	(268.83)	(136.36)	(2,122.84)	(66.84)
Kyrgyz Republic	46.18	19.02	55.83	24.17	22.18	50.36
Lao PDR	62.64	41.75	34.61	37.65	40.53	31.00
Malaysia	(41.16)	(20.05)	(49.30)	(49.42)	(69.04)	(59.48)
Maldives	2.47	0.70	2.16	5.59	3.91	0.94
Marshall Islands	5.41	9.53	7.87	7.59	4.20	0.40
Micronesia, Fed. States of	4.53	4.14	2.25	1.08	2.42	0.63
Mongolia	44.49	29.94	27.46	22.67	34.52	38.54
Myanmar	(10.30)	–	–	–	(1.44)	–
Nauru	0.45	(0.07)	(0.07)	–	–	–
Nepal	65.00	67.58	25.56	(9.26)	(6.51)	(23.35)
Pakistan	102.57	78.13	72.61	58.21	(3.32)	(862.98)
Papua New Guinea	(5.22)	(17.59)	13.29	(16.95)	(17.72)	(14.67)
Philippines	(129.97)	(177.85)	(80.57)	(196.71)	(72.25)	(218.54)
Samoa	0.10	(2.09)	1.61	(1.22)	(0.81)	(0.17)
Singapore	–	–	–	–	–	–
Solomon Islands	2.28	(0.46)	(0.80)	–	(2.98)	(0.71)
Sri Lanka	85.48	46.50	65.03	125.26	165.74	116.30
Taipei, China	–	–	–	–	–	–
Tajikistan	1.96	12.22	2.75	13.81	14.24	19.00
Thailand	192.42	(577.63)	(72.05)	(1,462.42)	(226.78)	(102.22)
Timor-Leste	–	–	–	–	–	–
Tonga	2.99	2.16	(0.61)	4.14	5.02	(1.26)
Turkmenistan	–	–	–	–	–	–
Tuvalu	0.56	(0.02)	1.14	(0.04)	0.09	0.01
Uzbekistan	3.50	56.60	30.47	16.35	32.23	70.82
Vanuatu	3.57	9.94	2.13	(0.24)	(0.84)	(0.92)
Viet Nam	105.86	231.23	161.54	223.03	280.31	167.59
Regional	15.34	0.06	(2.54)	(8.23)	(2.58)	(6.32)
<b>TOTAL</b>	<b>2,106.58</b>	<b>3.66</b>	<b>464.32</b>	<b>(1,379.92)</b>	<b>(5,321.09)</b>	<b>(2,091.18)</b>

– Data not applicable.

( ) Negative.

Note: Total may not add due to rounding.

a Net transfer of resources defined as loan disbursements less principal repayments/prepayments and interest/charges received. Includes private sector loans and net equity investments.

## FINANCIAL RESOURCES

**Table 28**  
**ASIAN DEVELOPMENT FUND (ADF) RESOURCES AND COMMITMENT AUTHORITY**

### ADF-CONTRIBUTED RESOURCES

(\$ million; as of 31 December 2004)

	Valued as of 31 December 2003 (\$ equiv.)	Change in 2004			Valued as of 31 December 2004 (\$ equiv.)	(\$ equiv.) (SDR <sup>a</sup> equiv.)
		Addition (\$ equiv.)	Exchange Rate Adjustment (\$ equiv.)	Net Change (\$ equiv.)		
Australia	1,165.48	50.05	54.70	104.75	1,270.23	820.65
Austria	196.82	9.29	17.53	26.82	223.64	144.49
Belgium	180.01	6.15	15.99	22.14	202.15	130.60
Canada	1,332.70	35.62	103.61	139.23	1,471.93	950.96
Denmark	198.86	7.42	18.02	25.44	224.30	144.91
Finland	109.89	4.27	9.82	14.09	123.98	80.10
France	1,022.27	47.54	92.33	139.87	1,162.14	750.81
Germany	1,577.00	12.22	134.75	146.97	1,723.97	1,113.79
Hong Kong, China	32.48	4.07	—	4.07	36.55	23.61
Indonesia	14.96	—	—	—	14.96	9.67
Italy	579.14	142.21	56.80	199.01	778.15	502.73
Japan	11,932.92	258.96	505.92	764.88	12,697.80	8,203.56
Korea, Rep. of	117.28	20.36	16.73	37.09	154.37	99.73
Luxembourg	—	19.96	1.35	21.31	21.31	13.77
Malaysia	6.20	0.51	—	0.51	6.71	4.34
Nauru	1.93	—	—	—	1.93	1.25
The Netherlands	593.57	24.76	53.31	78.07	671.64	433.92
New Zealand	84.86	6.70	8.72	15.42	100.28	64.79
Norway	152.16	7.89	17.63	25.52	177.68	114.79
Portugal	58.97	5.12	5.63	10.75	69.72	45.04
Singapore	2.97	0.98	0.17	1.15	4.12	2.66
Spain	198.28	46.10	18.90	65.00	263.28	170.10
Sweden	242.18	10.97	23.90	34.87	277.05	178.99
Switzerland	328.48	10.69	33.08	43.77	372.25	240.50
Taipei,China	39.42	3.61	—	3.61	43.03	27.80
Thailand	4.46	0.62	0.10	0.72	5.18	3.35
Turkey	104.14	—	—	—	104.14	67.28
United Kingdom	844.65	37.29	72.61	109.90	954.55	616.70
United States	2,894.77	240.82	—	240.82	3,135.59	2,025.78
<b>TOTAL</b>	<b>24,016.83</b>	<b>1,014.18</b>	<b>1,261.57</b>	<b>2,275.75</b>	<b>26,292.60</b>	<b>16,986.67</b>

### ADF COMMITMENT AUTHORITY

(\$ million; as of 31 December 2004)

	2004	2003
ADF VIII Contributions	3,052.81	1,911.86
ADF VII Contributions <sup>b</sup>	411.36	341.65
ADF VI Contributions <sup>c</sup>	0.02	0.02
OCR Net Income Transfer <sup>d</sup>	350.00	200.00
Loan Savings and Cancellation <sup>e</sup>	495.20	243.29
Expanded Advance Commitment Authority	3,200.00	2,400.00
Total ADF Resources <sup>f</sup>	7,509.39	5,096.82
Less: Loans Committed	6,383.90	4,184.40 <sup>g</sup>
Carryover of Conditional Loans Committed <sup>h</sup>	720.93	692.11
Provision for Disbursement Risk	280.11	175.29
<b>TOTAL</b>	<b>124.45</b>	<b>45.02</b>

— Data not applicable.

( ) Negative.

Note: Total may not add due to rounding.

a Refers to special drawing rights (SDR) valued at the rate of \$1.54784 per SDR as of 31 December 2004.

b ADF VII contributions released for operational commitments during the ADF VIII period.

c ADF VI contributions released for operational commitments during the ADF VIII period.

d ADB. 2004/2003. *Review of the Asian Development Bank's Income Outlook and Allocation of 2002 Net Income*. Manila.

e ADB. 2003. *Treatment of Loan Savings and Cancellations to Increase ADF VIII Commitment Authority*. Manila.

f Excludes pre-ADF VIII amounts for determining ADF commitment authority under the new financial planning framework for managing ADF resources as approved by the Board of Directors on 15 April 1997.

g Excludes loans that were conditionally approved in November–December 2003.

h Loans that were conditionally approved in the previous replenishment.

**Table 29**  
**TECHNICAL ASSISTANCE SPECIAL FUND**  
(\$ thousand equivalent; as of 31 December 2004)<sup>a</sup>

	Total Contributions	Amount Utilized
<b>Direct Voluntary Contributions</b>		
Australia	2,484	2,484
Austria	159	159
Bangladesh	47	47
Belgium	1,394	1,394
Canada	3,346	3,346
China, People's Rep. of	1,600	1,600
Denmark	1,963	1,963
Finland	237	237
France	1,697	1,697
Germany	3,315	3,315
Hong Kong, China	100	100
India	2,907	2,907
Indonesia	250	250
Italy	774	774
Japan	47,710	47,710
Korea, Rep. of	1,900	1,900
Malaysia	909	909
Nauru	-	-
The Netherlands	1,338	1,338
New Zealand	1,096	1,096
Norway	3,279	3,279
Pakistan	1,596	1,596
Singapore	1,100	1,100
Spain	190	190
Sri Lanka	6	6
Sweden	861	861
Switzerland	1,035	1,035
Taipei, China	200	200
Turkey	-	-
United Kingdom	5,617	5,617
United States	1,500	1,500
Subtotal	88,610	88,610
<b>Regularized Replenishment Contributions</b>	<b>213,083</b>	<b>213,083</b>
Transfer to Asian Development Fund	(3,472)	(3,472)
Allocation from OCR Net Income <sup>b</sup>	763,749	664,564
Subtotal	973,360	874,175
<b>TOTAL</b>	<b>1,061,970</b>	<b>962,785</b>

- Data not applicable.

( ) Negative.

a Represents Technical Assistance Special Fund (TASF) portion of contributions to the replenishment of the Asian Development Fund and the TASF authorized by Governors' Resolution Nos. 182 and 214.

b Represents income, repayments, and reimbursements to the TASF since 1980, including unrealized investment holding gains (losses).

**Table 30**  
**JAPAN SPECIAL FUND—REGULAR AND SUPPLEMENTARY CONTRIBUTIONS**  
**Statement of Activities and Change in Net Assets**  
(\$ million)

	1988–1998 <sup>a</sup>	1999	2000	2001	2002	2003	2004	Total
Contributions Committed	696.4	48.6	37.6	30.9	22.5	16.7	24.2	876.9
Revenue	72.1	17.2	19.6	14.2	5.9	3.3	4.3	136.6
Total	<u>768.5</u>	<u>65.8</u>	<u>57.2</u>	<u>45.1</u>	<u>28.4</u>	<u>20.0</u>	<u>28.5</u>	<u>1,013.5</u>
Transfer to Cooperation Fund for Regional Trade and Financial Security Initiative	–	–	–	–	–	–	(1.0)	(1.0)
Expenses	547.4	57.2	60.8	65.9	35.9	39.6	19.7	826.5
Exchange Gain (loss)	(24.0)	0.5	(0.1)	(1.0)	(0.6)	(0.3)	1.2	(24.3)
Translation Adjustments	(13.9)	(0.1)	1.5	–	–	–	–	(12.5)
Change in Net Assets	<u>183.2</u>	<u>9.0</u>	<u>(2.2)</u>	<u>(21.8)</u>	<u>(8.1)</u>	<u>(19.9)</u>	<u>9.0</u>	<u>149.2</u>

– Data not applicable.

( ) Negative.

a Prior years' amounts have been restated to conform with the 1995 presentation.

**Table 31**  
**JAPAN SPECIAL FUND—ASIAN CURRENCY CRISIS SUPPORT FACILITY**  
**Statement of Activities and Change in Net Assets**  
(\$ million)

	1999	2000	2001	2002	2003	2004	Total
Contributions Committed	104.4 <sup>a</sup>	136.6 <sup>a</sup>	–	–	–	–	241.0
Revenue	–	0.4	0.3	1.4	0.7	0.5	3.3
Total	<u>104.4</u>	<u>137.0</u>	<u>0.3</u>	<u>1.4</u>	<u>0.7</u>	<u>0.5</u>	<u>244.3</u>
Transfer to Japan Fund for Poverty Reduction	–	–	–	(90.0)	–	–	(90.0)
Interest Payment Assistance written back	–	–	–	33.2	–	–	33.2
Expenses	95.7	9.6	8.8	16.2	1.2	(0.9)	130.6
Exchange Gain (loss)	–	–	(0.2)	(1.5)	–	–	(1.7)
Translation Adjustments	17.4	(16.5)	(28.4)	1.2	–	–	(26.3)
Change in Net Assets	<u>26.1</u>	<u>110.9</u>	<u>(37.1)</u>	<u>(71.9)</u>	<u>(0.5)</u>	<u>1.4</u>	<u>28.9</u>

– Data not applicable.

( ) Negative.

a A guarantee facility is provided under the ACCSF for which the Government of Japan has made available noninterest-bearing, nonnegotiable notes in the amount of 360 billion yen, encashable by ADB at any time to meet a call on any guarantee. In the absence of any concluded guarantee, the note was returned to the Government of Japan on 25 March 2002.

**Table 32**  
**JAPAN FUND FOR POVERTY REDUCTION, 2004**

	\$ Thousand
AFGHANISTAN	
Balkh River Basin Water Resources Management	10,000
CAMBODIA	
Mainstreaming Labor-Based Road Maintenance to the National Roads Network	2,200
Health Care Financing for the Poor	1,847
INDONESIA	
Sustainable Livelihood Development for Poor Coastal and Small Island Communities	1,500
KYRGYZ REPUBLIC	
Reducing Neonatal Mortality	1,000
Reducing Vulnerability of the Poor to Natural Disasters	1,000
Rural Livelihood Development	1,000
PHILIPPINES	
Renewable Energy and Livelihood Development for the Poor in Negros Occidental	1,500
SRI LANKA	
Power Fund for the Poor	1,500
TAJIKISTAN	
Community Participation and Public Information Campaign for Health Improvement	1,000
School Improvement	2,000
UZBEKISTAN	
Affordable Services and Water Conservation for the Urban Poor	1,500
VIET NAM	
Poverty Reduction in Red River Basin Irrigation Systems	820
Expanding Benefits for the Poor through Urban Environmental Improvements	1,000
REGIONAL (KAZAKHSTAN, KYRGYZ REPUBLIC, MONGOLIA, TAJIKISTAN, AND UZBEKISTAN)	
Sustainable Food Fortification	2,000
<b>TOTAL</b>	<b>29,867</b>

**Table 33**  
**JAPAN FUND FOR INFORMATION AND COMMUNICATION TECHNOLOGY, 2004**

	\$ Thousand
LAO PEOPLE'S DEMOCRATIC REPUBLIC	
Banking Automation to Support Outreach, Efficiency, and Governance	650
MONGOLIA	
ICT for Innovating Rural Education	1,000
ICT for Improving Rural Health Services	1,000
REGIONAL	
Asian Bonds Online Web Site	2,400
Improving Poor Farmers' Livelihoods Through Rice Information Technology	1,000
Developing a Database on Cross-Border Trade and Investment in BIMP-EAGA	300
<b>TOTAL</b>	<b>6,350</b>

**Table 34**  
**PROJECTS FINANCED BY THEMATIC FUNDS,<sup>a</sup> 2004**

	\$ Thousand
CANADIAN COOPERATION FUND ON CLIMATE CHANGE	
Indonesia	
Gas Generation from Waste	250
Subtotal	<u>250</u>
COOPERATION FUND FOR NATIONAL POVERTY REDUCTION STRATEGIES	
Mongolia	
Participatory Poverty Assessment and Monitoring	300
Regional	
Reviewing the Poverty Impact of Regional Economic Integration in the GMS	750
Building Capacity for Participatory Approaches to Poverty Reduction in ADB Operations	300
Mainstreaming Gender into Poverty Reduction Strategies in Four Central Asia Republics	350
Subtotal	<u>1,700</u>
COOPERATION FUND FOR THE WATER SECTOR	
Regional	
Promoting Effective Water Management Policies and Practices-Phase 4	5,600
Subtotal	<u>5,600</u>
DANISH COOPERATION FUND FOR RENEWABLE ENERGY AND ENERGY EFFICIENCY IN RURAL AREAS	
Afghanistan	
Capacity Building for Reconstruction and Development (Supplementary)	90
Subtotal	<u>90</u>
GENDER AND DEVELOPMENT COOPERATION FUND	
Cambodia	
Implementation of the Action Plan for Gender Mainstreaming in the Agriculture Sector	300
Viet Nam	
Gender Mainstreaming Action Plan for Agriculture and Rural Development	250
Subtotal	<u>550</u>
GLOBAL ENVIRONMENT FACILITY	
China, People's Republic of	
Capacity Building to Combat Land Degradation	7,700
Subtotal	<u>7,700</u>
GOVERNANCE COOPERATION FUND	
Cambodia	
Strengthening National Program Budgeting for the Agriculture Sector	250
Marshall Islands	
Increasing Ownership and Effective Demand for Improved Education	150
Pakistan	
Improving Governance in the Nonprofit Sector of Pakistan	240
Philippines	
Enhancing Access of the Poor to Microfinance Services in Frontier Areas	250
Viet Nam	
Capacity Building Support to Government Inspectorate of Viet Nam	150
Subtotal	<u>1,040</u>
POVERTY REDUCTION COOPERATION FUND	
Afghanistan	
National Resources Management and Poverty Reduction	810
Poverty Reduction and Rural Renewable Energy Development	750
Bangladesh	
Social Protection of Poor Female Workers in the Garment Sector in the Context of Changing Trade Environments	420
Cambodia	
Preventing Poverty and Empowering Female Garment Workers Affected by the Changing International Trade Environment (Supplementary)	100
Capacity Building for the Tonle Sap Poverty Reduction Initiative	500
Participatory Poverty Assessment of the Tonle Sap (Supplementary)	75
China, People's Republic of	
Poverty Impact of Area-Wide Road Networks	1,000
Rural Finance Reforms and Development of Microfinance Institutions	1,000
Developing a Poverty Monitoring System at the County Level	300
Rural Income and Sustainable Development	900
Heating Supply for Urban Poor in Liaoning Province	500

CONTINUED

	\$ Thousand
Kyrgyz Republic	
The Study on Pricing Systems and Cost-Recovery Mechanisms for Irrigation	300
A Study of the Impact of Land Reform on Agriculture, Poverty Reduction, and Environment	400
Lao People's Democratic Republic	
Study of Gender Inequality in Women's Access to Land, Forests and Water	250
Marketing Support for Organic Produce of Ethnic Minorities	600
Capacity Building for Smallholder Livestock Systems	550
Poverty Reduction through Land Tenure Consolidation, Participatory Natural Resources Management, and Local Communities Skills Building	850
Integrating the Poor in Regional Trade through Industrial Standard Development Phase II	700
Nepal	
Promoting Pro-Poor and Gender-Responsive Service Delivery	200
Pakistan	
Determinants and Drivers of Poverty Reduction and ADB's Contribution in Rural Pakistan	400
Non-Formal Primary Education and Functional Literacy for Rural Women in Selected Barani Areas of Punjab	400
Mobilization of Grassroots Stakeholders for Pro-Poor Social Service Delivery (Sindh)	500
Implementing Public Safety Reforms in Four Districts of the Province of Punjab	950
Sri Lanka	
Psychosocial Health in Conflict-Affected Areas	400
Tajikistan	
Development of Community-Based Micro-Hydropower Supply in Remote Rural Areas	800
Viet Nam	
Support for Pro-Poor Health Policies	500
Supporting the Preparation of the Law on Gender Equality	370
Developing Agricultural Insurance	600
Regional	
Pilot Project on Institutionalizing Civil Society Participation to Create Local Pro-Poor Budgets	400
Making Resource Allocation Pro-Poor and Participatory in the Pacific	500
NGO Partnerships for Poverty Reduction (Supplementary)	500
Building Capacity for Participatory Approaches to Poverty Reduction in ADB Operations	300
Establishing Legal Identity for Social Inclusion	575
Pilot Testing Participatory Assessment Methodologies for Sustainable and Equitable Water Supply and Sanitation Services	550
Preventing the Trafficking of Women and Children and Promoting Safe Migration in the GMS	700
Strengthening and Collection of Purchasing Power Parity Data in Selected DMCs (Supplementary)	800
Subtotal	<u>19,375</u>
COOPERATIVE FUND FOR REGIONAL TRADE AND FINANCIAL SECURITY INITIATIVE	
Indonesia	
Development of an Anti-Money Laundering Regime II	500
Subtotal	<u>500</u>
<b>TOTAL</b>	<b>36,805</b>

a See tables 31, 32, and 33 for additional thematic funds.

**Table 35**  
**EXTERNAL ADB-ADMINISTERED GRANT COMPONENTS OF LOAN PROJECTS, 2004**

	\$ Thousand	Source
BANGLADESH		
Teaching Quality Improvement in Secondary Education	18,000	Canada
PAKISTAN		
Balochistan Resource Management Program	1,920	The Netherlands
Punjab Devolved Social Services Program	30,000	United Kingdom
VIET NAM		
Health Care in the Central Highlands	5,580	Sweden
<b>TOTAL</b>	<b>55,500</b>	

## APPENDICES

- 231 Appendix 1: Resolutions of the Board of Governors Adopted in 2004
- 232 Appendix 2: Board of Governors
- 234 Appendix 3: Board of Directors and Voting Groups
- 235 Appendix 4: Committees of the Board of Directors
- 235 Appendix 5: ADB Institute Advisory Council
- 236 Appendix 6: Organizational Structure
- 237 Appendix 7: Former ADB Presidents and Vice-Presidents
- 238 Appendix 8: Summary of Budget for 2005

**Appendix 1**  
**RESOLUTIONS OF THE BOARD OF GOVERNORS ADOPTED IN 2004**

RESOLUTION NO.	SUBJECT	DATE ADOPTED
297	Financial Statements and Independent Auditors' Report	17 May 2004
298	Allocation of Net Income	17 May 2004
299	Place and Date of Thirty-Ninth Annual Meeting	17 May 2004
300	Eighth Replenishment of the Asian Development Fund and Third Regularized Replenishment of the Technical Assistance Special Fund	25 August 2004
301	Membership of Armenia and Increase in Authorized Capital Stock	6 October 2004
302	Election of President	13 November 2004

**Appendix 2**  
**BOARD OF GOVERNORS**  
(as of 31 March 2005)

IBRAHIM H. ÇANAKCI  
(Turkey)  
(Chair)

GEOFFREY A. HENRY<sup>1</sup>  
(Cook Islands)  
(Vice-Chair)

N. ALTANHUYAG<sup>2</sup>  
(Mongolia)  
(Vice-Chair)

MEMBER	GOVERNOR	ALTERNATE GOVERNOR
AFGHANISTAN	Anwar Ul-Haq Ahady <sup>3</sup>	Wahidullah Shahrani <sup>4</sup>
AUSTRALIA	Peter Costello	Bruce Billson <sup>5</sup>
AUSTRIA	Karl-Heinz Grasser	Thomas Wieser
AZERBAIJAN	Farhad Aliyev	Avaz Alekperov
BANGLADESH	M. Saifur Rahman	Md. Ismail Zabihullah <sup>6</sup>
BELGIUM	Didier Reynders	Gino Alzetta
BHUTAN	Lyonpo Wangdi Norbu	Daw Tenzin
CAMBODIA	Keat Chhon	Aun Porn Moniroth <sup>7</sup>
CANADA	Pierre Pettigrew <sup>8</sup>	Alister M. Smith
CHINA, PEOPLE'S REPUBLIC OF	Jin Renqing	Li Yong
COOK ISLANDS	Geoffrey A. Henry	Kevin Carr
DENMARK	Ole E. Moesby	Sus Ulbaek <sup>9</sup>
FIJI ISLANDS	Jone Yavala Kubuabola	Savenaca Narube
FINLAND	Pertti Majanen	Taisto Huimatalo
FRANCE	Thierry Breton <sup>10</sup>	Xavier Musca <sup>11</sup>
GERMANY	Uschi Eid	Rolf Wenzel
HONG KONG, CHINA	Henry Tang	Joseph Yam
INDIA	P. Chidambaram <sup>12</sup>	Rakesh Mohan <sup>13</sup>
INDONESIA	Jusuf Anwar <sup>14</sup>	Burhanuddin Abdullah
ITALY	Antonio Fazio	Lorenzo Bini Smaghi
JAPAN	Sadakazu Tanigaki	Toshihiko Fukui
KAZAKHSTAN	Arman Galiaskarovich Dunayev <sup>15</sup>	Batyrkhan Arysbekovich Issayev
KIRIBATI	Nabuti Mwemwenikarawa	Taneti Maamau <sup>16</sup>
KOREA, REPUBLIC OF	Duck-soo Han <sup>17</sup>	Seung Park
KYRGYZ REPUBLIC	Akylbek Japarov <sup>18</sup>	Sabyrbek A. Moldokulov
LAO PEOPLE'S DEMOCRATIC REPUBLIC	Chansy Phosykham	Phoupheth Khamphounvong
LUXEMBOURG	Jean-Louis Schiltz <sup>19</sup>	Georges Heinen
MALAYSIA	Dato' Seri Abdullah Haji Ahmad Badawi	Dato' Izzuddin bin Dali <sup>20</sup>

1 Succeeded Teremoana Taio in December 2004.

2 Succeeded Chultemii Ulaan in January 2005.

3 Succeeded Ashraf Ghani in February 2005.

4 Appointed in February 2005.

5 Succeeded Chris Gallus in March 2005.

6 Succeeded Mirza Tasadduq Hussain Beg in February 2005.

7 Succeeded Ouk Rabun in August 2004.

8 Succeeded William Graham in September 2004.

9 Succeeded Nanna Hvist in September 2004.

10 Succeeded Herve Gaymard in March 2005; Herve Gaymard succeeded Nicolas Sarkozy in December 2004. Nicolas Sarkozy succeeded Francis Mer in August 2004.

11 Succeeded Jean Pierre Jouyet in August 2004.

12 Succeeded Jaswant Singh in May 2004.

13 Succeeded D.C. Gupta in November 2004.

14 Succeeded Dr. Boediono in October 2004.

15 Succeeded Yerbolat Askarbekovich Dossayev in April 2004.

16 Succeeded Tebwe Letaake in April 2004.

17 Succeeded Hun-Jai Lee in March 2005.

18 Succeeded Bolot Abildaev in March 2005.

19 Succeeded Luc Frieden in September 2004.

20 Succeeded Tan Sri Dr. Samsudin bin Hitam in August 2004.

## CONTINUED

MEMBER	GOVERNOR	ALTERNATE GOVERNOR
MALDIVES	Ismail Shafeeu	Riluwan Shareef
MARSHALL ISLANDS	Brenson S. Wase	Amon Tibon
MICRONESIA, FEDERATED STATES OF	Nick L. Andon	Lorin Robert
MONGOLIA	Norov Altanhuyag	Ochirbat Chuluunbat
MYANMAR	Hla Tun	Daw Myo Nwe <sup>21</sup>
NAURU	David Adeang	Peter Depta <sup>22</sup>
NEPAL	Madhukar S.J.B. Rana <sup>23</sup>	Bhanu Prasad Acharya
THE NETHERLANDS	Gerrit Zalm	Agnes van Ardenne-van der Hoeven
NEW ZEALAND	Michael Cullen	John Whitehead
NORWAY	Leiv Lunde <sup>24</sup>	Nils Haugstveit <sup>25</sup>
PAKISTAN	Omar Ayub Khan <sup>26</sup>	Shuja Shah <sup>27</sup>
PALAU	Elbucel Sadang	Marino Rechesengel
PAPUA NEW GUINEA	Bart Philemon	Simon Tosali <sup>28</sup>
PHILIPPINES	Cesar V. Purisima <sup>29</sup>	Rafael Buenaventura
PORTUGAL	Luis Campos e Cunha <sup>30</sup>	Maria dos Anjos Nunes Capote <sup>31</sup>
SAMOA	Misa Telefoni Retzlaff	Hinauri Petana
SINGAPORE	Raymond Lim Siang Keat <sup>32</sup>	Lim Siong Guan
SOLOMON ISLANDS	Peter Boyers <sup>33</sup>	Shadrach Fanega
SPAIN	Pedro Solbes Mira <sup>34</sup>	David Vergara Figueras <sup>35</sup>
SRI LANKA	Sarath Amunugama <sup>36</sup>	P. B. Jayasundara <sup>37</sup>
SWEDEN	Annika Soder	Anders Oljelund
SWITZERLAND	Oscar Knapp	Adrian Schlaepfer
TAIPEI, CHINA	Fai-nan Perng	Shuh Chen <sup>38</sup>
TAJIKISTAN	F. S. Kholboboev	N. Kh. Buriev
THAILAND	Somkid Jatusripitak	Suparut Kawatkul <sup>39</sup>
TIMOR-LESTE	Maria Madalena Brites Boavida	Aicha Bassarewan
TONGA	Siosiua T. T. 'Utoikamanu	Aisake Eke
TURKEY	Ibrahim H. Çanakci	Cavit Dagdas
TURKMENISTAN	(vacant)	(vacant)
TUVALU	Bikenibeu Paeniu	Seve Paeniu
UNITED KINGDOM	Hilary Benn	Gareth Thomas
UNITED STATES	John W. Snow	(vacant)
UZBEKISTAN	Rustam S. Azimov	Mamarizo Nurmuratov
VANUATU	Moana Carcasses Kalosil <sup>40</sup>	Simeon Athy
VIET NAM	Le Duc Thuy	Phung Khac Ke

<sup>21</sup> Succeeded Daw Than Nwe in April 2004.<sup>22</sup> Succeeded Ruston Kun in February 2005.<sup>23</sup> Succeeded Bharat Mohan Adhikari in February 2005. Bharat Mohan Adhikari succeeded Prakash Chandra Lohani in August 2004.<sup>24</sup> Succeeded Olav Kjorven in March 2005.<sup>25</sup> Succeeded Age Grutle in February 2004.<sup>26</sup> Succeeded Shakunt Aziz in September 2004.<sup>27</sup> Succeeded Waqar Masood Khan in November 2004.<sup>28</sup> Succeeded Koiai Tarata in September 2004.<sup>29</sup> Succeeded Juanita D. Amatong in February 2005.<sup>30</sup> Succeeded Antonio Jose de Castro Bagao Felix in March 2005. Antonio Jose de Castro Bagao Felix succeeded Maria Manuela Diaz Ferreira Leite in July 2004.<sup>31</sup> Succeeded Luis Miguel Morais Leitao in March 2005. Luis Miguel Morais Leitao succeeded Francisco Adelino Gusmao Esteves de Carvalho in July 2004.<sup>32</sup> Succeeded Lee Hsien Loong in November 2004.<sup>33</sup> Succeeded Francis John Zama in February 2005.<sup>34</sup> Succeeded Rodrigo de Rato y Figaredo in April 2004.<sup>35</sup> Succeeded Francisco Utrera in April 2004.<sup>36</sup> Succeeded K.N. Choksy in April 2004.<sup>37</sup> Succeeded Charitha Ratwatte in April 2004.<sup>38</sup> Succeeded Susan S. Chang in November 2004.<sup>39</sup> Succeeded Somchainuk Engtrakul in October 2004.<sup>40</sup> Succeeded Jimmy Nicklam in July 2004.

**Appendix 3**  
**BOARD OF DIRECTORS AND VOTING GROUPS**  
(as of 31 March 2005)

DIRECTOR	ALTERNATE DIRECTOR	MEMBERS REPRESENTED
Rolf Eckermann	David Taylor <sup>1</sup>	Austria, Germany, Luxembourg, Turkey, United Kingdom
Emile Gauvreau	Geert Jan Engelsman <sup>2</sup>	Canada, Denmark, Finland, the Netherlands, Norway, Sweden
Agus Haryanto <sup>3</sup>	Richard Stanley	Cook Islands, Fiji Islands, Indonesia, Kyrgyz Republic, New Zealand, Samoa, Tonga
Chol-Hwi Lee <sup>4</sup>	Batir Mirbabayev	Republic of Korea; Papua New Guinea; Sri Lanka; Taipei, China; Uzbekistan; Vanuatu; Viet Nam
Marita Magpili-Jimenez <sup>5</sup>	M. Akram Malik	Kazakhstan, Maldives, Marshall Islands, Mongolia, Pakistan, Philippines, Timor-Leste
Michele Miari Fulcis	Niklaus Zingg <sup>6</sup>	Belgium, France, Italy, Portugal, Spain, Switzerland
Masaki Omura <sup>7</sup>	Masaichiro Yamanishi	Japan
Ashok Saikia <sup>8</sup>	M. Saiful Islam	Bangladesh, Bhutan, India, Lao People's Democratic Republic, Tajikistan
Stephen Sedgwick	Richard Moore <sup>9</sup>	Australia; Azerbaijan; Cambodia; Hong Kong, China; Kiribati; Federated States of Micronesia; Nauru; Palau; Solomon Islands; Tuvalu
Paul W. Speltz	Troy Wray	United States
Chaiyuth Sudthitanakorn	Sein Tin	Malaysia, Myanmar, Nepal, Singapore, Thailand
Xiaosong Zheng <sup>10</sup>	Xiaolong Mo <sup>11</sup>	People's Republic of China

1 Succeeded Nicola Justine Jenks on 1 July 2004.

2 Succeeded Tryggve Gjesdal on 1 September 2004.

3 Succeeded Jusuf Anwar on 16 October 2004.

4 Succeeded Jeung-Hyun Yoon on 3 September 2004.

5 Succeeded Dante B. Canlas on 20 September 2004.

6 Succeeded Pascal Gregoire on 4 August 2004.

7 Succeeded Osamu Tsukahara on 13 July 2004.

8 Succeeded P. G. Mankad on 16 July 2004.

9 Succeeded Miranda Rawlinson on 22 March 2004.

10 Succeeded Kuilin Ju on 1 February 2005.

11 Succeeded Shaolin Yang on 1 February 2005.

**Appendix 4**  
**COMMITTEES OF THE BOARD OF DIRECTORS**  
(as of 31 March 2005)

STANDING COMMITTEES

AUDIT COMMITTEE	BUDGET REVIEW COMMITTEE
Michele Miari Fulcis ( <i>Chair</i> )	Ashok Saikia ( <i>Chair</i> )
Batir Mirbabayev	Rolf Eckermann
Richard Moore	Michele Miari Fulcis
Paul W. Speltz	M. Akram Malik
Richard Stanley	Masaki Omura
Chaiyuth Sudthitanakorn	Xiaosong Zheng
COMPLIANCE REVIEW COMMITTEE	DEVELOPMENT EFFECTIVENESS COMMITTEE
Stephen Sedgwick ( <i>Chair</i> )	Agus Haryanto ( <i>Chair</i> )
Geert Jan Engelsman	Emile Gauvreau
Marita Magpili-Jimenez	Masaki Omura
Xiaolong Mo	Ashok Saikia
Sein Tin	Troy Wray
Niklaus Zingg	Xiaosong Zheng

WORKING COMMITTEE

WORKING GROUP ON THE ANNUAL REPORT FOR 2004
David Taylor ( <i>Chair</i> )
M. Saiful Islam
Batir Mirbabayev
Xiaolong Mo
Chaiyuth Sudthitanakorn
Troy Wray
Masaichiro Yamanishi

**Appendix 5**  
**ADB INSTITUTE ADVISORY COUNCIL**  
(as of 31 December 2004)

Masahiko Aoki	Japan
William P. Fuller	United States
Eric Girardin	France
Li Yong	People's Republic of China
Corattiyil Ramachandran	India
Kanit Sangsubhan	Thailand
Ifzal Ali	ADB Chief Economist

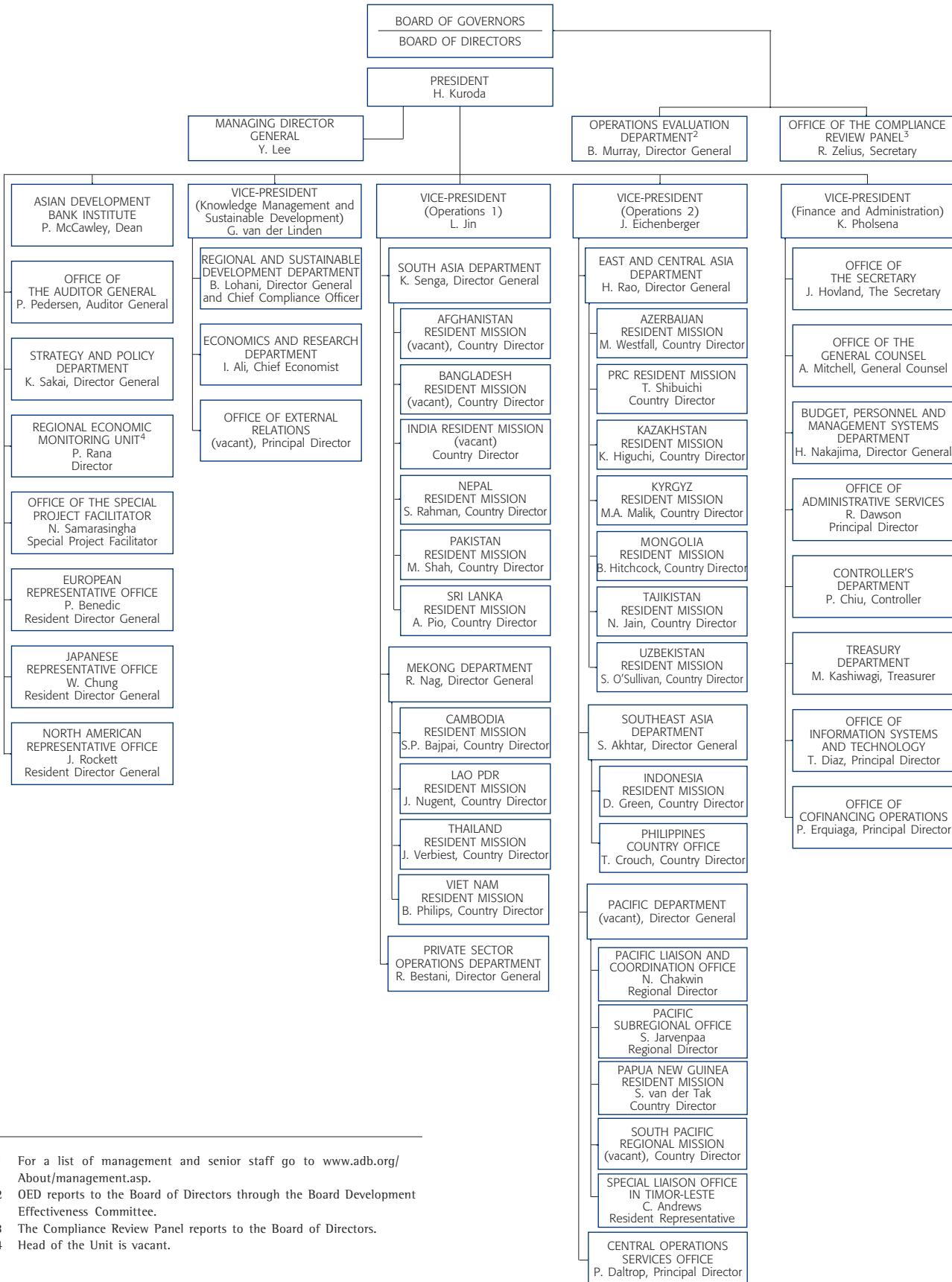
**ADB INSTITUTE DEAN**

Peter McCawley

## Appendix 6

### ORGANIZATIONAL STRUCTURE<sup>1</sup>

(as of 31 March 2005)



1 For a list of management and senior staff go to [www.adb.org/](http://www.adb.org/)  
About/management.asp.

2 OED reports to the Board of Directors through the Board Development Effectiveness Committee.

3 The Compliance Review Panel reports to the Board of Directors.

4 Head of the Unit is vacant.

**Appendix 7**  
**FORMER ADB PRESIDENTS AND VICE-PRESIDENTS**  
(as of 31 March 2005)

**PRESIDENTS**

Takeshi Watanabe	24 November 1966–24 November 1972
Shiro Inoue	25 November 1972–23 November 1976
Tarоichi Yoshida	24 November 1976–23 November 1981
Masao Fujioka	24 November 1981–23 November 1989
Kimimasa Tarumizu	24 November 1989–23 November 1993
Mitsuo Sato	24 November 1993–15 January 1999
Tadao Chino	16 January 1999–31 January 2005

**VICE-PRESIDENTS**

C. S. Krishna Moorthi	19 December 1966–31 March 1978
A. T. Bambawale	1 April 1978–28 October 1985
M. Narasimham	1 November 1985–31 July 1988
S. Stanley Katz	1 April 1978–28 September 1990
In Yong Chung	1 August 1988–31 July 1993
William R. Thomson	1 October 1990–30 June 1994
Günther G. Schulz	1 April 1983–30 June 1995
Bong-Suh Lee	1 August 1993–31 July 1998
Pierre Uhel	1 July 1995–24 November 1998
Peter H. Sullivan	6 July 1994–20 September 2000
Myoung-Ho Shin	1 August 1998–31 July 2003
John Lintjer	18 January 1999–16 January 2004

**Appendix 8**  
**SUMMARY OF BUDGET FOR 2005**  
**Internal Administrative Expenses**  
(\$ thousand)

	2004				2005 Budget <sup>b</sup>	
	Budget	After Transfers <sup>a</sup>		Actual		
I. BOARD OF GOVERNORS <sup>c</sup>	800	800		594	975	
II. BOARD OF DIRECTORS	11,940	11,940		11,585	19,477	
III. OPERATIONAL EXPENSES	214,078	214,078		213,340	222,537	
Salaries	112,061	111,222		111,073	115,178	
Benefits	58,401	58,473		58,453	61,799	
Staff Development	2,750	2,750		2,225	3,267	
Relocation	3,534	4,244		4,244	3,769	
Consultants	17,553	19,045		19,045	18,906	
Business Travel	19,409	17,974		17,974	19,246	
Representation	370	370		326	372	
IV. ADMINISTRATIVE EXPENSES	49,953	49,953		49,517	53,870	
Communications	6,932	7,113		7,113	6,962	
Office Occupancy	11,441	10,984		10,984	11,355	
Library	904	964		964	925	
Office Supplies	2,004	2,004		1,756	1,934	
Office Equipment	5,215	5,198		5,101	6,288	
Contractual Services	9,024	9,133		9,133	10,243	
Insurance	787	787		709	837	
Depreciation	13,233	13,312		13,312	14,839	
Miscellaneous	413	458		445	487	
V. TOTAL BEFORE GENERAL CONTINGENCY	276,771	276,771		275,036	296,859	
VI. GENERAL CONTINGENCY	2,768	2,768		–	2,969	
<b>TOTAL</b>	<b>279,539</b>	<b>279,539</b>		<b>275,036<sup>d</sup></b>	<b>299,828</b>	

a Transfers were made between budget items within each budget category without exceeding the original amount of each category.

b The Accountability Mechanism and the Operations Evaluation are placed as separate subcategories under the Board of Directors category starting from 2005 budget. These include direct expenses for the Office of the Special Project Facilitator (OSPF) and the Operations Evaluation Department (OED), which were previously included in the Operational Expenses category.

c Annual Meeting expenses.

d Excludes the following items reconciling with financial statements in compliance with generally accepted accounting principles: (i) provisions for future liabilities with respect to severance pay (\$649,000), accumulated compensated absences (\$482,000), and accrued resettlement/repatriation allowances (\$627,000); (ii) adjustments of actuarially determined assessment of benefit obligations with respect to pension costs (\$11,173,000) and postretirement medical benefits (\$19,792,000); and (iii) charges pertaining directly to the Asian Development Fund (ADF) (\$1,000). Total administrative expenses, as shown in the financial statements, amounted to \$307,760,000. This amount, after deducting \$715,000 directly charged to the Trust Fund for East Timor (now Timor-Leste) (\$294,000), Japan Scholarship Program (\$55,000) and Japan Fund for Poverty Reduction (\$366,000), has been distributed as follows: ordinary capital resources (OCR)–\$118,321,000 (Ref. OCR-2) net of \$22,421,000 as front-end fee offset against loan origination costs and recognized as a reduction in administrative expenses; ADF–\$165,152,000 (Ref. ADF-2); and Japan Special Fund (JSF)–\$1,151,000 (Ref. JSF-2).

## ADB CONTACT ADDRESSES

(as of 31 March 2005)

### **Headquarters**

**Asian Development Bank.** 6 ADB Avenue, Mandaluyong City, 0401 Metro Manila, Philippines, P.O. Box 789, 0980 Manila, Philippines; Telephone: +63 2 632 4444; Facsimile: +63 2 636 2444; E-mail: information@adb.org; Website: www.adb.org

### **Other Offices**

**Afghanistan Resident Mission.** 126, Street 2, Haji Yaqoub Round About, Shahar-e-Now, P. O. Box 3070, Kabul, Afghanistan; Telephone: +93 20 210 3602; E-mail: adbafrm@adb.org; Website: www.adb.org/afrm

**Azerbaijan Resident Mission.** 96 Nizami St., 4<sup>th</sup> Floor, The Landmark Building, Baku AZ 1010, Azerbaijan; Telephone: +994 12 496 5800; Facsimile: +994 12 465 9990; E-mail: adbazrm@adb.org; Website: www.adb.org/azrm

**Bangladesh Resident Mission.** Plot # E-31, Sher-e-Banglanagar Dhaka-1207, Bangladesh; GPO Box 2100; Telephone: +880 2 815 6000 - 8 / +815 6009 -16; Facsimile: +880 2 815 6018 -19; E-mail: adbbrm@adb.org; Website: www.adb.org/BRM/

**Cambodia Resident Mission.** 93-95 Preah Norodom Boulevard, Sangkat Boeung Raing, Khan Daun Penh, Phnom Penh, Cambodia; P.O. Box 2436; Telephone: +855 23 215 805, 215 806, 216 417; Facsimile: +855 23 215 807; E-mail: adbcarm@adb.org; Website: www.adb.org/carm

**People's Republic of China Resident Mission.** 7<sup>th</sup> Floor, Block D, Beijing Merchants International Financial Center, 156 Fuxingmennei Dajie (Avenue), Xicheng District, Beijing 100031, People's Republic of China; Telephone: +86 10 6642 6601; Facsimile: +86 10 6642 6606, 6642 6608; E-mail: adbprcm@adb.org; Website: www.adb.org/PRCM

**European Representative Office.** Rahmhofstrasse 2-4, 60313 Frankfurt am Main, Germany; Telephone: +49 69 2193 6400; Facsimile: +49 69 2193 6444; E-mail: adbero@adb.org; Website: www.adb.org/ERO/

**India Resident Mission.** Plot 4, San Martin Marg, Chanakyapuri, P. O Box 5331, New Delhi 110021, India; Telephone: +91 11 2410 7200; Facsimile: +91 11 2687 0955, 2419 4273; E-mail: adbinrm@adb.org; Website: www.adb.org/INRM

**Indonesia Resident Mission.** Gedung BRI II, 7<sup>th</sup> Floor, Jl. Jend Sudirman Kav. 44-46, Jakarta 10210, Indonesia; P.O. Box 99 JKPSA, Jakarta Pusat, Indonesia; Telephone: +62 21 251 2721, 5798 0600; Facsimile: +62 21 251 2749, 5798 0700; E-mail: adbirm@adb.org; Website: www.adb.org/IRM/

**Japanese Representative Office.** 2<sup>nd</sup> Floor, Yamato Seimei Building, 1-7 Uchisaiwaicho 1-Chome, Chiyoda-ku, Tokyo 100-0011, Japan; Telephone: +81 3 3504 3160; Facsimile: +81 3 3504 3165; E-mail: adbjro@adb.org; Website: www.adb.org/JRO/

**Kazakhstan Resident Mission.** In Astana:12 Samal Microdistrict, Astana Tower Business Center, 10th Floor, Astana 010000, Kazakhstan; Telephone: +7 3172 325053, 325054; Facsimile: +7 3172 328343; E-mail: adbkar@adb.org; Website: www.adb.org/KARM/

In Almaty: 20/A Kazybek bi Street, Arai Building, 4th Floor, Almaty 050000, Kazakhstan; Telephone: +7 3272 582223/917344; Facsimile: +7 3272 918670

**Kyrgyz Resident Mission.** 28 Logvinenko Street, Bishkek, 720001 Kyrgyz Republic; Telephone: +996 312 610 870; +996 612 900 445, +996 612 900 447; Facsimile: +996 312 610 993; E-mail: adbkyrm@adb.org; Website: www.adb.org/KYRM/

**Lao PDR Resident Mission.** Corner of Lane Xang Ave. and Samsenthai Road, Vientiane, Lao People's Democratic Republic; P.O. Box 9724; Telephone: +856 21 250 444; Facsimile: +856 21 250 333; E-mail: adblrm@adb.org; Website: www.adb.org/LRM/

**Mongolia Resident Mission.** MCS Plaza, 2<sup>nd</sup> Floor, 4 Natsagdorj St., Ulaanbaatar 46, Mongolia; Telephone: +976 11 329 836; Facsimile: +976 11 311 795; E-mail: [adbmnrm@adb.org](mailto:adbmnrm@adb.org); Website: [www.adb.org/MNRM/](http://www.adb.org/MNRM/)

**North American Representative Office.** 815 Connecticut Avenue, NW, Suite 325, Washington, DC 20006, USA; Telephone: +1 202 728 1500; Facsimile: +1 202 728 1505; E-mail: [adbnaro@adb.org](mailto:adbnaro@adb.org); Website: [www.adb.org/NARO/](http://www.adb.org/NARO/)

**Nepal Resident Mission.** Srikunj, Kamaladi Ward No. 31, Post Box 5017, Kathmandu, Nepal; Telephone: +977 1 422 7779, 422 7784, 422 0305; Facsimile: +977 1 422 5063; E-mail: [adbnrm@adb.org](mailto:adbnrm@adb.org); Website: [www.adb.org/NRM](http://www.adb.org/NRM)

**Pacific Liaison and Coordination Office.** 1 Margaret St., Suite 1802 Level 18, Sydney, New South Wales 2000, Australia. Telephone: +61 2 8270 9444; Facsimile: +61 2 8270 9445; E-mail: [adbpco@adb.org](mailto:adbpco@adb.org); Website: [www.adb.org/About/PLCO.asp](http://www.adb.org/About/PLCO.asp)

**Pakistan Resident Mission.** Overseas Pakistanis Foundation Building (OPF), Sharah-e-Jamhuriyat, G-5/2, Islamabad, Pakistan; GPO Box 1863, Islamabad, Pakistan; Telephone: +92 51 282 5011 - 16; Facsimile: +92 51 282 3324, 227 4718; E-mail: [adbprm@adb.org](mailto:adbprm@adb.org); Website: [www.adb.org/PRM/](http://www.adb.org/PRM/)

**Papua New Guinea Resident Mission.** 13<sup>th</sup> Floor, Deloitte Tower, Port Moresby, P.O. Box 1992, Port Moresby, National Capital District, Papua New Guinea; Telephone: +675 321 0400, 321 0408; Facsimile: +675 321 0407; E-mail: [adbpng@daltron.com.pg](mailto:adbpng@daltron.com.pg); Website: [www.adb.org/PNRM/](http://www.adb.org/PNRM/)

**Philippines Country Office.** 6 ADB Avenue, Mandaluyong City; 0401 Metro Manila, Philippines; Telephone: +63 2 683 1000; Facsimile: +63 2 683 1030; E-mail: [phco-mailbox@adb.org](mailto:phco-mailbox@adb.org); Website: [www.adb.org/PHCO/](http://www.adb.org/PHCO/)

**South Pacific Regional Mission.** La Casa di Andrea et Luciano, W.H. Lini Highway; P.O. Box 127, Port Vila, Vanuatu; Telephone: +678 2 3300; Facsimile: +678 2 3183; E-mail: [adbsprm@adb.org](mailto:adbsprm@adb.org); Website: [www.adb.org/SPRM/](http://www.adb.org/SPRM/)

**South Pacific Subregional Office.** Level 5, Ra Marama Building, 91 Gordon St., Suva, Fiji. Telephone: +679 331 8101; Facsimile: +679 331 8074; E-mail: [adbspso@adb.org](mailto:adbspso@adb.org); Website: [www.adb.org/pacific](http://www.adb.org/pacific)

**Sri Lanka Resident Mission.** 49/14-15 Galle Road, Colombo 3, Sri Lanka; Telephone: +94 1 387 055, +94 75 331 111; Facsimile: +94 1 386 527; E-mail: [adbslrm@adb.org](mailto:adbslrm@adb.org); Website: [www.adb.org/SLRM/](http://www.adb.org/SLRM/)

**Tajikistan Resident Mission.** 107, Nozim Hikmat St., Dushanbe, Tajikistan 734001; Telephone: +992 372 235 314, 235 315, 210 558; Facsimile: +992 372 244 900; Website: [www.adb.org/TJRM/](http://www.adb.org/TJRM/)

**Thailand Resident Mission.** 25<sup>th</sup> Floor M. Thai Tower, All Season's Place, 87 Wireless Road, Phatumwan, 10330 Bangkok, Thailand; Telephone: +66 2 627 9442, 627 9443; Facsimile: +66 2 627 9558; E-mail: [jahmed@adb.org](mailto:jahmed@adb.org); Website: [www.adb.org/TRM/](http://www.adb.org/TRM/)

**Timor-Leste, Special Office.** ADB-World Bank Building, Avenida Dos, Rua Direitos Humanos, Dili, Timor-Leste; Telephone/ Facsimile: +670 390 324 801; Facsimile: +670 390 324-132; Website: [www.adb.org/About/SOTL.asp](http://www.adb.org/About/SOTL.asp)

**Uzbekistan Resident Mission.** 1, Khodjaeva Street, Tashkent 700027, Republic of Uzbekistan; Telephone: +998 71 120 7921/22/24/25; Facsimile: +998 71 120 7923; E-mail: [adburm@adb.org](mailto:adburm@adb.org); Website: [www.adb.org/urm/](http://www.adb.org/urm/)

**Viet Nam Resident Mission.** Units 701-706, Sun Red River Building, 23 Phan Chu Trinh Street, Hanoi, Viet Nam; Telephone: +84 4 933 1374; Facsimile: +84 4 933 1373; E-mail: [adbvrm@adb.org](mailto:adbvrm@adb.org); Website: [www.adb.org/vrm/](http://www.adb.org/vrm/)

**ADB Institute.** 8<sup>th</sup> Floor, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-ku, Tokyo 100-6008, Japan; Telephone: +81 3 3593 5500; Facsimile: +81 3 3593 5571; E-mail: [info@adbi.org](mailto:info@adbi.org); Website: [www.adbi.org](http://www.adbi.org)

## **ACKNOWLEDGMENTS**

### **Board of Directors Working Group on the Annual Report for 2004**

David Taylor (Chair) • M. Saiful Islam • Batir Mirbabayev • Xiaolong Mo  
Chaiyuth Sudthitanakorn • Troy Wray • Masaichiro Yamanishi

### **Editors**

Lynette Mallory • Judy Goldman

### **Design and Production**

Cecilia Caparas • Ronnie Elefaño • Anna Juico • Lhoie Maestro • Michelle Sulit • K-2 Interactive

### **Theme Chapter**

Nimal Fernando • Adam Bruun • Pat Calcetas • Michael Lindfield • Tom Moyes

### **Photographs**

Richard Abrina • Gerard Carreon • Raul del Rosario • Kevin Hamdorf • Eric Sales • Takeshi Takahara • Masao Uno

### **Overall Production**

Office of External Relations • Office of Administrative Services