ASIAN DEVELOPMENT BANK
Manila

Office of the President

18 March 1999

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 the *Annual Report* of the Bank for 1998, including a separate report on the activities of the special funds of the Bank, which has been prepared under the direction of the Board of Directors. The *Annual Report* also includes the financial statements prescribed in Section 15 of the By-Laws.

Sincerely yours,

Tadao Chino

TADAO CHINO
President and Chairman
of the Board of Directors

Chairman of the Board of Governors
Asian Development Bank

BOARD OF DIRECTORS
(as of 31 December 1998)

President and Chairman of the Board of Directors
Mitsuo Sato*

Directors	Alternate Directors
Rafiq A. Akhund	Patricia Z. Riingen
Li Ruogu	Liu Liange
Jin-Gyu Park	Ruey-song Huang
Julian H. Payne	Berend W. van Gorkom
Francesco Pittore	Manuel Sanchez Melero
C. Ramachandran	Muhammad Faizur Razzaque
Soegito Sastromidjojo	John Austin
Naoyuki Shinohara	Tetsuji Nagatomo
Hans-Jürgen Stryk	John Millett
Eric Thorn	Stephen Baker
Prasit Ujjin	Sim Cheng Huat
Linda Tsao Yang	N. Cinnamon Dornsife

* Tadao Chino succeeded Mitsuo Sato on 16 January 1999.

Capital Stock and Voting Power

(as of 31 December 1998)

	SUBSCRIBED CAPITAL[a] Percent of Total	VOTING POWER[b] Percent of Total
REGIONAL		
Afghanistan	0.035	0.379
Australia	5.949	5.110
Bangladesh	1.050	1.191
Bhutan	0.006	0.356
Cambodia	0.051	0.392
China, People's Republic of	6.625	5.651
Cook Islands	0.003	0.353
Fiji	0.070	0.407
Hong Kong, China	0.560	0.799
India	6.509	5.558
Indonesia	5.599	4.830
Japan	16.046	13.188
Kazakhstan	0.829	1.014
Kiribati	0.004	0.354
Korea, Republic of	5.179	4.494
Kyrgyz Republic	0.307	0.597
Lao People's Democratic Republic	0.014	0.362
Malaysia	2.800	2.591
Maldives	0.004	0.354
Marshall Islands	0.003	0.353
Micronesia, Federated States of	0.004	0.354
Mongolia	0.015	0.363
Myanmar	0.560	0.799
Nauru	0.004	0.354
Nepal	0.151	0.472
New Zealand	1.579	1.614
Pakistan	2.240	2.143
Papua New Guinea	0.096	0.428
Philippines	2.434	2.298
Samoa	0.003	0.354
Singapore	0.350	0.631
Solomon Islands	0.007	0.356
Sri Lanka	0.596	0.828
Taipei,China	1.120	1.247
Tajikistan	0.294	0.586
Thailand	1.400	1.471
Tonga	0.004	0.354
Tuvalu	0.001	0.352
Uzbekistan	0.693	0.905
Vanuatu	0.007	0.356
Viet Nam	0.351	0.632
Subtotal Regional	63.555	65.230

	SUBSCRIBED CAPITAL[a] Percent of Total	VOTING POWER[b] Percent of Total
NONREGIONAL		
Austria	0.350	0.631
Belgium	0.350	0.631
Canada	5.378	4.653
Denmark	0.350	0.631
Finland	0.350	0.631
France	2.393	2.265
Germany	4.448	3.909
Italy	1.627	1.652
Netherlands	1.055	1.195
Norway	0.350	0.631
Spain	0.350	0.631
Sweden	0.350	0.631
Switzerland	0.600	0.831
Turkey	0.350	0.631
United Kingdom	2.100	2.031
United States	16.046	13.188
Subtotal Nonregional	36.445	34.770
Total	100.000	100.000

Note: Figures may not add due to rounding. For details, see tables on pages 190 and 191.

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

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 percent 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 the Bank held by that member.

Glossary

ADF – Asian Development Fund, the Bank's soft-lending window

BOO – build-own-operate, a mechanism by which private investors build, operate, and continue to own infrastructure projects

BOT – build-operate-transfer, a mechanism by which private investors build and operate infrastructure projects and then transfer them to the government after a period of time

CFS – complementary financing scheme, a participation modality under which the Bank, in addition to the loan from its own resources, makes a complementary loan on market-based terms, funded entirely by participation from market institutions without recourse to the Bank for debt service. Under this arrangement, the participating market institutions enjoy benefits of the Bank's preferred creditor status. In return for the privileges accorded, the participating institutions offer better terms.

contract award ratio – ratio of contracts awarded during the year over the value available for contract awards at the beginning of the year. The value of the contracts to be awarded under newly approved and signed loans during the period is added to the opening balance of the value available for contract awards.

credit line – government-guaranteed loan provided to selected financial intermediaries in DMCs for onlending to small- and medium-sized private enterprises

DFI – development finance institution. The Bank uses such institutions in its DMCs as vehicles to finance small- to medium-sized projects in the private sector.

disbursement ratio – ratio of total disbursements during the year over the net loan amount available at the beginning of the year plus the loan amounts of newly approved loans that have become effective during the year; excludes private sector loans

East Asia – the newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei,China; as well as the People's Republic of China and Mongolia

GDP – gross domestic product, the total value of a country's goods and services produced during a specific period, excluding external accounts

GMS – Greater Mekong Subregion (includes Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam, and Yunnan Province of the People's Republic of China)

GNP – gross national product, the total value of a country's goods and services produced during a specific period and combining domestic and external accounts

JSF – Japan Special Fund, established in March 1988 and administered by the Bank to help DMCs restructure their economies and broaden the scope for new investments by recycling funds. JSF is also used to support DMCs' efforts toward industrialization, natural resource and human development, and technology transfer.

NIE – newly industrialized economy. The term refers to Hong Kong, China; Republic of Korea; Singapore; and Taipei,China.

OCR – ordinary capital resources, the interest-bearing window for the Bank's ordinary lending operations

Others – projects not included in any of the Bank's current major sectoral classifications, i.e., those that are not sector specific

PCR – project completion report, that certifies the completion of a Bank project

PPAR – project performance audit report, that provides the assessment of the long-run development effectiveness of a project

program loan – 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.

project loan – loan provided to finance a specific project

sector development program loan – a lending modality that combines, under appropriate circumstances, program lending, sector project lending, and technical assistance under a single assistance window to foster an integrated and long-term approach to sector needs

sector loan – loan provided to develop a specific sector or subsector; finances a large number of subprojects in a single sector or subsector

TASF – Technical Assistance Special Fund, the principal vehicle for providing technical assistance grants from the Bank's own resources

technical assistance cluster – a group of technical assistance subprojects designed to address through a comprehensive and holistic approach related constraints in a sector/subsector in a DMC

Abbreviations and Acronyms

ADB	– Asian Development Bank
AFIC	– Asian Finance and Investment Corporation Ltd.
ASEAN	– Association of Southeast Asian Nations
BME	– benefit and monitoring evaluation
CAPE	– country assistance program evaluation
CARs	– Central Asian republics
CER	– country economic review
CG	– consultative group
COS	– country operational strategy
CPI	– consumer price index
CPM	– country programming mission
CRP	– comprehensive reform program
DACON	– data on consulting firms
DICON	– data on individual consultants
DMC	– developing member country
ECP	– euro-commercial paper
EDRC	– Economics and Development Resource Center
EIA	– environmental impact assessment
EMAs	– environmental management agencies
EMMs	– environmental mitigation measures
ERP	– Economic Restructuring Program
ESAF	– Enhanced Structural Adjustment Facility
FDI	– foreign direct investment
FRN	– floating rate note
GCI	– General Capital Increase
GEF	– Global Environment Facility
HKMA	– Hong Kong Monetary Authority
HRMIS	– human resource management information system
IAE	– internal administrative expenses
ICR	– interest coverage ratio
IMF	– International Monetary Fund
ISTS	– information systems and technology strategy
IT	– information technology
JEXIM	– Export-Import Bank of Japan
Lao PDR	– Lao People's Democratic Republic
LIBOR	– London interbank offered rate
MBL	– market-based loan
NBFI	– nonbank financial institution
NGO	– nongovernment organization
ODA	– official development assistance
OECF	– Overseas Economic Cooperation Fund
OPEC	– Organization of Petroleum Exporting Countries
OGA	– Office of the General Auditor
PAC	– Project Administration Committee
PEO	– Postevaluation Office
PIC	– Public Information Center
PNG	– Papua New Guinea
PPMS	– project performance management system
PPR	– project performance report
PPTA	– project preparatory technical assistance
PRC	– People's Republic of China
RLR	– reserve:loan ratio
SDP	– sector development program
SDR	– special drawing right
SEIA	– summary environmental impact assessment
SIEE	– summary initial environmental examination
SOE	– state-owned enterprise
TCR	– technical assistance completion report
TEI	– technical education institutions
UK	– United Kingdom
US	– United States
Y2K	– year 2000

DEFINITIONS

0.0	data negligible
...	data not available
–	not applicable
– –	not reporting
( )	negative
billion	1,000 million

NOTE ON DOLLAR AMOUNTS

The Bank's financial statements are expressed in current United States dollars. The dollar amounts in this *Annual Report* refer, unless otherwise stated, to United States dollars current at the time.

Since 1 April 1978, when the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, the capital stock has been valued for purposes of the Bank's financial statements in terms of special drawing rights, at the value in current United States dollars as computed by the IMF. For a more detailed discussion, see OCR-8, Notes to Financial Statements of Ordinary Capital Resources.

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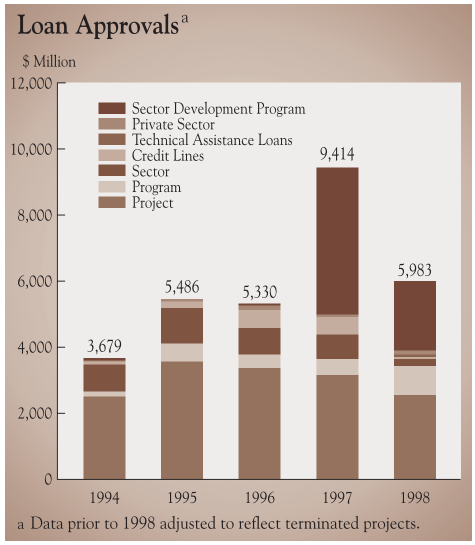
Overview

Introduction

Nineteen ninety-eight was a difficult and damaging year for Asia's economies. Following 1997's precipitous falls in the currency and equity markets of the newly industrialized economies and Southeast Asian countries, toward the end of 1998, currencies generally stabilized and stock markets recovered. However, throughout the Asian and Pacific region economic growth was sharply curtailed, and the economies of several countries, notably Indonesia, contracted. The social costs of the Asian financial crisis became evident, and could yet increase further.

Throughout 1998, the Bank devoted much of its energy to responding to Asia's unhappy and unprecedented circumstances. It liaised closely with its members, as well as with the International Monetary Fund, the World Bank, and other multilateral and bilateral agencies to develop and effect the most appropriate responses.

The Bank continued to emphasize its five strategic objectives: promoting economic growth, reducing poverty, supporting human development, improving the status of women, and protecting the environment. However, the sharp change in the socioeconomic environment and outlook meant reconsideration of the ways of realizing the objectives and of the balance among them. It meant, in particular, more detailed and extensive work in the areas of financial market regulation and reform, and of governance. In all its activities, the Bank further consolidated its position as an institution that provides a broad range of services and advice to its members, not just financial resources, to help them restore or improve the living standards of their peoples.



Loan Approvals[a]

a Data prior to 1998 adjusted to reflect terminated projects.

Total lending in 1998 amounted to about $6 billion for 57 projects, compared with $9.4 billion the previous year when lending had been boosted by an exceptionally large financial sector program loan of $4 billion to the Republic of Korea. The financial sector again received the largest share of lending (nearly $1.7 billion). Borrowings amounted to $9.6 billion, the largest ever in one year.

Cofinancing mobilized from all sources amounted to about $3 billion for 24 projects—including $950 million for Thailand's Export Financing Facility—close to 50 percent of the Bank's total lending. This level of cofinancing,

The Bank's Social Protection Sector Development Program in Indonesia is providing junior secondary scholarships to students (about half are awarded to girls) who otherwise would have to drop out of school because of financial difficulties. When completed, the program will benefit about 1.5

Children tend to lose in the competition for diminishing resources. Often they are neglected by busy parents trying to make both ends meet. The Bank looks after the welfare of this vulnerable group by supporting policy reforms to develop skills and create jobs for laid-off workers, and improve children's access to health, education, and other basic social services.

Loans by Sector, 1998

	$ Million	%
Financial	1,675.50	28.01
Transport and Communications	1,496.70	25.02
Multisector	939.00	15.70
Social Infrastructure	705.04	11.78
Energy	440.00	7.35
Agriculture and Natural Resources	420.86	7.04
Others	301.00	5.03
Industry and Nonfuel Minerals	4.42	0.07
Total	**5,982.52**	**100.00**

Bank Operations

	$ Million		%
	1997	1998	Change
Lending			
OCR	7,794.42	4,995.38	(35.91)
ADF	1,619.62	987.14	(39.05)
Total Lending	**9,414.04**	**5,982.52**	**(36.45)**
Equity Investments	74.29	62.44	(15.95)
Technical Assistance Grants[a]	162.00	163.20	0.74
Total	**9,650.33**	**6,208.16**	**(35.67)**

( ) Negative.

a Includes regional activities.

a 67 percent increase over that in 1997, was significant given the difficult market conditions.

The Board of Directors approved policies on anticorruption, cooperation with nongovernment organizations, indigenous peoples, gender and development, and graduation of developing member countries (DMCs) from concessional lending and from regular Bank assistance. It also reviewed the terms for lending from the Asian Development Fund (ADF).

Lending and Investment Modalities, 1997 and 1998

	1997		1998	
	Number of Loans	$ Million	Number of Loans	$ Million
LENDING				
Project	53	3,145.72	33	2,530.30
Program	5	510.00	8	927.50
Sector	9	689.00	3	160.00
Credit Lines	6	591.10	4	122.60
Technical Assistance	1	2.60	3	13.00
Private Sector without Government Guarantee	2	45.00	7	136.12
Sector Development Program[a]	15	4,430.62	8	2,093.00
Total Lending	**91**	**9,414.04**	**66**	**5,982.52**
EQUITY INVESTMENT	6	74.29	6	62.44

a A lending window that combines a program loan; project, sector, or technical assistance loan; or credit line.

Also during the year, Tajikistan joined the Bank, bringing the number of members to 57; and the Board of Governors approved the membership application of Turkmenistan.

The Sri Lanka Resident Mission, which commenced operations in October 1997, was opened officially by the Bank's President in 1998. The Kazakhstan and Uzbekistan resident missions began operations in 1998.

The Bank chaired consultative group meetings for Kiribati, Marshall Islands, and Federated States of Micronesia.

The 31st Annual Meeting of the Board of Governors was held in Geneva, Switzerland from 29 April to 1 May 1998.

Operations

Cumulative Bank lending since the Bank commenced operations in 1966 to the end of 1998 amounted to $77.3 billion for 1,500 projects in 37 DMCs.

Lending: Lending for both public and private sector operations was nearly $6 billion for 66 loans in 57 projects, compared with last year's level of $9.4 billion for 91 loans in 75 projects. This reflects a decrease of 36.4 percent in dollar amount and 24 percent decrease in number of projects. The decrease in dollar amount is largely a result of the extraordinarily high lending level in 1997, owing to a single large financial sector program loan to the Republic of Korea. In 1998, loans from ordinary capital resources (OCR) decreased by 35.9 percent to about $4.9 billion, while loans from ADF decreased by 39.1 percent to $987.1 million.

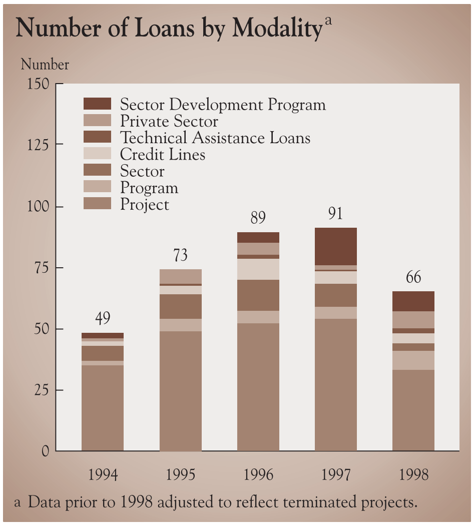
Of the total lending, loans with government guarantee amounted to $5.8 billion for 51 projects, comprising about $4.9 billion from OCR and $987.1 million from ADF. Lending to the private sector without government guarantee amounted to $136.1 million for seven loans.

Equity investments: The Bank approved six equity investments in the private sector amounting to $62.4 million. The Bank's equity operations, which began in 1983, reached a cumulative total of $614.7 million.

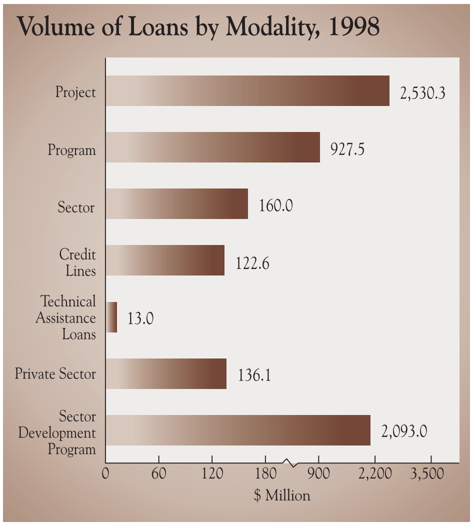
Guarantee operations: The Bank provided partial credit guarantee under two projects in Sri Lanka and Thailand for a total of over $1.1 billion.

Technical assistance: The Bank's technical assistance operations are financed through grants and loans, or a combination of both.

In 1998, 248 technical assistance grants totaling



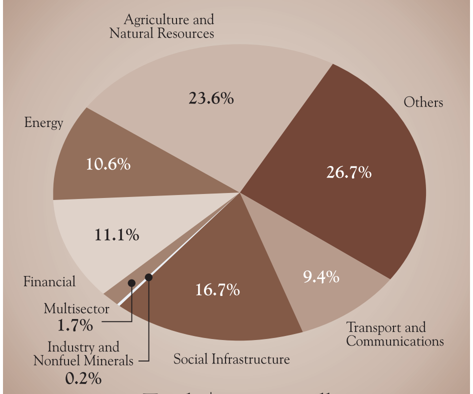
a Data prior to 1998 adjusted to reflect terminated projects.



$163.2 million were approved. This represents a decrease of about 16.5 percent in number and less than 1 percent increase in amount over the corresponding 1997 figures of 297 projects for $162 million. Of the 248 technical assistance projects, 55 were for project preparation, 131 were advisory and operational, and 62 were regional. Of the total technical assistance approvals, $54.7 million came from the Bank's own resources, $89.2 million from the Japan Special Fund, and the remaining $19.3 million from other bilateral and multilateral sources. During the year, the Board approved the first technical assistance cluster, on a grant basis, amounting to $3.5 million to the People's Republic of China for the promotion of clean technology. Technical assistance components of loans amounted to $201.2 million.

Forty-three loan projects approved in 1998, involving nearly $3.8 billion, resulted from earlier technical assistance. Of this, over $2.9 billion was from OCR and $825.6 million from ADF.

Technical Assistance Grants by Sector,[a] 1998



a Excludes regional technical assistance.

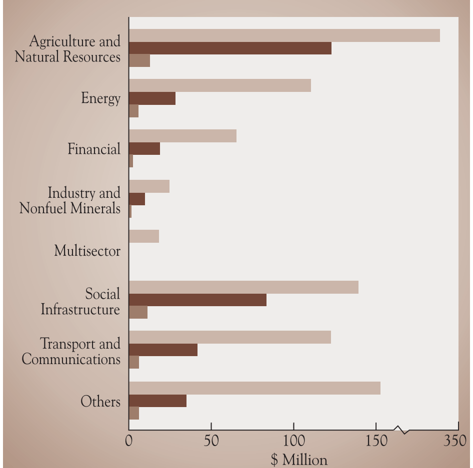
Total cost of projects

The 57 projects that received loans during the year involved an estimated total project cost of about $11.7 billion. Bank financing of these projects in loans and equities was about $6 billion or 52 percent of the cost. Borrowers and governments provided $2.1 billion or 18 percent. About $3.3 billion or 28 percent was financed through cofinancing from official and commercial sources, equity sponsors, and domestic financial institutions. Project beneficiaries and subborrowers provided about $300 million or 2 percent of the total cost.

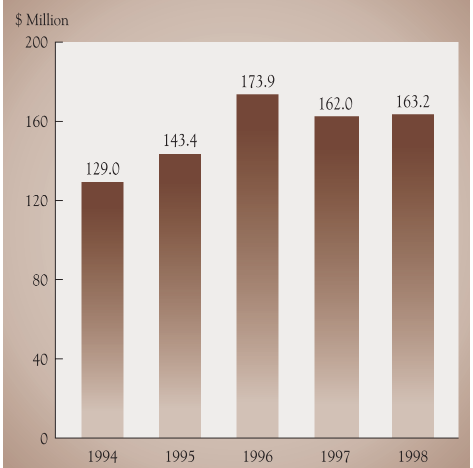
Review of country and sector operations

Twenty-one countries and three regional projects received Bank loans in 1998, compared with 24 countries in 1997. Among these countries, Indonesia received the largest amount ($1.8 billion or 30.7 percent), followed by People's Republic of China ($1.2 billion or 20.1 percent), Philippines ($855.4 million or 14.3 percent), Thailand ($630 million or 10.5 percent), India ($250 million or 4.2 percent), Bangladesh ($200.3 million or 3.3 percent), Sri Lanka ($190 million or 3.2 percent), Viet Nam ($184 million or 3.1 percent), and Uzbekistan ($120 million or 2 percent). Three regional projects received $210 million (3.5 percent). A little over five percent of Bank loans went to the following countries: Nepal ($105 million), Kyrgyz Republic ($65 million), Solomon Islands ($26 million), Lao People's Democratic Republic ($20 million), Tajikistan ($20 million),

Technical Assistance Grants by Sector, 1967-1998



Technical Assistance Grants[a]



a Includes regional activities.

1998 Technical Assistance by Sector: Grant- and Loan-Financed
(amounts in $ million)

Sector	Component of Loan	Grant [a]	Total Loan and Grant	%
Agriculture and Natural Resources	29.21	30.42	59.63	18.07
Energy	0.79	13.58	14.37	4.36
Financial	51.00	14.23	65.23	19.77
Industry and Nonfuel Minerals	–	0.29	0.29	0.09
Social Infrastructure	51.01	21.52	72.53	21.98
Transport and Communications	42.77	12.13	54.90	16.64
Multisector	6.69	2.13	8.82	2.67
Others	19.74	34.42	54.16	16.42
Total	**201.21**	**128.72**	**329.93**	**100.00**

a Excluding technical assistance grants for regional activities amounting to $34.5 million.

Grant-Financed Technical Assistance from Other Sources,[a] 1998

Source	Number of Projects	$ Thousand
Belgium	2	1,005.00
Denmark	2	650.00
Finland	1	650.00
France	1	800.00
New Zealand	1	60.00
Norway	1	300.00
Sweden	1	200.00
Switzerland	2	1,700.00
United Kingdom	1	500.00
United States	1	999.00
ADB Institute	1	50.00
Global Environment Facility	1	12,200.00
United Nations Development Programme	1	133.36
World Bank-Economic Development Institute	1	45.00
Total	**17**	**19,292.36**

a Administered by the Bank.

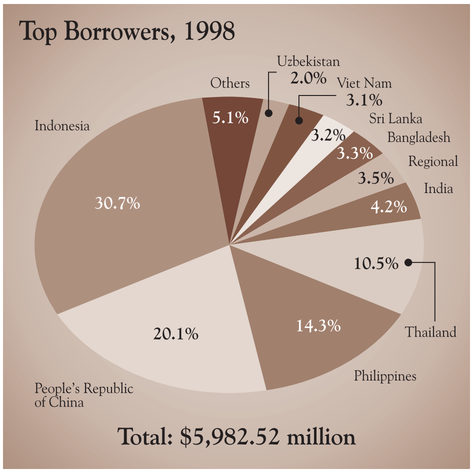
Vanuatu ($20 million), Papua New Guinea ($14.1 million), Kiribati ($10.2 million), Samoa ($7.5 million), Maldives ($6.3 million), Bhutan ($5.7 million), and Nauru ($5 million).

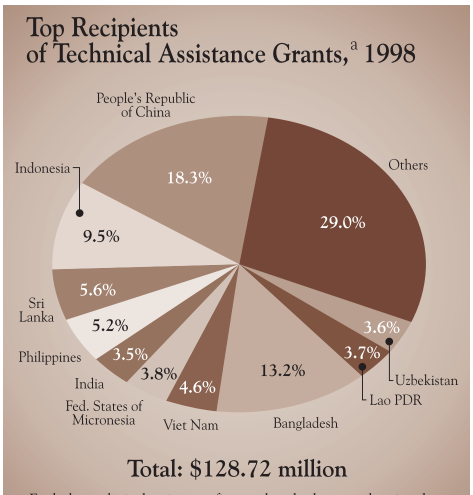
By sector, the financial sector received $1.7 billion, the highest share of loans with 28 percent of the total lending in 1998, followed by transport and communications at $1.5 billion or 25 percent, multisector at $939 million or 15.7 percent, social infrastructure (which includes water supply and sanitation, urban development and housing, education, and health and population) at $705 million or 11.8 percent, energy at $440 million

In Thailand, the crisis has pushed more people below the poverty line. The number of unemployed in 1998 reached more than 1 million, or 3.4 percent of the labor force, while the number of grossly underemployed people working less than 20 hours a week totaled about 950,000. Centers for Assistance to Laid-Off Workers have been established in Bangkok and provincial capitals, providing assistance to nearly 40,000 walk-in clients and about 66,000 clients through telephone counseling.

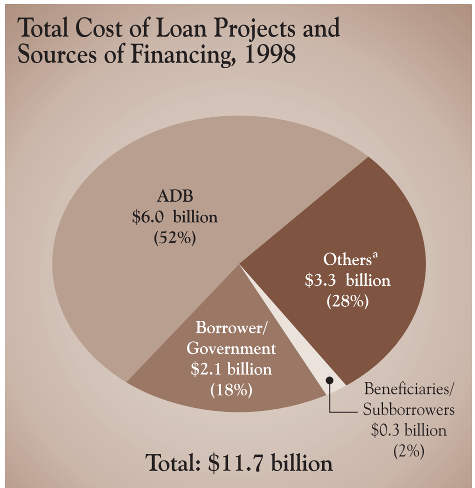
or 7.4 percent, agriculture and natural resources at $420.9 million or 7 percent, others (fiscal and financial reform and air quality improvement) at $301 million or 5 percent, and industry and nonfuel minerals at $4.4 million or less than 1 percent.

Borrowings undertaken by the Bank as of end-1998 raised a total of about $9.6 billion, of which commercial paper bridge financing accounted for $1.8 billion and borrowings with maturities longer than one year for $7.8 billion. The average life of long-term borrowings undertaken in 1998 was 10.8 years, compared with 12.7 years in 1997. Among the major benchmark transactions completed during the year were a $2 billion global bond issue, an Australian dollar (A$)1 billion domestic bond issue, and a Hong Kong dollar (HK$)3 billion multitranche bond issue. About $4.4 billion of these long-term borrowings were fixed-rate US dollar liabilities with an average after-swap cost of 5.3 percent, compared with 6.6 percent in 1997.

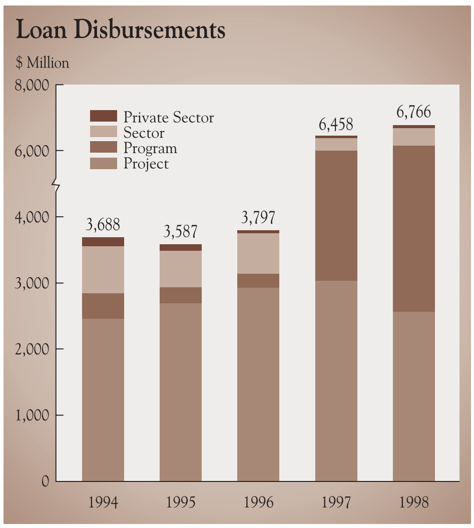




a Excludes technical assistance financed under loans and regional activities.



a Includes cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.



The Record

(amounts in $ million)

	1966–1998[a]	1995	1996	1997	1998
OPERATIONAL ACTIVITIES					
TOTAL LENDING *(amount)*	**77,335.0[b]**	**5,485.9**	**5,329.6**	**9,414.0**	**5,982.5**
Number of Projects[c]	1,500	71	80	75	57
OCR Loans *(amount)*	**55,570.3**	**4,031.0**	**3,664.0**	**7,794.4**	**4,995.4**
Number of Loans	858	36	45	42	39
Disbursements *(amount)*	35,172.2	2,442.1	2,562.6	5,303.7	5,622.6
ADF Loans *(amount)*	**21,764.7**	**1,454.9**	**1,665.6**	**1,619.6**	**987.1**
Number of Loans	792	37	44	49	27
Disbursements *(amount)*	14,279.1	1,144.9	1,234.1	1,154.1	1,143.7
A. **Government and Government-Guaranteed Loans** *(amount)*	**76,314.0**	**5,417.9**	**5,206.1**	**9,369.0**	**5,846.4**
Number of Projects[c]	1,434	66	76	73	51
OCR Loans *(amount)*	54,563.7	3,963.0	3,540.5	7,749.4	4,859.3
Number of Loans	794	31	40	40	32
Disbursements *(amount)*	34,397.7	2,341.6	2,521.1	5,237.5	5,538.9
ADF Loans *(amount)*	21,750.2	1,454.9	1,665.6	1,619.6	987.1
Number of Loans	787	37	44	49	27
Disbursements *(amount)*	14,263.8	1,144.9	1,234.1	1,154.1	1,143.7
B. **Private Sector Loans[b]** *(amount)*	**1,021.0**	**68.0**	**123.5**	**45.0**	**136.1**
Number of Projects[c]	66	5	5	2	6
OCR Loans *(amount)*	1,006.5	68.0	123.5	45.0	136.1
Number of Loans	64	5	5	2	7
Disbursements *(amount)*	774.5	100.5	41.5	66.2	83.7
ADF Loans *(amount)*	14.5	–	–	–	–
Number of Loans	5	–	–	–	–
Disbursements *(amount)*	15.3	–	–	–	–
EQUITY INVESTMENT[b] *(amount)*	**574.2**	**106.4**	**99.2**	**74.3**	**62.4**
Number of Investments	105	10	9	6	6
EQUITY UNDERWRITING[b] *(amount)*	**40.5**	–	–	–	–
Number of Commitments	6	–	–	–	–
TECHNICAL ASSISTANCE[d] *(amount)*	**1,613.0**	**143.4**	**173.9**	**162.0**	**163.2**
Number of Projects	3,921	294	284	297	248
COFINANCING[e] *(amount)*	**29,563.8**	**2,362.9**	**3,094.8**	**1,752.5**	**2,956.9**
Number of Projects	496	19	31	38	24
RESOURCES					
Ordinary Capital Resources					
Authorized Capital *(at end of period)*	49,154	51,893	50,103	47,102	49,154
Subscribed Capital *(at end of period)*	48,456	43,078	49,368	46,411	48,456
Borrowings *(gross)*	34,922	1,715	584	5,588	9,617
Outstanding Debt *(at end of period)*	23,780	14,636	13,697	17,542	23,780
Ordinary Reserve *(at end of period)*	6,211.1	5,003.3	5,522.7	5,867.4	6,211.1
Special Reserve *(at end of period)*	181.6	178.1	178.6	179.0	181.6
Gross Income	21,060.7	1,745.3	1,561.7	1,449.7	1,832.5
Net Income after Appropriation of Commissions/ Guarantee Fees to Special Reserve	7,604.2	660.0	571.6	467.5	474.3
Special Funds Resources					
Asian Development Fund Total Resources *(at end of period)*	20,535.4	20,166.6	19,339.1	18,219.2	20,535.4
Technical Assistance Special Fund Total Resources *(at end of period)*[f]	721.7	623.1	630.0	636.6	721.7
Japan Special Fund Total Resources *(at end of period)*	734.0	601.7	671.1	657.8	734.0

a Cumulative totals may not add because of rounding.
b Amounts and numbers adjusted to exclude cancellations.
c Projects with multiple loans are counted once. Cumulative number of projects excludes supplementary loans.
d Comprising technical assistance grants funded by the Bank and other sources. Regional technical assistance projects included.
e Adjusted to reflect changes in cofinancing arrangements.
f Figures revised to include other resources and transfers to ADF.

Operational Highlights, 1966–1998

Resources

- Authorized capital equivalent to $49.2 billion as of 31 December 1998.
- About $34.9 billion borrowed from international capital markets for ordinary capital lending and private sector investments.
- About $20.5 billion from the Asian Development Fund for concessional lending to lower-income developing member countries (DMCs), and about $721.7 million in Technical Assistance Special Fund (TASF) resources for financing technical assistance grants.
- $77.3 billion in total public and private sector loans involving 1,500 projects; $614.7 million in equity investments and equity underwritings.
- $1.6 billion in technical assistance grants (resulting in 778 Bank loans, totaling $36.7 billion): $411.4 million for project preparation; $921.3 million for project implementation and advisory purposes; and $280.2 million for regional activities. Of this, $732 million was from TASF and ordinary capital resources; $592.7 million from the Japan Special Fund; and $288.2 million from others, which include multilateral and bilateral sources.
- $29.6 billion mobilized by way of cofinancing, of which official sources contributed $19.7 billion, and commercial sources (including commercial banks, insurance companies, and export credit sources), $9.9 billion.

Sectoral Activities

- *Agriculture and Natural Resources:* 204 irrigation and rural development projects; 104 fishery, livestock, and forestry projects; 45 projects for industrial crops and agro-industry; and 101 projects for agriculture sector support services, including fertilizer production.
- *Energy:* 244 projects, including 204 power projects for the creation of 27,202 megawatts of generation capacity, and for 189,653 kilometers of transmission/distribution circuits. Nonpower energy projects provided for expanded production of natural gas and coal, and rehabilitation of refineries and distribution networks for gas.
- *Financial:* 116 projects, development finance institutions; 33 projects, capital market development; and 6 projects, privatization.
- *Industry and Nonfuel Minerals:* 69 projects, including 62 industry projects, and 7 nonfuel mineral projects.
- *Social Infrastructure*: 105 water supply and sanitation projects benefiting over 154 million people; 92 education projects involving the establishment, as well as rehabilitation and expansion, of primary, secondary, and tertiary-level education and training institutions; 49 projects providing physical and institutional support for housing and/or a variety of urban infrastructure facilities; and 36 health and population projects, providing physical and institutional support.
- *Transport and Communications:* 55 projects in the port and shipping subsectors for the construction, rehabilitation, modernization, and expansion of port facilities; 133 projects for the construction, rehabilitation, and maintenance of primary, secondary, and feeder roads; 16 railway projects primarily to increase freight capacity; 17 airport projects for the expansion and upgrading of airport facilities; and 23 telecommunications projects for the improvement and extension of services.
- *Multisector:* 40 projects aimed at more than one of the Bank's major economic sectors.
- *Others:* 12 projects not classified in any of the Bank's current major sectoral classifications. This classification category came into Bank use in 1992 with the first tourism project.

Board of Directors

During 1998, the Board of Directors continued to support initiatives that built upon the Bank's assistance rendered in 1997 to crisis-affected economies—Indonesia, Philippines, and Thailand, in particular. The focus of this assistance was to alleviate the plight of the people affected by the Asian financial crisis through the provision of social safety net facilities and to restore economic confidence by providing financial assistance aimed at strengthening financial markets and promoting market stability.

The Board also successfully concluded several significant policy and operational initiatives that are now being implemented.

General operations

The Board met formally on 48 occasions (including executive sessions) and held 11 seminars and informal discussions during the year. It approved total lending of nearly $6 billion for 57 projects. This amount represents loans of about $4.9 billion from ordinary capital resources (OCR) and $987.1 million from the Asian Development Fund (ADF). Equity investments totaled $62.4 million. Government-guaranteed loans were approved for 51 projects.

Twenty-one countries and three regional projects received Bank loans in 1998, including Tajikistan, which received its first loan, having become a member earlier in the year.

In addition to loans, the Board, either directly or through the delegated authority vested in the President by the Board, approved 248 technical assistance grants totaling $163.2 million.

During its informal meetings, the Board discussed a broad agenda of items, including the Bank's Three-Year Rolling Work Program and Budget Framework (1998–2000), the country operational strategies, and the ADB Institute.

Policy issues

In 1998, the Board considered and approved a number of major policy initiatives designed to improve the social and economic impact of Bank interventions in its developing member countries (DMCs), to allocate more efficiently scarce Bank resources, and to enhance the internal effectiveness of the Bank in delivering its services. Certain policies, such as anticorruption, are of particular relevance to the Bank's efforts to restore confidence in crisis-affected Asia. This emphasis is highlighted in this year's theme chapter "Governance in Asia: From Crisis to Opportunity" (*pages 15–36*).

The Boards and Their Functions

The Bank is governed by a **Board of Governors**, which, at the end of 1998, consisted of 57 members representing 41 regional and 16 nonregional. Under Article 28 of the Bank's Charter, the Board of Governors is vested with all the powers of the Bank. In turn, the Governors delegate their authority to the Board of Directors, except for certain powers reserved to them under the Charter.

The Board of Governors meets formally once a year for the Bank's Annual Meeting.

The resolutions approved by the Board of Governors in 1998 and its membership are shown in Appendixes 1 and 2, respectively.

Also under Article 28, the Board of Governors elects a 12-member **Board of Directors**, eight elected by regional members and four by nonregional members. Each Director appoints an Alternate. The President of the Bank is the Chairperson of the Board of Directors.

The Board of Directors performs its duties on a full-time basis at the Bank's headquarters in Manila, Philippines, and meets in regular formal and executive sessions that the President chairs. The Directors exercise their authority and functions through their quarterly and annual supervision of the Bank's financial statements, their annual approval of the Bank's administrative budget, and their continuous review and approval of policy documents and all loan, equity, and technical assistance operations.

The Board of Directors and the members they represent are shown in Appendix 3.

Policy Papers and Reports Discussed by the Board of Directors in 1998

Approved Papers
- Anticorruption Policy
- The Bank's Policy on Gender and Development
- The Bank's Policy on Indigenous Peoples
- Borrowing Program for 1999
- Cooperation Between the Asian Development Bank and Nongovernment Organizations
- A Graduation Policy for the Bank's DMCs
- Policy on Confidentiality and Disclosure of Information: Implementation Report
- Review of the Bank's Income Outlook and Allocation of 1997 Net Income
- Review of the Loan Terms for the Asian Development Fund
- Simplification of Disbursement Procedures and Related Requirements for Program Loans

Working Papers
- Policy for the Health Sector
- Review of Private Sector Operations 1995–1997

Operational policy development

Anticorruption: In July 1998, the Board reaffirmed its broad work on governance issues with the unanimous approval of the Bank's Anticorruption Policy. At the broadest level, the policy is intended to reduce the burden that widespread, systemic corruption exacts on governments and economies in the region. More specifically, the Bank's policy is centered on three objectives: (i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration; (ii) supporting promising anticorruption efforts on a case-by-case basis and improving the quality of the Bank's dialogue with its DMCs; and (iii) ensuring that Bank projects and staff adhere to the highest ethical standards. A task force has recently been formed under the direction of Vice-President (East) to oversee the implementation of the policy.

Cooperation between ADB and nongovernment organizations: In April 1998, the Board approved an update of its 1987 Policy on Cooperation with Nongovernment Organizations (NGOs), bringing the Bank's policy and practice on NGO cooperation in line with other elements of its current operational and policy environment. The 1998 policy identifies three broad areas of cooperation in (i) loan and technical assistance activities, (ii) programming and country-level work, and (iii) policy development work—and outlines a new policy framework to support NGO cooperation. Cooperation with NGOs in Bank activities is an important aspect of stakeholder consultation and participation, and works in parallel with and complements Bank policies such as governance, anticorruption, information dissemination, and inspection.

Gender and development: In June 1998, the Board approved the gender and development policy to replace its 1985 Policy on the Role of Women in Development. The new policy operationalizes the Bank's strategic development objective of improving the status of women by ensuring that gender considerations are addressed in all Bank activities, including its macroeconomic and sector work. For example, country briefing papers on women will be prepared as background documents to all country operational strategy studies, and separate gender strategies will be prepared, indicating how the Bank will promote its gender and development policy in the respective DMCs. Gender analysis will be conducted for all Bank projects to ensure that gender concerns are mainstreamed into all Bank projects. Consistent with the Bank's defined role as a broad-based development institution, greater emphasis will be given to policy reform and capacity building in gender and development areas.

Graduation policy for the Bank's DMCs: In December 1998, the Board approved the graduation policy for the Bank's DMCs. The policy provides a framework for classifying DMCs according to their levels of development, and for graduating them across successive country groupings when they achieve identified graduation criteria. The framework enables differentiation in operational guidelines across country groups in terms of (i) degree of eligibility of DMCs for ADF and OCR borrowing; (ii) applicable ceiling on project cost-sharing; and (iii) norms for government contribution to technical assistance costs.

Indigenous peoples: In April 1998, as a response to the potential vulnerability of indigenous peoples in the development process, and the need to ensure that they have opportunities to participate in and benefit equally from Bank-financed development, the Board approved the policy on indigenous peoples. The policy spells out clear mechanisms for accurate, objective analysis of the circumstances of indigenous peoples, and ensures that Bank initiatives are conceived, planned, and implemented with the informed consent of the affected communities, and include respect for indigenous peoples' dignity, human rights, and cultural identity.

Review of the loan terms for ADF: In December 1998, the Board approved the recommendations in the document "Review of the Loan Terms for the Asian Development Fund" and amended the loan terms as follows: (i) for project loans, i.e., other than quick-disbursing program loans: 32-year maturity including an 8-year grace period, 1 percent interest charge per annum during the grace period and 1.5 percent per annum during the amortization period, and equal amortization; (ii) for quick-disbursing program loans: 24-year maturity including an 8-year grace period, 1 percent interest charge per annum during the grace period and 1.5 percent per annum during the amortization period, and equal amortization; (iii) the service charge will be redesignated as an interest charge and will include a portion to cover administrative expenses and a portion that does not; and (iv) the redesignation of the service charge and the amended loan terms will take effect from 1 January 1999 and apply only to new loans.

Institutional development

Membership: In April 1998, the Board of Governors agreed to the membership of Tajikistan, bringing to 57 the number of Bank members. Also in 1998, the Board of Governors approved Turkmenistan's application for membership.

Board committees

Audit Committee

The Audit Committee held 20 meetings during 1998. It reviewed the achievements of 1997 and the work programs for 1998 of the Postevaluation Office (renamed as the Operations Evaluation Office on 12 January 1999) and the Office of the General Auditor, as well as several topics related to the sound governance of the Bank and its efficient and effective functioning. Among these topics were the role and terms of reference of the Audit Committee, the audit procedures for internal Bank procurement, the Bank's loan-loss provisioning policies for both ADF and OCR loans, the recently implemented project performance management system and the project performance report, and year 2000 computer issues. The Committee reviewed eight project performance audit reports, two technical assistance performance audit reports, three impact evaluation studies, and four special studies (*see box on page 12*). To ensure that ADB Institute costs were appropriately

Postevaluation Reports Discussed by the Audit Committee in 1998

Project Performance Audit Reports
- Financial Sector Program (Sri Lanka) *28 January 1998*
- Sigatoka Valley Rural Development Project (Fiji) *18 March 1998*
- Multiproject Loan (Samoa) *18 March 1998*
- Mini-Hydropower Project (Nepal) *20 May 1998*
- Fisheries Infrastructure (Sector) Project (Indonesia) *23 September 1998*
- Hyderabad Water Supply and Sewerage Project (Pakistan) *7 October 1998*
- Shanxi-Xiaoliu Railway Project (People's Republic of China) *25 November 1998*
- Forestry Development Project (Philippines) *25 November 1998*

Technical Assistance Performance Audit Reports
- Selected Technical Assistance in the Environment Sector to the People's Republic of China *20 May 1998*
- Technical Assistance to the Banking Sector in Mongolia *23 September 1998*

Impact Evaluation Studies
- Bank Assistance to the Urban Development and Housing Sector *20 May 1998*
- Bank Operations in the Road Sector in the Philippines *7 October 1998*
- Reevaluation of the Fourth Industrial Development Bank of Pakistan Project *25 November 1998*

Special Studies
- Issues Pertaining to the Engagement of Consultants in Bank Loan Projects and Their Effect on Project Performance *28 January 1998*
- Special Study of the Effectiveness of Multiproject Lending *18 March 1998*
- Macroeconomic Environment and Project Performance in Sri Lanka *23 September 1998*
- Effectiveness and Impact of Training in Education Projects in Indonesia *7 October 1998*

charged against the Institute, it also requested and discussed a review of the allocation of costs for the Institute.

The Committee reviewed the draft 1997 Financial Statements with the Bank's outside auditors (PricewaterhouseCoopers LLP) and recommended their approval by the Board of Directors. The Committee discussed the outside auditors' achievements in 1997 and their audit plan for 1998.

In its annual report to the Board of Directors for 1997–1998, the Committee noted the importance of sound financial governance within the Bank; and in this context, it recommended that the Chairperson of the Board of Directors initiate an update of the terms of reference of the Audit Committee of the Board for final approval by the Board of Directors. The Committee highlighted the need for continuous objective monitoring and evaluation of the Bank's portfolio performance, and requested that the funding and approval procedures for Postevaluation Office activities be reviewed to ensure its independence in selecting and funding appropriate evaluations.

Budget Review Committee

The Budget Review Committee was convened in November 1998 to review the Bank's operations during the year and Management's budget proposal for 1999. It discussed the work achievements for 1998, and the work plans for 1999 of the Bank's departments and offices, including those of the ADB Institute.

The Committee noted the Bank's response to the Asian financial crisis and approval of a large amount of loans to crisis-ridden countries, and welcomed assurances that the Bank would focus more attention on the adverse impact of the crisis on social sectors and the provision of necessary safety nets. The Committee recommended that the Bank initiate a study in 1999 to examine the budget and organizational implications of the Bank's response to the crisis and lessons to be learned from it. To protect against a recurrence of such a crisis, the Committee recommended that the Bank devote more attention to corporate governance issues, and noted that the Bank may need to recruit commercial and investment bankers for possible future activities in restructuring banks. The Committee noted the Bank's initiatives in providing assistance for regional economic monitoring; however, it recommended that the Bank regularly review the use of its internal resources for this function.

The Committee reviewed the initiatives taken by the Bank to implement all policies approved by the Board. It especially noted the initiatives to promote regional cooperation on anticorruption efforts, as well as to mainstream and publicize the Anticorruption Policy within the Bank and provide budgetary resources to implement the policy, including in-house training seminars. The Committee recommended that the Bank discuss these policies with government officials during country programming exercises.

The Committee noted the Bank's continuous efforts to support sustainable economic development in its DMCs and acknowledged the Bank's efforts to make prudent use of its resources and exercise budgetary discipline. It reviewed the efforts made to spring-clean the Bank's loan portfolios, and recommended that this be an ongoing process to generate savings from both OCR and ADF loans. The Committee cautioned against overprogramming, and urged the Bank to set realistic performance-based lending levels consistent with available resources. It also stressed the need for greater prioritization of the Bank's technical assistance activities. The Committee noted that the Bank had developed a strategy for enhancing staff productivity, and had acted on poor staff performance through involuntary separation of 25 professional staff. At the same time, the Committee welcomed Management's proposal to augment the Bank's operational capacity by creating 15 new professional staff positions and redeploying 14 professional staff positions to its operations departments. The Committee noted that certain professional staff benefits would be rationalized effective 1 January 1999, and looked forward to a comprehensive review of the professional staff compensation package. It recommended that the Bank initiate a risk analysis of its staff retirement plan.

Finally, the Committee recommended that the Board approve the proposed administrative budget for 1999, authorizing an expenditure of $207 million (*Appendix 8*). The Committee noted that this budget, which includes a contingency of 1 percent, represents an increase of 2.4 percent over the 1998 revised estimate, which is the lowest nominal budget growth in the Bank's history. This administrative budget would support $7.8 billion for lending, including private sector operations, $162 million for technical assistance operations, and $3.4 million for cofinancing programs in 1999, with an increase of 15 new professional staff positions.

Inspection Committee

In 1998, the Committee discussed its first request for review of a project, received in 1997, and decided in this instance that the request was not eligible for inspection.

As stipulated in the Board paper on the inspection policy, a review of the operations of the Inspection Committee and related inspection procedures, as well as consideration of their application to the Bank's private sector operations, was started in 1998 for completion in the first quarter of 1999.

Detailed inspection procedures and general information on the Bank's inspection policy are included in the publication *ADB's Inspection Policy: A Guidebook*. Information on the inspection policy is also available on the Bank's Internet web site at **http://www.adb.org**.

The members of the Board Committees are listed in Appendix 4.

Members of the Board of Directors met with Her Excellency Sheikh Hasina Wazed, Prime Minister of Bangladesh (center, left), on 5 September 1998. To her left is Mr. Francesco Pittore, Director, ADB. Others in the picture are (left) Dr. S.A. Samad, Principal Secretary to the Prime Minister, Bangladesh; Dr. Masihur Rahman, Secretary, Economic Relations Division, Ministry of Finance, Bangladesh; Mr. Hans-Jürgen Stryk, Director, ADB; Mrs. Ursula Stryk; (right) Mr. Jin-Gyu Park, Director, ADB; Mr. Muhammad Faizur Razzaque, Alternate Director, ADB; Mr. John Austin, Alternate Director, ADB; and Mr. Berend W. van Gorkom, Alternate Director, ADB.

Directors' visits

The Board of Directors undertook two group visits in 1998: the first to the Maldives and Pakistan from 21 February to 8 March; and the second to Bangladesh, Bhutan, and Nepal from 23 August to 5 September. Such annual visits enable Board members to gain greater understanding of the development experience and needs not only of the DMC visited but, more generally, also of the region as a whole, and to become better acquainted with the Bank's activities in its DMCs. In all countries visited, the Board had wide-ranging policy discussions with government ministers and officials, business representatives, women's associations, and NGOs, and took the opportunity to visit the sites of Bank-financed projects. In the case of the Bangladesh visit, the Board members were able to observe firsthand the devastation of the September 1998 floods. The Board delegation offered to support a request for emergency Bank assistance, which was approved in December 1998.

In Pakistan, the Board delegation had the honor of meeting the President, His Excellency Rafiq Tarar; the then Minister of Finance and Economic Affairs, Honorable Sartaj Aziz; and other key officials of the Government.

In the Maldives, the Board delegation had the honor of meeting the Minister of Finance and Treasury, Honorable Arif Hilmy, as well as other senior government officials.

During the Bangladesh visit, the Board delegation had the honor of meeting the Prime Minister, Her Excellency Sheikh Hasina Wazed and the Minister of Finance, Honorable Shah A. M. S. Kibria, as well as other senior officials of the Government.

In Bhutan, the Board delegation had the honor of meeting the Chairperson of the Council of Ministers, His Excellency Lyonpo Jigmi Thinley; the Minister of Finance, Honorable Lyonpo Yeshey Zimba; and other key officials of the Government.

In Nepal, the Board delegation had the honor of meeting the Right Honorable Prime Minister G. P. Koirala, Finance Minister Dr. R. S. Mahat, and other senior officials of the Government.

Special Theme

Governance in Asia: From Crisis to Opportunity

"At the core of our dark experience lies the ugly truth that there was an absence of transparency, accountability, public interest, and public responsibility."[1]

Issues of governance are at the center of many of the most pressing challenges confronting countries throughout the Asian and Pacific region today. In East[2] and Southeast Asia,[3] the need for greater transparency and accountability in regulating the financial sector has been one of the key problems behind the currency turmoil, corporate bankruptcies, and falling stock markets that have plagued the region since July 1997. In South Asia,[4] issues of restricting the reach of state intervention and improving the delivery of basic services, such as health care and education, are high on the agenda. Economies in transition in Central[5] and Southeast Asia are grappling with redefining the role of the state, shifting the balance between central and local power, and providing civil service employees with appropriate skills for managing a market economy. In the Pacific,[6] issues of public sector efficiency, effectiveness, and accountability are particularly important for ensuring the long-term viability of small economies.

Each nation's path to good governance is different, depending on culture, geography, political and administrative traditions, economic conditions, and many other factors. The scope of activities allocated to the public and private sectors diverges markedly. Variation in scale is also enormous. Many of the institutions and practices that work effectively in the People's Republic of China (PRC), with its 1.2 billion people, will not be relevant in Nauru, with its population of 10,000.

Yet governments share many features. They face similar responsibilities in that they need to establish a basic policy framework, provide critical goods and services, protect and administer the rule of law, and advance social equity. In executing these responsibilities, they need to perform a variety of similar tasks, such as organizing themselves to formulate and coordinate

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1 From the keynote address of Anand Panyarachun, former Prime Minister of Thailand, at the United Nations Development Programme Regional Workshop on Integrity in Governance in Asia, Bangkok, June 1998.

2 East Asia includes the newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei,China; and the People's Republic of China and Mongolia.

3 Southeast Asia includes Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Thailand, and Viet Nam.

4 South Asia includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

5 The Central Asian republics include Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan.

6 The Pacific includes Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

Box 1. Does Governance Matter? Empirical Evidence from Japanese Foreign Direct Investment Flows

A study examining the locational determinants of Japanese foreign direct investment shows that the quality of governance in a country has a significant impact on the decision of Japanese private firms on whether to make investments in the country. Other factors are shown to exert an influence on this decision, namely, the exchange rate, wage rate, size of the local market, inflation, quality and depth of infrastructure (as proxied by the level of electricity generation per person), availability of skilled labor (as measured by the enrollment rate for secondary education), and presence of Japanese firms in the country. The authors use a conditional logit model to establish statistically that all these factors (including the quality of governance) affect the probability that Japanese firms will opt to locate facilities in a country.

The quality of governance was constructed from a weighted average of five indicators with values that were derived from responses of businessmen to structured surveys: government repudiation of contracts, risk of expropriation, corruption, law and order tradition, and bureaucratic quality.

The authors also show that governance plays a relatively more important role in the decision in sectors that are more capital- and technology-intensive. This is consistent with the theory that weak rule of law discourages investments that include large sunk costs.

Sources: Shujiro Urata and Hiroki Kawai, "Governance and the Flow of Japanese Foreign Direct Investment," in Campos, J. Edgardo (ed.), *Corruption: The Boom and Bust of East Asia* (forthcoming).

specific policies, and mobilizing human and financial resources to implement their decisions. They need to focus on core public tasks. They need proper incentives to perform these tasks as efficiently and effectively as possible in a responsive, transparent, and predictable fashion, and with clear strategic focus and appropriate participation. They need to confront corruption from the highest level.

The Bank's approach to helping its developing member countries (DMCs) improve governance practices, which was codified in the August 1995 Board paper, Governance: Sound Development Management, has sought to overcome problems of diversity by articulating a set of basic principles to be advanced in a wide variety of settings. This approach builds on the recommendations of the Bank's task force on improving project quality to ensure that Bank projects help build sustainable public sector capacity in DMCs.[7] The July 1998 Board-approved Anticorruption Policy shows further deepening of the Bank's thinking in the governance area.

This chapter provides an overview of the Bank's thinking on good governance and capacity building, gives examples of how these ideas have been put to use in helping DMCs carry out governance reforms, and concludes with some thoughts on the next steps.

What is governance?

Governance is a simple concept at heart: good governance is good government. The concept relates to the quality of the relationship between government and the citizens whom it exists to serve and protect. The Bank defines governance as the manner in which power is exercised in the management of a country's social and economic resources for development. Put more simply, governance means the way those with power use that power. Governance has, therefore, political and economic dimensions. Issues of political governance include the mechanisms by which the public's political preferences are ascertained and leaders chosen. These are fundamental governance concerns, but are generally outside the scope of the Bank's work. But economic governance—sound development management—is at the core of sustainable development. This is supported by empirical evidence (*Box 1*) that the quality of governance has a significant impact on investment and growth.[8]

The instrumental nature of governance implies that the four governance "pillars" (*summarized in Box 2*) are universally applicable regardless of the economic orientation, strategic priorities, or policy choices of the government in question. However, their application must be country-specific and solidly grounded in the economic, social, and administrative capacity realities of the country.

Also, while it would be misleading to identify key problems and suggest solutions without first conducting detailed assessments of the governance landscape in each country, it is possible to illustrate the general governance

7 ADB, *Project Quality: An Agenda for Action* (Manila: Asian Development Bank, 1995).

8 Shang-Jin Wei, "How Taxing is Corruption on International Investors?" Working Paper W6030 and "Why Is Corruption So Much More Taxing than Tax? Arbitrariness Kills," Working Paper W6255 (Cambridge, Mass.: National Bureau of Economic Research, 1997); and Paolo Mauro, "Corruption and Growth," *Quarterly Journal of Economics* (1995), 681–712.

Box 2. Four Pillars of Governance

The four key components of governance are accountabilty, transparency, predictability, and participation.

Accountability is the capacity to call officials to account for their actions. Effective accountability has two components: "answerability" and consequences. "Answerability" is the requirement to respond periodically to questions concerning one's official actions. There is also a need for predictable and meaningful consequences, without which accountability is only a time-consuming formality. In addition, both internal (administrative) and external accountability are needed. Particularly with the dramatic improvements in information and communication technology, external accountability through feedback from service users and the citizenry can now be obtained at low cost and for a greater variety of government activities, and is an essential adjunct to improving efficiency and effectiveness of public service delivery.

Transparency entails low-cost access to relevant information. Reliable and timely economic and financial information is a must for the public (normally through the filter of responsible media). It is essential not only that information be provided, but also that it be relevant and understandable. (Dumping on the private sector vast amounts of raw economic information does not improve transparency.)

Predictability results primarily from laws and regulations that are clear, known in advance, and uniformly and effectively enforced. Lack of predictability makes it difficult for public officials to plan for the provision of services (and is an excellent alibi for nonperformance). Predictability of government economic actions is also needed as an indicator on which the private sector can rely to make its own production, marketing, and investment decisions. Most importantly, to be predictable, the application of economic regulations must be effective, fair, and uniform.

Participation is needed to obtain reliable information and to serve as a reality check and watchdog for government action. Among other things, participation by external entities is needed as a spur to government operational efficiency, and feedback by users of public services is necessary for monitoring access to and quality of the services.

Empirical evidence suggests that a strong civil society plays a critical role in advancing good governance.[1] Improving formal rules and organizations without any change in informal customs and ways of doing business avails little; importing procedures and mechanisms without reference to the incentive and local capacity framework is likely to be fruitless; interacting only with central government or, indeed, only with government, is not conducive to good implementation of reforms. Above all, governance intervention should encourage the formation of social capital, i.e., the stock of trust and information exchange at the base of civil society.

1 See, for example, Robert D. Putnam, *Making Democracy Work* (Princeton: Princeton University Press, 1994).

challenge in different types of country circumstances. Although some of the challenges listed under one type may apply to others, Table 1 (*page 18*) suggests priority concerns being addressed in each set of countries. In addition, challenges such as controlling corruption and improving civil service salaries cut across most of the region.

Development organizations and governments the world over widely share the views embodied in the four governance pillars, although each has its own approach in applying them. This consensus on governance has been accompanied by recognition of the costs of and damages from corruption, and the adoption by many international organizations of robust anticorruption measures. For example, in December 1996, the United Nations General Assembly passed the Declaration Against Corruption and Bribery in International Commercial Transactions. In December 1997, a landmark convention against bribery was negotiated under the aegis of the Organisation for Economic Co-operation and Development (OECD), making bribery of foreign officials a crime at par with bribery of national officials. Because corruption is by definition two-sided, this convergence between the emphasis on combating corruption in the developing countries and the Anti-Bribery Treaty offers a historic opportunity to reduce drastically the negative impact of corruption on development. In 1998, the ADB's Board of Directors approved the Anticorruption Policy, which is congruent with that of the World Bank and other regional development banks.

Table 1. Governance Challenges Being Addressed in the Region

Subregion/Type	Governance Challenge	Priority Action
Former centrally planned economies	Overextension and overcentralization of the state Lack of appropriate legal framework and skills Greater reliance on the market	Encourage carefully timed and tuned process of decentralization
Least-developed countries	Very weak administrative system	Extend the scope and accelerate the pace of administrative reform Encourage exposure to good practices
South Asia	State tries to do too much given limited resources and capabilities Regulatory ossification	Better matching of role of the state to its capability Cut red tape Encourage administrative renewal
Southeast Asia	"Crony capitalism" Weak checks and balances in public-private relations Barriers to competition	Improve openness, reciprocity, and checks on administrative discretion Strengthen corporate governance systems Encourage competition

The role of governance in the Bank's response to the Asian financial crisis

"East Asia reeled. The world paused. The Bank acted."[9]

The financial crisis that erupted in mid-1997 quickly spread to other Southeast and East Asian economies. The worldwide repercussions of the crisis required a coordinated approach. The Bank acted, therefore, in concert with other organizations and institutions, to introduce fundamental reforms in governance and the manner of economic management.

Governance-oriented interventions in crisis-affected countries

Bank assistance to the countries worst hit by the crisis—Indonesia, Republic of Korea, and Thailand—has also focused on governance. In Indonesia, the centerpiece of Bank assistance is the Financial Governance Reforms: Sector Development Program loan of $1.5 billion, which supports a major streamlining of the regulatory framework and provides for transparency in the banking subsector and other reforms (*Box 3*). Fiscal decentralization is being further encouraged through a Community and Local Government Support Sector Development Program of $300 million; this is currently at an advanced stage of preparation. In the Republic of Korea, the Bank provided a $4 billion Financial Sector Program loan to the International Monetary Fund (IMF)-led multilateral assistance package. The loan supports the restructuring of financial institutions, combined with strengthening regulation and supervision, and with measures to liberalize the capital market and develop it further

9 From the speech delivered by ADB Vice-President Peter H. Sullivan at the farewell ceremony for ADB President Mitsuo Sato, Manila, 14 January 1999.

(*Box 4*). In Thailand, two sizeable loans have major governance components. The Financial Markets Reform Program loan of $300 million underpins fundamental reforms for transparency and accountability in the financial sector; and the Social Sector Program loan of $500 million supports, among other things, the administrative decentralization of health and education services (*Box 5*).

Governance-oriented assistance to other countries

The years 1997 and 1998 also saw an expansion of Bank activities in countries in the Asian and Pacific region in various aspects of public institutions and the public/private interface. Of course, some interventions were under way well before the onset of the Asian financial crisis, but the crisis gave them added impetus. Interventions have ranged from corporate governance in the Kyrgyz Republic to public administration diagnosis in Nepal; civil service reform strategies in Pakistan; governance reviews for Lao People's Democratic Republic, Thailand, and Viet Nam; anticorruption in Indonesia (in conjunction with the Financial Governance Reforms: Sector Development Program loan); urban governance in the Philippines; public sector interventions in the Pacific; and more. *Some illustrations are provided in Box 6.*

Bank assistance to its Pacific DMCs has broadened in scope since the formulation of the 1996 *Strategy for the Pacific: Policies and Programs for Sustainable Growth*. Working in consultation and agreement with governments, the Bank has taken the lead role in the aid community as a catalyst and facilitator of policy reform and capacity building in development management, while retaining the traditional role of project financier. Economic reform programs in seven Pacific DMCs (Cook Islands, Marshall Islands, Federated States of Micronesia, Nauru, Samoa, Solomon Islands, and Vanuatu) have been undertaken with Bank technical and financial assistance during 1996–1998.

These programs aim at generating sustainable economic growth through the creation of a leaner, more efficient public sector, and a better enabling environment for the private sector. Program effectiveness in improving governance and the economic policy framework is expected, in turn, to increase the effectiveness of project-based and sector-specific lending. To improve Bank interventions in the Pacific DMCs, the Bank established an interdepartmental task force to review the design, implementation, and impact of its program loans and associated policy reforms. Lessons learned from the review will influence Bank assistance, especially to the Pacific DMCs, in the fields of policy reform and governance.

There is no doubt that in 1999 and beyond, both the geographic coverage and the scope of Bank financial and technical assistance for governance and public management (including anticorruption) will widen even further.

Interventions beyond the crisis

Nineteen ninety-eight was a landmark and eventful year in many ways beyond the crisis. The Bank's Board of Directors approved policies that essentially complete the policy framework for governance and public

Box 3. Financial Governance Reforms in Indonesia

The Asian financial crisis had a major impact on Indonesia, with the rupiah depreciating more than 70 percent against the US dollar since July 1997. This depreciation has adversely affected the economy and there is an urgent need to restore confidence through financial governance reforms. The Government is now implementing a program of policies and institutional measures to strengthen governance in the financial and corporate sectors and in the area of public sector financial management.

The Bank approved on 25 June 1998 a total of $1.5 billion to Indonesia for the Financial Governance Reforms: Sector Development Program. The overall objective of the program is to improve the governance of the financial and public sectors resource allocation through (i) adoption of good practices in financial governance, (ii) increased disclosure and transparency of financial information, and (iii) strengthened legal and regulatory frameworks of the financial sector. The goal is to build up credible financial institutions and prudent regulation that will help restore investment flows.

The program involves assessing the financial status and, where feasible, restructuring of existing banks; strengthening the supervisory capacity of Bank Indonesia; rationalizing the supervision and regulation of nonbank financial institutions, and the legal and regulatory environment to facilitate debt recovery and structural adjustment; improving accountability and transparency in both the public and private sectors; implementing anticorruption and antimoney laundering measures; improving fiscal management; strengthening the Capital Market Supervisory Agency; and establishing a secondary mortgage facility. The program—which is being coordinated with the overall ADB/International Monetary Fund/World Bank policy package—will be supplemented with support to specific financial institutions, and capacity-building assistance to sector institutions.

Box 4. Financial and Corporate Sector Reforms and Governance in the Republic of Korea

In December 1997, an International Monetary Fund (IMF)-led assistance package of $58 billion was provided to the Republic of Korea to tackle an immediate balance-of-payments crisis, as well as address the more fundamental issues in the financial and corporate sectors. The package included a $4 billion Financial Sector Program loan (FSPL) from ADB. The FSPL contributed to the initiation of reform measures designed to address four issues: (i) restructuring financial institutions, (ii) recapitalizing financial institutions, (iii) strengthening prudential regulation and supervision, and (iv) capital market liberalization and development. The goal is to establish transparent, arms' length relationships among the Government, the banks, and the conglomerates, and thus restore investor confidence in the economy of the Republic of Korea.

While resolution of nonperforming loans and recapitalization of financial institutions have been the immediate concerns of the Government and external funding agencies, the institutionalization of sound business practices has been emphasized equally to ensure sustainability of the reforms over the long term. The FSPL emphasized improving governance standards in the financial sector, including strengthening prudential regulation and supervision.

The large volume of nonperforming loans in the financial sector is closely linked to the structural problems in the corporate sector. The widespread excess capacities in the country's industry sector reflect the previous questionable business decisions of the large conglomerates (*chaebols*). Lasting solutions to the economic crisis and the financial sector problems cannot be realized unless the corporate sector is significantly restructured.

As part of the IMF-led assistance package, the Government initiated several measures to rectify weaknesses in corporate governance. The Government has now made compulsory the appointment of outside directors to the boards of listed companies. It has passed a law prohibiting companies from issuing new cross-guarantees, and requiring all such existing guarantees to be terminated by April 2000. Financial institutions are now required by the Financial Supervisory Commission to provide quarterly reports on their holdings of cross-guarantees. The Government has also announced that, beginning in 1999, financial statements of companies will be prepared and audited in accordance with international standards and practices.

management. The Bank intensified its efforts at disseminating the lessons of international experience in public management and—most important for the future of the Bank as a broad-based development institution—managed to strengthen internal capacity significantly. In the process, partnerships with other multilateral finance institutions (particularly IMF and the World Bank) have become even closer, because an enhanced ADB role in governance is intended to lead to greater development impact of all external assistance to this vast and extraordinarily varied region. Policy framework, disseminating the lessons of experience, and enhancing the Bank's capacity for governance work—the key building blocks for an enhanced Bank role in governance and public management—are reviewed briefly below.

Policy framework

The Bank's 1995 governance policy provided a sound basis for its future work. This work was carried forward through the adoption of policies that gave tangible content to the principles embodied in the governance framework. Directly related to governance and public management, Board papers were prepared on participatory development and anticorruption,[10] and elements of good governance were increasingly reflected in other Board policies on crosscutting issues, such as indigenous peoples, and gender and development. Governance issues have also started to permeate traditional sector

10 ADB, *Mainstreaming Participatory Development Processes* (Manila: ADB, 1996); and ADB, "Anticorruption Policy" (Manila: ADB, 1998).

Box 5. Social Sector Reforms in Thailand

A $500 million Social Sector Program loan in Thailand is part of the Bank's $1.2 billion contribution to the $17.2 billion IMF-led rescue package. The loan and the related $2.1 million technical assistance grant take a dual approach to (i) mitigate the short-term social impact of the crisis and (ii) implement structural reforms to increase economic competitiveness in Thailand and to bring governance systems in line with the country's 1997 Constitution. To mitigate the social impact of the crisis, creative partnerships are being built between the Government and civil society to maintain access to health, education, and nutrition.

Structural reforms are being undertaken in health and education, and in labor market policies. For example, health financing reforms being considered include capping the civil service medical benefits system, streamlining the Social Security and Workmen's Compensation systems, improving the targeting of the Low-Income Card Scheme, and increasing insurance coverage for the unemployed. Long-term health reforms will include better integration of curative, preventive, and educational activities; increasing the role of provinces, districts, and communities in public health care provision; and corporatizing a public sector hospital. The redeployment of health personnel will also require many changes in the administrative and incentive structures of the Ministry of Public Health.

Educational management and financing reforms will include explicit operational plans for decentralizing four functional areas: (i) education policy and planning, (ii) budget and procurement management, (iii) personnel systems, and (iv) curriculum development and planning. Reforms are being designed to increase autonomy for vocational training institutions and universities, introduce a new personnel management system for school teachers outside the civil service personnel structures, issue a clear statement on the role of the Government vis-á-vis the private sector in the education sector, and downsize the Ministry of Education administrative staff by 25 percent.

In labor markets and welfare, there will be better targeting of poverty programs by linking budget allocations explicitly to poverty incidence. In addition, there is a rethinking of the legal framework, organization, and coordination practices of all agencies dealing with welfare, labor, and training issues.

work, as demonstrated in the policies currently being developed for integrated water management, urban development, health, nutrition, and education.

Law and development: The Bank's law and development activities promote legal reforms,[11] building on empirical findings that a policy, legal, and regulatory environment, which secures property rights and enforces contracts, is supportive of economic growth and poverty reduction.[12] Although law and development activities have a general focus on the development of legal and regulatory frameworks that support private sector development (*Box 7*), they take into account the need for "ethnically conscious interventions into the market" with a view to spreading market-generated wealth.[13]

Participation: People are at the heart of development; they are not only the ultimate beneficiaries, but are also the agents of development. Since development is both for and by the people, they need to have access to the institutions that promote it. Participation, as a component of the Bank's governance policy, implies that people will have the opportunity to improve the design and implementation of public programs and projects.

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11 ADB, *A Review of Law and Development Activities of the Asian Development Bank* (Manila: ADB, 1998).

12 For example, research funded by the United States Agency for International Development finds such a statistically significant link among sample countries, with appropriate qualifications given the complexity of the subject (Steve Knack, "Institutions and the Convergence Hypothesis: The Cross-National Evidence," Working Paper No. 59 [College Park, Maryland: IRIS, University of Maryland, 1993]).

13 Amy L. Chua, "Markets, Democracy and Ethnicity: Toward a New Paradigm for Law and Development," 108 *Yale Law Journal* (1998), 1–107.

Box 6. Illustrations of Bank Loans with a Major Governance Focus

India: Gujarat Public Sector Resource Management Program (in combination with technical assistance for reforming public finances and restructuring state-owned enterprises [SOEs])

The State of Gujarat in India faces wide-ranging structural challenges in the public finance area because of stagnation in resource mobilization, weak fiscal management, growing inefficiency of SOEs, and lack of support for efficient infrastructure. The Bank's program loan of $250 million, approved in 1996 as the first subnational operation in India, supports the Government of Gujarat in augmenting domestic resource mobilization, improving the allocation and efficiency of public resources, and reducing the Government's role in commercial activities while promoting market-oriented policies to enhance private sector participation in physical infrastructure. To support the program loan, the Bank provided technical assistance to strengthen institutional capacities for budget policy, planning, and modernizing tax administration to improve transparency and accountability. An additional technical assistance of $600,000 approved in 1996—Restructuring Program for State-Owned Enterprises in Gujarat—is aimed at strengthening the technical secretariat charged with restructuring the SOEs.

Kyrgyz Republic: Corporate Governance and Enterprise Reform Program Loan

Subsidized government loans to private and public enterprises caused a huge drain on the Kyrgyz Republic's budget. Inefficiencies in insolvency procedures allow nonviable enterprises to operate, and lack of regulatory sanctions means that management of many enterprises functions improperly. The Bank's Corporate Governance and Enterprise Reform Program loan of $40 million, approved in 1997, aims to develop and implement guidelines to improve corporate governance, including statutory mechanisms to ensure enforcement. Internal enterprise efficiency will be improved by the introduction of better management practices, and long-term competitiveness will be enhanced by requiring enterprises to seek new financing arrangements on commercial terms, without the benefit of government guarantees. The legal framework, including the court system, will be strengthened to expedite liquidation or restructuring of nonviable enterprises. Sector capacity building will include a public information and education project and will reinforce stakeholders' rights and obligations.

Samoa: Financial Sector Program

Improved governance calls for competitive markets with efficient, effective, accountable, and transparent public sector management. This is the aim of the Bank's Financial Sector Program loan of $7.5 million approved in 1998 to Samoa. Direct monetary controls, interest rate controls, rigid loan rates and credit growth ceilings, and the existence of inefficient SOEs placed constraints on Samoa's economic development. The Government concluded that this called for comprehensive financial sector reform. The loan is assisting the Government to implement the reform program by liberalizing the financial sector; adopting indirect instruments of monetary management; enabling Samoa's central bank to effectively manage liquidity through open market operations; strengthening the prudential and regulatory frameworks; and, equally important, privatizing and corporatizing public utilities.

The Bank's Framework on Mainstreaming Participatory Development Processes defines participatory development, notes its importance to the Bank, and tells how Bank staff, in collaboration with DMC counterparts, can support it. Additionally, it shows how participatory processes can be systematically incorporated in the Bank's business processes, and what modifications are required in the Bank's procedures, policies, and practices to mainstream participatory development in the Bank's work. Participatory development as a key to the Bank's thinking is elaborated in Box 8.

Anticorruption—a key dimension of the governance agenda: The Anticorruption Policy deserves special attention, owing to the corrosive effect of corruption on Asian and Pacific economies, and its central role in weakening governance institutions that contributed to the Asian financial crisis. The Board of Directors approved the Bank's Anticorruption Policy on 2 July 1998, exactly one year after the onset of the crisis (*Box* 9).

The Bank's Anticorruption Policy rests on conclusive evidence that systemic corruption exacts a heavy price from developing economies by, for example, reducing investment, increasing capital costs, and increasing the time business executives need to spend negotiating with government officials.[14] It is fully compatible with the policies of other multilateral financial institutions, including those of the World Bank,[15] and is complemented by the OECD Anti-Bribery Treaty that took effect in December 1998. The Treaty, among other things, makes bribery of foreign officials a crime at par with bribery of national officials, and is thus a fundamental advance over earlier practices. Thus, for the first time in contemporary history, this convergence of policies and circumstances offers the opportunity to effectively combat corruption at both public and private levels, and to substantially reduce its burden on the peoples of the Asian and Pacific region.

Corruption can be defined briefly as the use of public or private office for personal gain. Samples of corrupt activities of greatest interest to the Bank include

- design or selection of uneconomical projects because of opportunities for kickbacks and patronage;
- procurement fraud;
- illicit payments to government officials to facilitate access to goods, services, or information to which the public is not entitled, to deny the public access to goods and services to which it is legally entitled, or to prevent the application of rules and regulations in a fair and consistent manner;
- misappropriation of confidential information for personal gain, such as using knowledge about public transportation routings to invest in real estate that is likely to appreciate;
- deliberate disclosure of false or misleading information on the financial status of corporations;
- theft or embezzlement of public property and monies;
- sale of official posts or promotions, or nepotism; and
- extortion and the abuse of public office, such as using the threat of a tax audit or legal sanctions to extract personal favors.

Experience demonstrates that significant progress can be made in the struggle against corruption if the proper legal, institutional, and policy frameworks are in place. The Bank's policy is "zero tolerance."

The first objective is convergent with the public sector management agenda, consisting of actions to make markets competitive and supporting improvements in public administration. For example, strengthening audit functions can improve resource allocation while making embezzlement more easily detected; instituting procurement reform can reduce costs while making fraud more difficult to perpetrate; improving procedures for recruitment and promotion can build capacity while helping reduce patronage and nepotism; and, most importantly, streamlining regulations can improve public management while reducing opportunities for corruption.

In pursuing the second objective, Bank assistance will be guided by three considerations: (i) the nature of the country request, (ii) the consistency

Box 7. Bank Activities in Law and Development

In 1997 and 1998, the Bank's law and development activities supported operations in almost all areas, such as energy regulation, promotion of participation in agriculture and forestry, reform of banking and capital market laws, and strengthening of bankruptcy and liquidation regulation.

Apart from the legal components of sector loan and technical assistance operations, the Bank's law and development activities comprise specific law-related technical assistance projects, which increasingly focus on issues facing its developing member countries' legal systems as a whole.

The creation of in-country capacity for continuing legal education is an important feature of the Bank's law and development activities. In the transitional economies, the main focus of capacity building has been to prepare government lawyers and members of the judiciary to administer newly enacted laws and regulations and to adjudicate disputes relating to such new laws.

One systemic issue common to all economies is the lack of adequate systems for dissemination of information about laws to the public. This issue is being addressed under the Bank's technical assistance in the People's Republic of China and through regional technical assistance for improving access to legal information, particularly comparative legal reform materials to government lawyers and parliamentary draftsmen via the Internet.

14 Daniel Kaufmann, "From Analysis of the Evidence to Anticorruption Action Programs: Evidence and Implications from Research on Corruption," draft handout (World Bank, 1998).

15 World Bank, "Anticorruption Policy" (Washington, DC, 1997).

Box 8. Strengthening Participatory Development

Participation has always been important to the Bank—it is after all a development finance institution owned by 57 members, with a portfolio of projects covering virtually every aspect of development. But with the approval of the governance policy in 1995 and its subsequent implementation in Bank activities, the importance of stakeholder participation has been highlighted. In 1996, the Bank established a focal point for participation in its Social Development Division, Office of Environment and Social Development, and issued guidelines on mainstreaming participatory development processes. The following resulted from these guidelines.

(i) A conceptual framework that defines participatory development was prepared.

(ii) A new generation of Bank operations is being designed in a participatory manner from the beginning (examples are the People's Republic of China Hebei Roads Development Project loan and the Lao People's Democratic Republic Shifting Cultivation Technical Assistance Project).

(iii) Beyond loans and technical assistance, there is an increasing trend toward greater participation in the formulation of Bank policies. A broader range of stakeholders is being consulted on new policy development issues such as water, health, and education.

(iv) Participation is increasingly being incorporated in the Bank's business processes, as demonstrated in the ongoing review of the technical assistance and loan processing cycle and of country programming. An illustration is the extensive participation undertaken in the country operational strategy study for the Philippines.

(v) Participation-related training programs are being developed for Bank staff. For example, the Bank pilot-tested a field-based workshop on community development in India, where Bank mission leaders learned from nongovernment organizations, local governments, and community members.

(vi) Participation is encouraged through the Bank's Policy on Confidentiality and Disclosure of Information, and the establishment of the Inspection Panel to investigate complaints from groups affected by the Bank's operations.

The Bank subsequently approved on 19 July 1996 a regional technical assistance for $300,000 to facilitate and support a variety of small-scale participatory capacity-building activities for 11 countries and covering 10 subsectors.

of the request with the Bank's country operational strategy and efforts in the field of governance and public management, and (iii) the Bank's expertise.

If the Bank's efforts to reduce illicit behavior by outside entities are to be credible, it is essential that Bank staff be beyond reproach, and that the Bank's internal regulations and procedures support the highest ethical standards. Toward this end, the third pillar of the Bank's Anticorruption Policy calls for a range of actions to consider issues of corruption more explicitly, use independent internal mechanisms to address allegations of corruption, improve the quality of supervision of Bank loans and grants, and ensure that Bank staff are familiar with the policy and act in a manner consistent with both the letter and the spirit of it.

In its anticorruption activities, the Bank is cooperating closely with other international multilateral and bilateral organizations in supporting international and country-specific efforts to combat corruption.[16] It will also work with nongovernment organizations (NGOs) on various international efforts to control corruption, and on specific anticorruption initiatives within a particular country. Mechanisms for Bank staff to report corruption are in place, and specific training for anticorruption efforts is being initiated.

Disseminating the lessons of experience

Dissemination is another key building block for an enhanced role in governance, and the Bank has undertaken a variety of internal and external dissemination initiatives since early 1997, including a seminar on governance at the 1997 Annual Meeting in Fukuoka and one on regulatory issues at the 1998 Annual Meeting in Geneva.[17] A range of regional technical assistance (RETA)[18] grants has been a valuable instrument for the Bank, and has proven especially useful in the initial phase of the governance agenda. Topics covered by these RETAs include governance and development in South Asia; sharing best practices in municipal governance, and enhancing municipal service delivery capability; case studies on the functions of cabinet offices in selected DMCs; meetings of Chief Justices and Ministers of Justice; workshop on NGOs in development; and audit training program for Supreme Audit Institutions. In addition, several technical assistance activities for specific DMCs have dealt with core governance issues (*examples are shown in Box 10*).

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16 A working group of all multilateral development banks has been formed to ensure cooperation and mutually supportive efforts.

17 A seminar on public financial management and accountability will be held at the 1999 Annual Meeting in Manila.

18 These are (i) RETA 5611: Megacities Management in Asia and the Pacific, approved on 22 December 1994; (ii) RETA 5646: Regional Study on Urban Infrastructure Finance, approved on 10 October 1995; (iii) RETA 5664: Governance and Development in South Asia and Other DMCs, approved on 22 December 1995; (iv) RETA 5685: Capacity Building for Development Management, approved on 16 May 1996; (v) RETA 5688: Regional Long-Term Audit Training Program for Members of the Asian Organization of Supreme Audit Institutions, approved on 13 June 1996; (vi) RETA 5764: Enhancing Municipal Service Delivery Capability in Selected DMCs, approved on 24 December 1997; and (vii) RETA 5768: Definition of Key Governance Themes and Priorities in the Asian and Pacific Region, approved on 31 December 1997.

The Bank's approach rests on both relevance and technical soundness: (i) public sector management reforms do not travel well, and innovations must be carefully assessed in light of the specific country's characteristics and administrative capacity; and (ii) the risk of ad hoc or contradictory advice must be avoided through wide consultation with other institutions concerned, in the DMCs and elsewhere. For example, the Bank's public expenditure management handbook, currently nearing completion, has benefited from the advice of technical reviewers from the World Bank, IMF, United Nations Development Programme (UNDP), and OECD. Also, the Bank has proceeded from general issues to more concrete topics. Thus, the initial dissemination of broad problems of governance and development has provided the basis for more focused events on fiscal transparency and financial accountability.

Enhancing the Bank's capacity for governance work

The Bank has identified six key areas of governance, for which it is acquiring an internal core capacity: (i) participation, civil society, and social capital; (ii) law and development; (iii) public/private interface; (iv) sector and project work; (v) core government functions at the national level; and (vi) decentralization. Ongoing program and sector development program loans with governance components are listed in the table on page 28. As mentioned earlier, anticorruption efforts can and must be incorporated in all governance areas, as appropriate to the circumstances of the specific country.

Box 9. The Bank's Anticorruption Policy

From Central Asia, through South, Southeast and East Asia, and into the Pacific, issues of corruption have risen to the top of the development agenda. Many have credited corruption and cronyism with playing a major role in the Asian financial crisis. A growing body of empirical evidence indicates that corruption—the use of public or private office for personal gain—has a strong negative impact on economic and social growth. Various studies have indicated that corruption has added 20–100 percent[1] to the cost of procuring government goods and services in several Asian countries. Corruption can lead foreign investors to look for more transparent and predictable sites.

To extend the Bank's ongoing work on governance, the Board of Directors unanimously approved the Anticorruption Policy on 2 July 1998. The policy is intended to reduce the burden that widespread, systemic corruption exacts from the governments and economies of the region. Specifically, the Bank's policy is centered upon three objectives:

(i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration;
(ii) supporting promising anticorruption efforts on a case-by-case basis and improving the quality of the Bank's dialogue with its developing member countries on a range of governance issues, including corruption; and
(iii) ensuring that the Bank's staff, projects, and programs all adhere to the highest ethical standards.

A task force has been established to oversee the policy's implementation. Bank procurement guidelines have been changed to allow for loan cancellation, blacklisting, and the right for audit, and to require full disclosure of all fees and commissions. The Bank has set up an internal Anticorruption Unit within the Office of the General Auditor to investigate cases of fraud and corruption. New staff guidelines addressing anticorruption issues have been issued. A series of training programs for Bank staff have been initiated, and the Bank is supporting research in areas such as accounting institutions and improving public expenditure management. The Bank is moving to promote anticorruption issues in country programming and to improve project monitoring and supervision. The Bank is hosting a number of global and regional anticorruption initiatives, including the next meeting of the Multilateral Development Bank Coordinating Committee on Governance, Corruption, and Capacity Building, and a joint conference with the Organisation for Economic Co-operation and Development on the relevance of the Anti-Bribery Treaty to Asia.

1 ADB, "Anticorruption Policy" (Manila, 1998), 9.

(i) *Participation, civil society, and social capital*: Mainstreaming participation in the Bank entails modifying the conceptual framework on participation, based on lessons from the field; operational support in projects, sector work, and country strategies; work on policies, guidelines, and procedures; training and information sharing; capacity building in DMCs to strengthen participatory approaches; and networking with other development finance institutions, NGOs, and DMC-based organizations. The piloting of participatory approaches in Bank operations is continuing.

(ii) *Law and development*: A common theme in the Bank's dialogue with many DMCs is the need to address systemic problems that undermine the efficiency and, ultimately, the legitimacy of legal, judicial, and law enforcement institutions. Laws need to be enforced fairly. Predictability, one of the four pillars of governance discussed earlier, relies largely on a legal and judicial framework that is clear, uniform, public, and robust. Among the systemic problems found in many developing countries are delays in court hearings; poor physical infrastructure; low status of judges, and terms and conditions under which they work; weak judicial accountability mechanisms which, in some countries, permit widespread buying of favorable verdicts (particularly in the rural areas); lack of trained support staff and case management systems; and poor state of legal education and training. Accordingly, assistance on specific project-related law reforms also takes into account the need for development of institutional capacity of the legal and judicial systems.

(iii) *Corporate governance and the public-private interface*: Regulatory issues are relevant in every sector, and the development impact of Bank assistance will depend to a major extent on the existence of a sound balance between the public and private interests in the sector in question. While the public-private interface is too diverse to be amenable to meaningful

Box 10. Technical Assistance in Governance and Public Management

People's Republic of China: Study of Extrabudgetary Expenditures and Revenues

This technical assistance for $600,000, approved in December 1996, is helping the Government identify the responsibilities that various levels of the Government will assume under the fiscal reform program announced in March 1994. It will also help the Government redefine the concept and scope of the extrabudgetary funds (EBF) and self-raised funds (SRF), and reinforce the management and distribution of these resources to ensure that expenditure responsibilities are adequately funded and a minimum level of service delivery prevails across the various levels of Government. The technical assistance is expected to rationalize intergovernmental revenue and expenditure assignment, especially at the subprovincial levels, and consolidate budgets to incorporate many of the resources now managed by the Government as EBF and SRF.

Sri Lanka: Institutional Modernization of the Ministry of Finance and Planning

The quality of public administration in Sri Lanka needs strengthening. The Bank's intervention strategy for public administration and public sector reform is based on the assessment of the reform experience of recent years. Elements of an overall public sector reform and strengthening program were proposed to the Government in November 1997. This includes support to institutional modernization of key aspects of public expenditure management. Technical discussions with the Ministry of Finance and Planning (MOFP) revealed specific opportunities for significant improvements in public financial management.

The Bank approved in July 1998 a small-scale technical assistance for $148,000 for institutional modernization of MOFP to improve specific functions of MOFP identified as important and amenable to rapid improvement. It is also expected to help MOFP define the scope and modalities for further institutional modernization of the public finance apparatus. The technical assistance will assist MOFP to (i) create a centralized payroll management system; (ii) improve cash management systems to minimize the opportunity cost of idle balances; (iii) define options to automate pension payments; (iv) strengthen public investment programming, particularly to improve its integration with recurrent budget and, hence, with the medium-term economic framework; and (v) define MOFP's role and limitations in the provision of management and organizational advice to central and subnational government entities. These activities would also systematically involve sector ministries and agencies.

Table 2. Program Loans and Sector Development Program Loans with Governance Components, 1995–1998

Loan Title	$ Million OCR	ADF	Total	Date Approved	Sector
Bangladesh					
Capital Market Development Program	0.0	80.0	80.0	20 Nov 97	Financial
Bhutan					
Financial Sector Intermediation Facility (Policy Loan)	0.0	4.0	4.0	23 Oct 97	Financial
Financial Sector Intermediation Facility (Development Finance Loan)	0.0	4.0	4.0	23 Oct 97	Financial
Cambodia					
Agriculture Sector Program	0.0	30.0	30.0	20 Jun 96	Agriculture and natural resources
Cook Islands					
Economic Restructuring Program	0.0	5.0	5.0	26 Sep 96	Others
India					
Capital Market Development Program	250.0	0.0	250.0	28 Nov 95	Financial
Gujarat Public Sector Resource Management Program	250.0	0.0	250.0	18 Dec 96	Financial
Indonesia					
Financial Governance Reforms: Sector Development Program	1,400.0	0.0	1,400.0	25 Jun 98	Financial
Financial Governance Reforms Support	47.0	0.0	47.0	25 Jun 98	Financial
Capacity Building for Financial Governance	50.0	0.0	50.0	25 Jun 98	Financial
Kazakhstan					
Agriculture Sector Program	100.0	0.0	100.0	23 Nov 95	Agriculture and natural resources
Korea, Republic of					
Financial Sector Program	4,000.0	0.0	4,000.0	19 Dec 97	Financial
Institutional Strengthening of the Financial Sector	15.0	0.0	15.0	19 Dec 97	Financial
Kyrgyz Republic					
Agriculture Sector Program	0.0	40.0	40.0	23 Nov 95	Agriculture and natural resources
Corporate Governance and Enterprise Reform Program Loan	0.0	40.0	40.0	25 Sep 97	Financial
Capacity Building in Corporate Governance and Insolvency	0.0	4.0	4.0	25 Sep 97	Financial
Lao People's Democratic Republic					
Second Financial Sector Program	0.0	25.0	25.0	12 Sep 96	Financial
Marshall Islands					
Public Sector Reform Program	0.0	12.0	12.0	30 Jan 97	Financial
Micronesia, Federated States of					
Public Sector Reform Program	0.0	18.0	18.0	29 Apr 97	Financial
Mongolia					
Agriculture Sector Program	0.0	35.0	35.0	5 Dec 95	Agriculture and natural resources
Financial Sector Program Loan	0.0	35.0	35.0	19 Dec 96	Financial
Nauru					
Fiscal and Financial Reform Program	5.0	0.0	5.0	16 Dec 98	Financial
Nepal					
Second Agriculture Program	0.0	50.0	50.0	22 Jan 98	Agriculture and natural resources
Pakistan					
Capital Market Development Program	250.0	0.0	250.0	6 Nov 97	Financial
Capacity Building of the Securities Market	0.0	5.0	5.0	6 Nov 97	Financial
Papua New Guinea					
Health Sector Development Program	45.0	0.0	45.0	20 Mar 97	Social infrastructure
Health Sector Development Program	0.0	5.0	5.0	20 Mar 97	Social infrastructure
Health Sector Investment Project	0.0	10.0	10.0	20 Mar 97	Social infrastructure
Philippines					
Power Sector Restructuring Program	300.0	0.0	300.0	16 Dec 98	Energy
Samoa					
Financial Sector Program	0.0	7.5	7.5	19 Feb 98	Financial
Solomon Islands					
Public Sector Reform-Program Loan	0.0	25.0	25.0	27 Aug 98	Financial
Privatization of State-Owned Enterprises	0.0	1.0	1.0	27 Aug 98	Financial
Thailand					
Financial Markets Reform Program	300.0	0.0	300.0	19 Dec 97	Financial
Social Sector Program	500.0	0.0	500.0	12 Mar 98	Multisector
Vanuatu					
Comprehensive Reform Program	0.0	20.0	20.0	16 Jul 98	Financial
Viet Nam					
Financial Sector Program	0.0	90.0	90.0	19 Nov 96	Financial

generalizations, the main goal is a regulatory framework that is suited to the characteristics of the sector in question and that protects identified public interests while minimizing private transaction costs. A good regulatory framework does this by fostering accountability, transparency, and predictability in the formulation and application of the rules and regulations (as in the case of Indonesia's Financial Governance Reforms: Sector Development Program loan, *Box 3*). This is especially necessary for issues of corporate governance of public enterprises, which must reflect the general principles of good private management as well as the interests of the state as owner, in furtherance of some public aim. The general influence on good governance of market-based and other nongovernment mechanisms is also important. First, contestability, i.e., the possibility of market entry, can sometimes be as effective as actual competition to stimulate good public sector management. (A lively and competent private audit capacity has implications for the efficiency of public audit; a competitive private labor market influences positively human resource management in the public sector; an efficient financial market helps foster public financial accountability; and so on.) Second, actual competition is optimal for the effectiveness of the public-private interface.[19]

(iv) *Governance considerations in sector and project work*: Governance aspects of sector and project operations can be incorporated in the Bank's work through improvements in project approach and design rather than through radically different projects. Rarely will a sector strategy or a project have governance improvements per se as its central focus. However, all sector strategies and projects should consider the possibility of strengthening accountability mechanisms, reducing the cost of information, or improving predictability—even if no particular action turns out to be appropriate to the situation at hand. Thus, more effective incorporation of governance considerations at the sector and project levels should flow from individual manager's leadership, a better-equipped staff, and career incentives consistent with the time and effort required.

(v) *Core government functions at the national level*: Empirical evidence underlines the strong link between capable government and economic growth.[20] Technical assistance or program lending can help DMCs in areas such as (a) revenue administration; (b) public expenditure management, from budget formulation through budget execution and audit; and (c) public administration and civil service, including policy coordination and machinery of government. Public expenditure management can be further subdivided between

19 A good case in point is private involvement in power generation, where direct negotiation of build-operate-transfer projects has sometimes led to excessive tariffs or overcapacity.

20 Peter Evans and James Rauch, *Bureaucratic Structure and Economic Growth: Some Preliminary Analysis of Data on 35 Developing Countries* (Berkeley, California: University of California, 1996).

the "upstream" issues of budget formulation (including the link to the overall fiscal and macroeconomic framework) and the "downstream" issues of budget execution and monitoring, including procurement and audit.

(vi) *Decentralization:* Priorities for Bank support include (a) promoting intergovernment fiscal relations and finance; (b) strengthening government institutions at the subnational level; and (c) enhancing the delivery of critical municipal services. Many Asian governments have developed or are starting to implement ambitious decentralization schemes. Although such initiatives hold long-term promise for more responsive and effective service delivery, in the near term there is a critical need for assistance in developing an appropriate division of labor among central, regional, and municipal governments. This is a particular concern in settings with limited administrative and financial capacity and low levels of accountability. If decentralization means only a shift in the control of resources to local institutions monopolizing task-related roles, service delivery performance may suffer from low capacity and weak accountability. A more promising model would be to promote networks of service delivery partners, including central and local government agencies, private businesses, and NGOs. By increasing the number and diversity of partners, accountability will be increased, risk reduced, and public sector tasks better adapted to local needs.[21]

The Bank is fully committed to its transformation into a broad-based development institution, of which governance is a core dimension. While the transformation in Bank operations is well under way, to be sustainable it requires, among other things, appropriate organizational arrangements, and a small core of specialist staff in the various areas of public sector management and institutional development. Some specialist staff have been brought on board already, and the required core should be in place by the end of 1999. The new organizational arrangements revolve around a Governance and Public Management Cluster,[22] which assembles all Bank specialists in the area (including focal points from each operational department and from central units). Governance is too important to be marginalized or isolated into any single office at the Bank. It must become an integral part of all analytical, lending, and technical assistance activities. Hence, at

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21 John M. Cohen and Stephen B. Peterson, "Administrative Decentralization: A New Framework for Improved Governance, Accountability and Performance," Development Discussion Paper No. 582 (Harvard University, 1997).

22 The cluster is intended as a mechanism to prevent fragmentation of efforts as well as to make Bank activities cost-effective, by (i) giving the members a venue for professional interaction; (ii) providing the Bank with quality control advice, guidance in training and recruitment, and leadership in applied research and dissemination activities; (iii) serving as a focal point for partnership with other institutions, and as a mechanism to soften boundaries among the Bank's departments and offices; and (iv) making the Bank specialists available for work throughout Asia. The cluster is coordinated by the Senior Advisor for Governance and Public Management in the Strategy and Policy Office.

the top of the immediate agenda is the mainstreaming of governance activities into the Bank's operational departments. At the same time, the Bank is ensuring that governance considerations are appropriately incorporated into other policies being formulated and is actively monitoring implementation of the governance and anticorruption policies.

The Bank is well aware that its external credibility is partly a function of the internal adjustments it makes to adapt to its new role as a broad-based development institution. Thus, in addition to recruiting specialist staff and introducing efficient organizational arrangements for governance, the Bank is making all necessary efforts to mainstream governance considerations throughout the institution, and to streamline the Bank's own business processes and operational procedures. In particular, the Bank has strengthened its procurement policy, has updated its Code of Conduct for staff, and created independent reporting mechanisms to address allegations of corruption among Bank staff and in Bank operations, and is improving the quality of oversight and management of its loans and technical assistance.

One may anticipate that, by the end of 1999, the Bank will be well on its way to assuming a lead role for governance and public management in the Asian and Pacific region. Given the delicate nature of the topics and the vastness of the problems and of the region, the Bank will also use to the maximum all possibilities for constructive partnership with other institutions. It is expected that the enhanced role of the Bank in this area will not only raise the effectiveness of its own assistance, but also facilitate efforts by its partners to improve the impact of all external assistance to the countries of the region.

Next steps

The Bank reacted quickly to the Asian financial crisis by supporting banking, financial sector, and corporate governance reforms; fiscal decentralization; and structural reforms in health, education, and labor market policies. Aside from the response to the crisis, new governance policies are in place, specialized staff are being recruited, and Bank loans and technical assistance are increasingly targeted at improving governance in DMCs.

The basis for concerted and successful assistance has been laid. For this initial progress to be consolidated and expanded, progress in three priority areas is needed in the medium term: (i) better diagnostic tools and drawing on knowledge of good practice, (ii) improved implementation processes for governance reforms, and (iii) tracking evolving notions of good practice.

(i) *Better diagnostic tools and drawing on knowledge of good practice:* All governments need some basic capabilities to carry out essential functions effectively. The Bank needs to draw on appropriate knowledge, including manuals and guiding principles, to define good practices that most DMCs should consider. Diagnostic tools can help DMCs monitor their governance reforms.

As noted at the outset of this chapter, the application of models evolved elsewhere has historically led to major problems in countries that have very different income levels, implementation capacities, and institutional landscapes. Careful and realistic assessment is needed of the costs and benefits of possible institutional innovations, in light of the characteristics and administrative capacity of the individual country. The Bank can build on recent work of other international organizations, as it pulls together knowledge about good practices and diagnostic tools in this complex area.[23]

The main efforts at external dissemination of good practice will revolve in 1999 and 2000 around a series of in-country workshops on public expenditure management, civil service/public administration, and local government, eventually covering every DMC in the Asian and Pacific region. The Bank's Strategy and Policy Office is producing manuals and handbooks for these workshops in cooperation with staff of OECD, and with the advice of individual experts from other major international financial institutions and academia. Also, accountability institutions and mechanisms in different countries will be reviewed. Finally, several new technical assistance operations are ongoing or under preparation (*Box 11*).

(ii) *Improved implementation processes for governance reforms:* As manuals and diagnostic tools are developed and governments set strategies for organizational development and policy reform, the second priority for medium-term improvement is the processes for carrying out these strategies. The Bank needs better processes for addressing governance concerns in its projects, and for anticipating and dealing with crosscutting governance issues affecting the Bank's project portfolio in each DMC.

Too often the Bank and other development partners invest large sums to design institutional reforms that are not effectively implemented.[24] Again, the Bank is fortunate to be able to build on recent work by other organizations.[25] The following are the lessons of this work.

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23 See, for example, World Bank and UNDP, "Special Program of Assistance," *Guiding Principles for Civil Service Reform* (Washington, DC and NY, 1995); World Bank and ADB, "Civil Service Discipline and the Budget Structure" (draft, 1999); John M. Cohen and Stephen B. Peterson, "Administrative Decentralization Strategies for the 1990s and Beyond" (NY: United Nations Secretariat, 1995); IMF, *Manual on Fiscal Transparency* (Washington, DC: IMF, 1998); IFAC, *Auditing for Compliance with Authorities: A Public Sector Perspective* (New York, NY, 1994); IFAC, *Guidelines for Governmental Financial Reporting* (exposure draft, 1998); South Pacific Forum Secretariat, UNDP, and Pacific Financial and Technical Assistance Center, "Accountability Stocktake Questionnaire" (Suva, Fiji: South Pacific Forum Secretariat, 1998); Jeremy Pope, *National Integrity Systems: The TI Sourcebook* (Berlin: Transparency International, 1996); CIET International, *Community Voice in Planning in Pakistan: Sentinel Community Surveillance* (New York: CIET International <http://www.ciet.org/www/text/asia.html#pakistan>); and CIET International, *Nepal Multiple Indicator Surveillance, Second Cycle–Primary Education: Final Report* (New York: CIET International, 1996).

24 See, for example, ADB, *Assessment of the Effectiveness of Bank Technical Assistance for Capacity Building to Vanuatu* (Manila, 1996); ADB, *Assessment of the Effectiveness of Bank Assistance for Capacity Building to Western Samoa* (Manila, 1995); and Louise G. White, *Implementing Policy Reforms in LDCs* (London: Lynne Rienner, 1990).

25 See, for example, UNDP, *Process Consultations: Systemic Improvement of Public Sector Management* (New York, NY: UNDP, 1995).

Box 11. Major Activities for External Dissemination in Core Governance

Public Expenditure Management and Public Administration[1]

The objective of this regional technical assistance (RETA) is to improve the practice of public administration, with specific emphasis on expenditure management, among Bank members. It supports work in three areas: (i) strengthening public expenditure programming and financial management, (ii) reviewing key aspects of public administration and civil service reform, and (iii) describing the main issues and options for effective local governance.

Three sets of outputs are expected: (i) a public expenditure management manual, (ii) a public administration and civil service guidebook, and (iii) a local governance sourcebook. They are to be produced by Bank staff, in collaboration with the ADB Institute and in consultation with top international experts in the respective areas from major international organizations as well as academia. These manuals will be the basis for in-country workshops for upper and middle-level managers in developing member countries, to be conducted in 1999 and 2000, and will eventually cover all countries of the region.

Accountability Mechanisms in the Asian and Pacific Region[2]

While the Bank is already active in strengthening several key accountability institutions such as Supreme Audit Institutions, this RETA will systematically examine the various institutional mechanisms for advancing managerial, legal, and public accountability. Detailed case studies will be compiled, including analysis of several core and line accountability functions, and the agencies or departments that provide them; review of central mechanisms for policy coordination and implementation; and examination of the functioning of key institutions such as anticorruption agencies and ombudsman offices.

A number of governance strategy studies are also being initiated, to serve both as inputs into country strategies and as the basis for constructive interventions suited to the requests and specific characteristics of each country. Studies for the Lao People's Democratic Republic and Viet Nam are under way; those for Cambodia and Thailand will be initiated in early 1999. Finally, the RETA will support a joint ADB/ Organisation for Economic Co-operation and Development seminar on anticorruption, covering both the internal aspects of the issue and the likely contribution from the Anti-Bribery Treaty.

1 RETA 5813: *Public Expenditure Management and Public Administration,* for \$500,000, approved on 27 October 1998.

2 RETA 5829: *Accountability Mechanisms in the Asian and Pacific Region*, for \$500,000, approved on 31 December 1998. Cumulative Bank lending since the Bank's inception in 1966 to the end of 1998 amounted to \$77.3 billion for 1,500 projects in 37 DMCs.

- Governance reforms should take place within the context of a comprehensive vision that is coherent, owned, and public.
- Reforms should be sequenced in ways that consider underlying political opportunities and constraints.
- Organizational changes are only likely to take hold if fully understood and supported by the stakeholders concerned. External agents can suggest improvements based on their knowledge of good practice from other countries, but the leadership of the change process should be from those that will have to live with the changes.

One might say that DMCs need to adopt the "Noah Principle" of management: "No more prizes for predicting rain; only prizes for building the ark."[26] The difficulty is in finding leverage points that can be empowered to bring about the required changes in practice. Some of the steps needed are as follows.

- Identify leverage point(s) in each country, which might be a government ministry, parliament, the judiciary, ombudsman's commission, NGO, women's rights group, local government body, or religious organization.
- Select leverage points based on demonstrated commitment to good governance, and leadership potential for changes that can ripple through government and civil society.
- Build capabilities of leverage points through advice and proper incentives, including training on strategy and systems, action planning workshops, access to knowledge about best practices, and links to professional networks.

This will be a two-tiered approach. The first tier will be the leverage point. The Bank will proactively seek this out, based on the criteria above. The second tier will be weaker organizations that have not yet demonstrated their commitment and effective contribution to good governance principles. The Bank will directly support the first tier, and use it as a catalyst for change of the second tier. This assumes that commitment in the second tier is best forged by national leverage points, rather than directly by the Bank.

(iii) *Tracking evolving notions of good practices:* The Asian financial crisis shows that change can be rapid and unpredictable at the dawn of the 21st century. Institutional forms that have worked in the past are being continuously challenged and reinvented. Governments cannot be left behind in this change process. Some of the institutional forms best suited to achieving good governance will be changing. The Bank will be tracking these trends, and advising DMCs on them.

The explosive growth of electronic networks is already facilitating new forms of citizen participation in governance, and new organizational forms. For example, an increasingly common form of business organization is set up around individuals and small businesses linked by the Internet. Tasks are carried out by independent contractors without layers

26 David Osborne and Peter Plastrik, *Banishing Bureaucracy* (Reading, Mass.: Addison-Wesley, 1997), 245.

of managers, deadlines, budgets, and other traditional control systems of bureaucratic hierarchies. This emerging organizational form is perhaps best understood from a metaphor.

> "When we look up in the sky and see a flock of birds flying in formation, we tend to assume that the bird in front is the leader and is somehow determining the organization of all the other birds. In fact, biologists tell us, each bird is following a simple set of rules—behavioral standards—that result in the emergence of the organization. The bird in front is no more important than a bird at the back or a bird in the middle. They are all equally essential to the pattern that they're forming."[27]

These and other changes are already encouraging nations to adhere to global standards to compete for trade and investment. Some aspects of sovereignty, such as those related to economic regulation and public accountability, are becoming structured around international instruments. Even though these are normally legally nonbinding, there are still agreed mechanisms for surveillance and compliance.[28]

No one can predict the speed or the extent to which these changes will alter the face of governance in DMCs. Yet it is necessary to conceive of completely new organizational landscapes where underlying good governance values will not only likely prevail, but also where the way governments carry out their business drastically changes. The Bank will work to keep its governance policies, manuals, and diagnostic tools fully up to date on emerging practices from the region and beyond, and draw from these practices to give DMCs support appropriate to their cultural, historical, and economic situations.

Governance institutions are also changing. Many governments are changing the way they do business, forming partnerships, contractual arrangements, and electronic networks with private businesses, NGOs, and individual citizens to develop public policies and deliver public services. As these trends continue, large, hierarchical government organizations in DMCs may give way to smaller, network-facilitating groups, joining with various partners to carry out particular tasks, all of whom can work together because they follow the agreed "rules of the game."

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27 Thomas W. Malone and Robert J. Laubacher, "The dawn of the e-lance economy," *Harvard Business Review* (1998), 76, 5: 152; see also Murray Weidenbaum and Samuel Hughes, *The Bamboo Network: How Expatriate Chinese Entrepreneurs Are Creating a New Economic Superpower in Asia* (New York: Martin Kessler Books, 1996); Paul Krugman, *The Self-Organizing Economy* (Cambridge, Mass.: Blackwell, 1996); and Robert J. Laubacher, Thomas W. Malone, and the MIT Scenario Working Group, "Two Scenarios for 21st Century Organizations: Shifting Networks of Small Firms or All-Encompassing Virtual Countries?" (Cambridge, Mass.: Massachusetts Institute of Technology, 1997); and Jessica Lipnack and Jeffrey Stamps, *The Age of the Network: Organizing Principles for the 21st Century* (New York: John Wiley & Sons, 1994).

28 These include, inter alia, standards of international intergovernment organizations such as the World Trade Organization, regional intergovernment organizations such as the South Pacific Forum, and standards of professional bodies such as the International Federation of Accountants. See, for example, Wolfgang H. Reinicke, *Global Public Policy* (Washington, DC: Brookings Institution Press, 1998).

Summary and conclusions

Issues of governance are at the center of challenges facing the Bank's DMCs. Over the last five years, the Bank has deepened its thinking on governance matters, including legal and judicial reform, combating corruption, and banking and financial sector strengthening. This thinking, and the underlying policies based on it, helped the Bank to respond quickly to the Asian financial crisis.

The Bank will further deepen its understanding of the basic principles of good governance, and evolve notions of good governance practice. It will help DMCs adapt these ideas to local conditions, and help them manage the risks of complex governance reforms.

Future government organizations may look very different from those we see today, but the basic principles will stay the same. As Republic of Korea President Kim Dae-jung recently pointed out,

> "Looking back on the past year of reform, I can draw one important conclusion. It is that introducing new laws and institutions alone is not enough. Reform can succeed only when these institutional changes are accompanied by changes in people's attitude. This is the real test."[29]

29 From an address delivered by the President of the Republic of Korea, Kim Dae-jung, at the Conference on Democracy, Market Economy and Development, February 1999.

Operational Priorities

Strategic development objectives

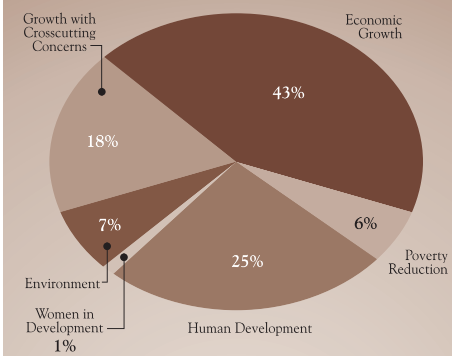
The Bank's strategic development objectives continue to embody its overriding mission in the Asian and Pacific region: to promote economic growth, reduce poverty, support human development, improve the status of women, and protect the environment. These objectives, which were endorsed by the Board of Directors in 1995, set the goals for Bank operations under its *Medium-Term Strategic Framework 1995–1998*. Charts on the Number of Public Sector Projects by Primary Strategic Development Objective, 1991–1998 and Volume of Public Lending by Primary Strategic Development Objective, 1991–1998 indicate the distribution of the strategic development objectives among Bank projects during the eight-year period. To achieve these objectives, the Bank has been focusing on the following operational priorities: (i) policy support, (ii) capacity building for development management, (iii) support for physical and social infrastructure, (iv) private sector development, and (v) regional cooperation. It is increasingly recognized that a good policy environment and efficient institutions are the necessary conditions for effective Bank assistance and project implementation.

In 1998, the environment for realizing these strategic development objectives changed. First, the extent and implications of the ongoing financial crisis significantly changed the region's socioeconomic environment and the Bank's assessment of that environment. Unlike in prior years, "generally strong economic growth with increased flows of private investment based on an overriding confidence in regional governments" could no longer be a planning assumption. Neither could it be said that the development process is led by the private sector, at least not in the medium term. The Bank's role to assist its developing member countries (DMCs) in expediting their policy reforms and restoring investor confidence will become increasingly important.

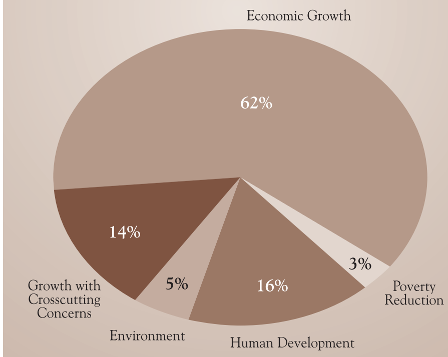
At the same time, the Bank's own institutional environment has changed. Increasingly tight constraints on its financial resources require more careful assessment of how the Bank can continue to meet its DMCs' needs. A country assistance plan cannot be formulated without consideration of the medium-term availability of ordinary capital resources (OCR) and Asian Development Fund (ADF) resources. Management of net cash requirements can no longer be based on a historical projection of disbursement profiles, but must take explicit account of the shift toward quick-disbursing program lending as a result of the Bank's emergency assistance for the crisis-affected DMCs. In general, Bank financial planning and resource mobilization can no longer be viewed as a support function but need to be fully integrated as part of mainstream operational decision making.

Second, stakeholders' objectives have been refocused. The Board of Directors represents the Bank's primary stakeholders: DMCs and donor

Number of Public Sector Projects by Primary Strategic Development Objective,[a] 1991-1998



Volume of Public Lending by Primary Strategic Development Objective,[a] 1991-1998



a Loan projects, excluding technical assistance loans, are classified in terms of the Bank's strategic development objectives: (i) promoting economic growth; (ii) reducing poverty; (iii) supporting human development (including population planning); (iv) improving the status of women; and (v) protecting the environment. Public sector projects are assigned a maximum of two objectives: one primary and one optional secondary. Projects are classified as having social or environmental objectives only if they are designed to specifically and primarily address poverty, human development, status of women, or the environment, and if their expected impact in terms of benefits and beneficiaries is adequately documented and fulfills the relevant classification criteria.

countries. Borrowers directly affected by the ongoing crisis are, by necessity, narrowing their focus on immediate priorities such as social safety nets, bank and enterprise restructuring, and realistic medium-term recovery plans. DMCs only indirectly affected by the crisis are also paying sharper attention to the management of their financial and public sectors, while sustaining their ongoing programs in the productive and social infrastructure sectors. All development organizations are now increasingly concerned with issues of governance and anticorruption, as well as crisis alleviation and recovery.

Third, financial resources are much more constrained. The lending and borrowing headroom of OCR has been reduced as a result of the unforeseen assistance provided to the crisis-affected DMCs. As a result, the Bank's capital adequacy needs to be reviewed. In the case of ADF, exchange rate movements have reduced the commitment authority. The issue of commitment risk may need to be reexamined in the future.

Fourth, factors undermining sustained economic transformation must be addressed. The transformation that has been experienced by a significant number of DMCs is giving way to new challenges. These include expediting structural reforms, improving governance, combating corruption, widening political and social inclusiveness, and assuming greater environmental responsibility. These new challenges are faced by the part of the region's population that has not benefited much from the economic expansion in Asia, namely, the region's rural and poor people who suffer from traditional economic and social problems of developing countries. At the same time, the countries that directly benefited from the expansion but are now feeling the impact of the financial crisis need to include crisis alleviation and recovery in their development agenda. In this, for example, the Bank could support governments in restructuring the financial markets and banking subsector, and providing social safety nets to restore investor confidence and expedite the recovery process.

Given the above changes in the Bank's operating environment, the following strategic priorities are being pursued.

(i) The Bank has broadened its role beyond being a project financier in each DMC but, at the same time, is exercising much more selectivity in sectors, issues, and projects to maximize both project quality and the development impact of the Bank's scarce resources. This requires the development of well-focused sector strategies at the country level.

(ii) The Bank is concentrating on its areas of strength, such as dealing with crosscutting issues on environment and social development, and supporting policy reforms in the areas of transition from centrally planned to market economies. It is introducing institutional reforms, particularly through capacity building and the promotion of good governance practices; DMCs' resource mobilization is being encouraged through the development of well-functioning financial markets, cofinancing, promotion of private sector, provision of public infrastructure, and formulation and arrangement of infrastructure funds. Subregional economic cooperation is also encouraged.

(iii) The allocation of Bank resources is being based on a closer review of critical needs, performance, and absorptive capacity.

(iv) The Bank is continuing its efforts to improve portfolio management, including "spring-cleaning" aimed at canceling nonperforming loans, and allocating adequate staff and budget resources to ensure that project administration action plans are accomplished.

(v) The Bank is working to ensure effective implementation, at the country level, of the following recently approved Bank operational policies: involuntary resettlement, cooperation with nongovernment organizations (NGOs), indigenous peoples, gender and development, good governance, and anticorruption; as well as the new policies on graduation and ADF allocation among DMCs. To this end, Policy Coordination Units have been set up in the Bank's Programs Departments to mainstream crosscutting issues and strengthen coordination of Bank operations.

(vi) Where possible, the Bank is pursuing a project financing strategy that maximizes recipient financing and cofinancing for Bank-assisted projects.

(vii) The Bank is an active catalyst in assisting DMCs in arranging cofinancing through effective use of the Bank's complementary financing scheme (CFS) and guarantee facilities.

(viii) Sustained growth in the region can be achieved only if there is stable and robust private sector development. The Bank will continue to assist the DMC governments in creating a market-friendly environment for private sector development.

Promoting economic growth

The Bank views economic growth as a fundamental and necessary approach to achieving economic development and reducing poverty, but at the same time invests in social development and environmental protection as a means for improving the living conditions and quality of life of the region's peoples.

Growth projects are now increasingly designed to achieve the overarching objective of reducing poverty in each DMC, or incorporating project components targeted at poverty reduction.

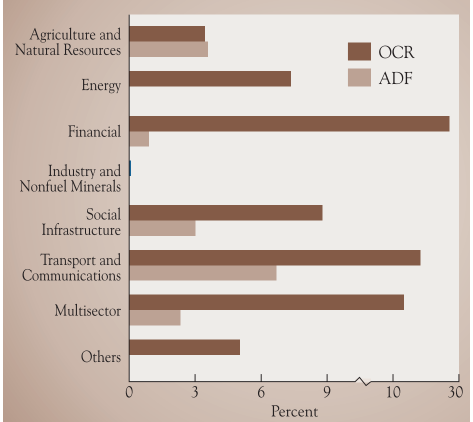
In 1998, the Bank lent $3.2 billion for 20 projects with economic growth as the primary objective. This represents about 41 percent of the total project number and 56 percent of the total lending volume in the public sector. Policy-based program lending accounted for 51.6 percent of the OCR ($2.5 billion) and 12.4 percent of the ADF resources ($122 million) in 1998.

The Bank's growth projects in 1998 contributed significantly to the Bank's strategic objectives in each sector.

In the agriculture and natural resource sector, the Bank financed two projects with economic growth as the primary objective—the Second Agriculture Program loan in Nepal and the Fisheries Development Project in Papua New Guinea—for a total of $56.5 million. *For more details on the agriculture and natural resource sector, see box on page 40 and the section on the agriculture and natural resource sector in Table 12 in the Statistical Annex.*

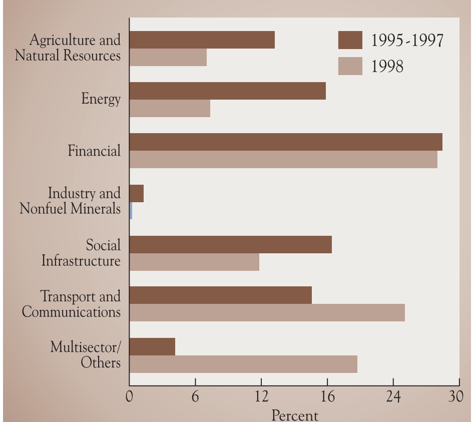
The Bank financed two energy sector projects, excluding a private sector project, in 1998 for a total of $400 million: the Yunnan Dachaoshan Power Transmission Project in the People's Republic of China (PRC) and the Power Sector Restructuring Program in the Philippines. Both had economic

Sectoral Distribution of Loan Approvals from OCR and ADF,[a] 1998



a Percent of total approved loan commitments.

Sectoral Distribution of Loan Approvals: 1995-1997 (average) and 1998 - By Value[a]



a Percent of total approved loan commitments.

growth as their primary objective. In 1998, the Bank also engaged in policy dialogues with a number of its DMCs regarding their energy sector programs (*see box on page 41 for highlights of these discussions*).

In 1998, nine projects with economic growth as their primary objective for a total of $1,160 million were financed in the transport and communications sector; these exclude a private sector project. Projects included the Phnom Penh to Ho Chi Minh City Highway Project, the first Greater Mekong Subregion (GMS) project; the Second Road Rehabilitation Project in the Krygyz Republic; road improvement projects in Sri Lanka and Viet Nam; road and railway rehabilitation projects in Uzbekistan; and the Chengdu-Nanchong Expressway, Changchun-Harbin Expressway (Hashuang), and Changchun-Harbin Expressway (Changyu) projects in the PRC.

In 1998, in the financial sector, the Bank focused on the regulatory framework, capital markets, corporate governance, and bank restructuring (*see box on page 43*).

Bank Support for Agriculture and Natural Resources

Nineteen ninety-eight was marked by two important events: a deepening regional financial crisis, and extreme weather patterns attributed to the El Niño and La Niña phenomena. These twin developments highlighted the need for sustainable growth in the agriculture and natural resource sector, to absorb labor, reduce poverty in rural areas, and serve as a foundation for economic recovery.

With industry sector output stagnating or shrinking, some developing member countries (DMCs) are experiencing urban-to-rural migration, as unemployed workers seek their livelihood in agriculture. However, fiscal austerity measures have restricted the ability of DMCs to respond by stimulating the rural economy with increased agricultural extension services and support for rural enterprise development. This increased pressure in rural areas has served to highlight weaknesses in the policies and institutions of the rural economies in DMCs.

The crisis was exacerbated by abnormal weather conditions in 1998. Drought conditions in Indonesia, Papua New Guinea, Philippines, and some Pacific countries led to a fall in food production. At the same time, severe floods in Bangladesh and the People's Republic of China reduced food and export crop production, and destroyed rural infrastructure.

The Bank's overall strategy in the agriculture sector reflects a long-term commitment to increasing farm income, improving agricultural productivity through critical policy reforms, and improving government institutions while reducing dependence on them, by promoting market efficiency, private sector participation, decentralization, and sustainable use of natural resources. In the public sector, technical assistance and loans focus on strengthening the institutions involved in agriculture, water, and forests, and improving the physical infrastructure for irrigation and farm-to-market links. At the community level, Bank operations focus on greater participation by resource users in the management and maintenance of resources, and on extension services. These activities directly reduce the burden on DMC governments facing fiscal constraints during the crisis.

The Bank's 1998 program addressed rural poverty through microfinance and agrarian reform projects and technical assistance designed to broaden income-generating opportunities, diversify rural economies, and empower women. In rural areas hard hit by inclement weather, the Bank provided emergency assistance in support of food production and infrastructure rehabilitation.

Environmental concerns are also integrated in the program for agriculture and natural resources. For example, the Bank emphasizes the adoption of a river basin approach to water resource development and use.

In 1998, loans to the agriculture and natural resource sector totaled $420.9 million for 12 projects in 6 countries. In addition, 31 technical assistance grants were approved, amounting to $30.4 million, in support of project preparation, institutional strengthening, research activities, policy reform, and services enhancement.

Reducing poverty

The magnitude of the task of addressing poverty in the Asian and Pacific region is immense. Poverty remains a serious condition for what now is approaching one billion people, a significant number of whom live in abject poverty. The financial crisis in several countries in the region has added to the problem.

The Bank works toward realizing its strategic objective of poverty reduction through targeted assistance that combines support for economic growth and the creation of employment- and income-generating opportunities. It uses initiatives that will improve access to services such as health care, education, and family planning, along with broader initiatives focused on crosscutting concerns, such as gender equity and environmental protection and improvement.

Consideration of poverty issues is integral to the Bank's operations, in programming processes, loan and technical assistance work, and policy development. At the country level, the Bank provides specific support for policy reform that results in more opportunities for the poor and a policy environment that more effectively supports poverty reduction.

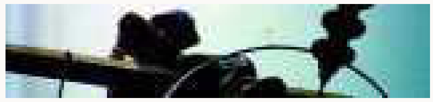
Target groups in poverty reduction include the landless, small farmers, upland communities, and disadvantaged groups in both urban and rural areas. Operational areas that have the most direct bearing on poverty reduction include rural development, microfinance, social services delivery, education, urban development, irrigation, and disaster rehabilitation. Poverty issues are central concerns in both country programming processes as well as in loan and technical assistance activities.

Eighteen of the Bank's 50 public sector projects in 1998 (this number excludes private sector and engineering technical assistance loans) included poverty reduction as a primary or secondary objective. Projects with poverty reduction as a primary objective included the Rural Livelihood Project in Bangladesh and the Agrarian Reform Communities Project in the Philippines. One technical assistance project approved during the year provides specific support for regional consultations on strategies for reducing poverty. Other technical assistance projects approved during the year address various aspects of poverty reduction, within the context of project operations as well as events such as the Asian financial crisis, and in the context of policy guidance for individual DMCs.

During 1998, the Bank examined its strategies and policies that address poverty reduction, with a view to establishing a specific poverty reduction policy. As part of this process, the Bank began an intensive internal review and held external consultations with government officials, other development institutions, NGOs, and communities.

The Bank continues to shift its focus of project design, monitoring, and evaluation away from an emphasis on inputs, toward outputs, benefits, and impact. To this end, the Bank continued to evaluate and measure the effects of its operations on poverty reduction.

The Bank is an active participant in international efforts toward poverty reduction, such as the Consultative Group to Assist the Poorest and the second international Microcredit Summit.



Policy Dialogue in the Energy Sector

Following the proactive steps taken to assist power subsector restructuring in the Philippines, similar steps were taken in Indonesia through extensive policy dialogue. Policy dialogue was also held in the People's Republic of China (PRC). This dialogue focused on promoting specific investments for power plant rehabilitation and adopting clean coal technologies. Continued emphasis was placed on strengthening the enabling environment in the PRC for private sector participation in power generation.

In addition, the Bank continued to promote good governance and institutional reforms in its energy sector operations. For example, the Bank continued to arrange annual donor coordination meetings in Bangladesh to promote reform and restructuring of the electric power and hydrocarbon subsectors. In the hydrocarbon subsector, the Bank provided technical assistance to fully unbundle gas subsector operations, promote private sector participation in gas transmission, and eventually privatize gas distribution system facilities. Efforts to improve Bangladesh's electric power system operations are continuing with the scheduled transfer of assets from the old statutory authorities to newly established corporatized entities. The Bank continued to play an important role in energy sector operations in the Greater Mekong Subregion (GMS)[1] through its five Electric Power Forums (one in 1998), as well as through its newly established biannual Experts Group meetings on Power Interconnection and Trade among the GMS countries. In Sri Lanka, the Bank took a lead role in conducting an energy sector strategy study, which recommends reform and restructuring of the power subsector and the introduction of private sector participation in generation.

1 Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam, and Yunnan Province of the PRC.

Policy Dialogue in the Transport and Communications Sector

In 1998, in the transport and communications sector, significant emphasis was placed on supporting sector policy and institutional reforms to enhance the sustainability of the projects. Private sector participation in the financing and operation of the projects was also emphasized.

In addition, in its policy dialogues with the governments of its developing member countries, the Bank stressed institutional reform through the introduction of corporatization, commercialization, or privatization. The Bank also emphasized setting tariffs, based on commercial pricing policies, to encourage commercialization in the railway and port subsectors. For the road subsector, policy dialogue focused on road maintenance sustainability, road user charges, and road safety.

The Bank not only builds transport infrastructure with the help of the private sector, but also promotes road safety and traffic management.

Supporting human development

The Asian and Pacific region has made significant progress in improving human development indicators, although many shortcomings remain to be addressed. The incidence of illiteracy, infant and child mortality, and maternal mortality are high in some countries in the region. Many children still are not enrolled in school, or they drop out before completing their primary education. Women and other vulnerable groups still lack access to such basic necessities as basic education, adequate water supply and sanitation, housing, and primary health care. Investments in human development are essential to promoting sustainable economic development and improving the lives of the poor in the region. The Bank supports human development through loans and technical assistance, institutional strengthening and capacity building, and policy reforms. In 1998, the Bank continued to support human development through investments in education, health and nutrition, water supply and sanitation, and urban development and housing (*details on each sector are provided in the boxes*). Out of a total of 50 public sector projects approved in 1998, excluding private sector and engineering technical assistance loans, 12 projects were for social infrastructure, with human development as their primary aim. As part of the consultative process for preparing an education sector policy paper, to be submitted to the Board of Directors for consideration in 1999, the Bank convened a seminar under an ongoing regional technical assistance to review the status of education in the Asian and Pacific region and to identify policy trends and issues. The results of the seminar are incorporated in the education sector policy working paper.

As a key element of the Bank's efforts to strengthen its support for human development, a health sector policy working paper was discussed by the Board of Directors. The paper strongly emphasizes the link between investment in primary health care, and economic growth and productivity. It reviews the status of health in the region, analyzes the main issues, identifies priorities for Bank support, and provides a framework to guide the Bank in future investment in the sector. The Bank's overall approach is to assist DMCs to ensure that their citizens have broad access to primary health care, which includes preventive, promotive, and curative services that are efficacious, cost-effective, and affordable. It is the intention that the Bank would increase its health sector operations based on five strategic considerations: (i) improving the health of the poor, women, and indigenous groups; (ii) focusing on achieving measurable results; (iii) testing innovative approaches; (iv) encouraging governments to take a more active role in health sector reform; and (v) strengthening health management capacity.

Urbanization is strongly linked to economic growth and has positively contributed to the gains made in many DMCs. At the same time, the rapid rate of urbanization has overwhelmed those tasked with managing urban areas, particularly the poorer countries in the region. Measures to improve the management and operation of urban services benefit both local and national economies, enhance the quality of life, and reduce urban poverty.

It is within this context that the Bank encourages an integrated approach to urban development, extending assistance in the subsectors of water supply and sanitation, solid waste management, flood control, drainage, roads, urban transport, land development, slum improvement, and housing for low-income communities.

The Bank pursues a strategy of sustainable urban development that aims to strengthen the institutional capacity, capability, and operational efficiency of agencies and institutions responsible for the delivery, management, and maintenance of urban services. Bank projects emphasize measures to mobilize local resources through improved revenue collection, cost recovery, user charges, private sector participation, and contracting out of public services. Innovative techniques and approaches in these areas are introduced through the Bank's technical assistance and training activities.

In recent years, the Bank has done considerable work on megacity management and urban infrastructure finance, and investment programs for environmental rehabilitation are being formulated in Metro Manila and Shanghai.

Improving the status of women

The Bank recognizes that improving the status of women is integral to achieving its other strategic development objectives, such as poverty reduction, economic growth, and the development of a healthier and better educated society. Investments that benefit women are widely acknowledged as crucial to development. Poor health, low levels of education and training, and limited access to resources not only limit the quality of life for women, but also limit the contribution of women to economic growth, efficiency, and the sustainability of development. Policies and investments that improve the status of women have specific benefits, such as improved public health, lower infant and maternal mortality, lower fertility rates, increased life expectancy, and reduced welfare costs.

Bank Support for the Financial Sector

In the financial sector, the Bank focused on the following areas in 1998.

Regulatory framework: The Bank worked to enhance transparency/accountability and restore investor confidence by strengthening financial sector supervision and prudential norms supported by an independent regulatory authority. Standards for capital adequacy, loan classification, and loan-loss provisioning should be consistent with international standards. A legal framework, such as bankruptcy and foreclosure laws, needs to be put in place for resolving nonperforming loans of distressed financial institutions. Liberalization of foreign investment rules on foreign ownership of banks and corporations is being encouraged in parallel with banking and corporate sector restructuring.

Capital markets: Recognizing that the lack of long-term capital markets in Asia caused excessive reliance on foreign short-term capital, it is important in the long term to mobilize domestic saving and develop long-term capital markets (stocks and bonds), with particular emphasis on the government bond market as a benchmark. This will diversify the source of capital, reduce the risk of capital flight, stabilize the supply of capital, and improve the allocative efficiency of the financial markets.

Corporate governance: Greater efforts were directed at improving financial and corporate governance through information disclosure and stricter accounting standards. Enhancing transparency and accountability in private and public corporations ensures better corporate monitoring by the capital market and reduces the risks of corruption and fraudulent transactions. In addition, introduction of new corporate laws will increase competition and realign interests of corporate management and shareholders through the restructuring of boards of directors and/or management. The legal process of bankruptcy and foreclosure of collateral remains weak and needs substantial improvements.

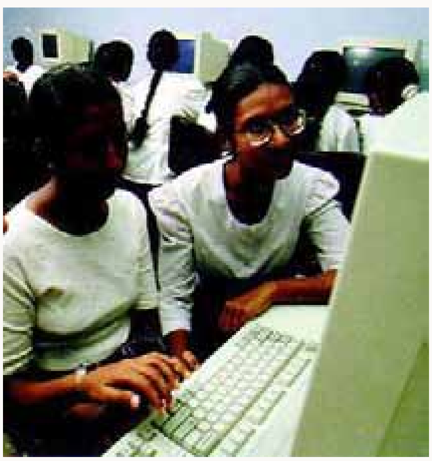
Bank restructuring: Banks dominate financial intermediation in Asia, and the banking subsector is tightly linked to almost all other sectors of the economy. This subsector is a key area where the Bank can leverage the impact of its assistance. In light of the crisis, major banking subsector restructuring has been under way.

In 1998, the Bank revised its 1985 Women in Development policy. The new Policy on Gender and Development—approved by the Board of Directors in June 1998—provides the framework for the Bank's renewed emphasis and commitment to improving the status of women and to promoting gender equity in its DMCs. It also provides the institutional framework, initiatives, and mechanisms for achieving that commitment. *For more on this policy, see page 50.*

During the year, four projects were approved with improving the status of women as a primary or secondary objective. The Basic Education (Girls) Project (Lao People's Democratic Republic [Lao PDR]) and the Vocational and Technical Education Project (Viet Nam) were designed to have direct positive impact on the enrollment and retention of girls and women, especially in ethnic minority communities. Gender analyses for these projects highlighted that, while the desire for girls' education on the part of the parents

Bank Support for Education

The Bank continued its support for education, especially basic education, with an emphasis on improving quality and access and on strengthening decentralized management of education. New Bank projects were approved for several countries, with a major focus on developing strategies and providing resources to help cope with the effects of the Asian financial crisis on education. Loans to Indonesia and Thailand aimed to mitigate the impact of the financial crisis on the most vulnerable groups. In Indonesia, the Social Protection Sector Development Program provides funds for an innovative, locally managed program of block grants to poor schools to maintain the quality of education, and scholarships for poor students in junior secondary schools to help them remain in school. In Thailand, under the Social Sector Program, a scholarship program was established and a student loan scheme expanded to reduce the incidence of student dropouts. In addition, through the Social Sector Program, the Bank is supporting policy reforms to improve the quality of education through better allocation of resources and to decentralize education management to make it more responsive to local needs. In the Kyrgyz Republic, a multisector project to support social service delivery and finance provides resources for rehabilitation of rural primary schools and for improving the management capacity of community-based organizations involved in local schools. A project in the Lao People's Democratic Republic (Lao PDR) helps to implement a comprehensive strategy to increase the enrollment and retention of girls in basic education. The Early Childhood Development Project in the Philippines is the Bank's first project designed to support this critical phase of the human life cycle. A project to assist the Vietnamese Government restructure the country's vocational and technical education and training system—to make it more responsive to the needs of the private sector—will include upgrading 15 key technical schools throughout Viet Nam.



Technical assistance projects addressed a variety of needs, including project preparation, education development plans, sector strategy studies, and capacity building for education management and reform. Technical assistance, aimed at strengthening national capacity to prepare education development plans, was provided for the Lao PDR and Sri Lanka. Capacity building for the management and reform of education—especially decentralized management—was the focus of technical assistance provided to Indonesia, Maldives, Philippines, Thailand, and Viet Nam. As part of its overall support for efforts to mitigate the effects of the financial crisis on vulnerable groups, the Bank provided technical assistance to Indonesia for developing capacity in the management of programs for street children. A large technical assistance project in Indonesia is establishing a monitoring system for the school block grant and scholarship program using nongovernment organizations to collect data to determine whether resources are reaching intended beneficiaries on time. A technical assistance for the Philippines is supporting a major education subsector strategy review that will help determine future lending priorities.

In 1998, the Bank also financed a regional technical assistance to develop capacity to address the education needs of ethnic minorities in the Greater Mekong Subregion.

is high, significant barriers to girls' education exist. These projects focus on providing expanded access to improved, relevant education for girls and women that would contribute to the improvement of women's status and human development in the long term. The Rural Livelihood Project (Bangladesh) and Rural Microfinance Project (Nepal) are both aimed at expanding women's income-generating opportunities by providing them with access to credit. The projects also build on women's empowerment by organizing women and raising awareness through social preparation and training. These projects will elevate women's status in general and more specifically, improve their mobility, participation in decision-making processes, reproductive health, and understanding of legal issues.

Technical assistance projects in 1998 that focused on women's concerns include those in the areas of primary health care expansion, and education and skills development. In addition, Bank-supported social sector initiatives

Bank Support for Health and Nutrition

Bank lending for the health and nutrition subsector in 1998 was primarily in the context of multisector projects. Emphasis was given to decentralizing primary health care service delivery and to improving local capacity to manage health care programs. As in the case of education, much attention was focused on ensuring that basic health and nutrition services for the poor did not deteriorate during the Asian financial crisis. Indonesia's Social Protection Sector Development Program supports policy reform with regard to the decentralization and targeting of basic health care. It also funds a program of block grants to health centers to ensure that affordable health services for the poor will continue to be available, in particular services for children and pregnant women. The program supports more active outreach activities by village midwives to identify pregnant women and infants at risk and to ensure timely assistance, and provides supplementary and complementary feeding for infants and young children. In the Kyrgyz Republic, a multisector project on social service delivery and finance supports rehabilitation of rural health centers and hospitals, and capacity building for decentralized management of health programs. In the Philippines, the Early Childhood Development Project seeks to improve the health and nutritional status of young children by enabling local government units to deliver better services for children under six years of age. Thailand's Social Sector Program supports reforms to improve the technical, managerial, and allocative efficiency in the health subsector and to facilitate access of disadvantaged groups, including women, children, and the unemployed, to basic health services.

Technical assistance facilitated the preparation of investment projects, supported sector analysis, and developed planning and management capacity. Project preparatory technical assistance in the Lao People's Democratic Republic and Viet Nam supports the planning of primary and rural health projects. In the Philippines, a technical assistance is supporting a health subsector strategy review, in collaboration with the World Bank and other agencies, to help the Government define its development priorities. Technical assistance was provided for Thailand to undertake a study of health management and financing. A regional technical assistance for the Greater Mekong Subregion is helping develop capacity to address the health needs of ethnic minority populations. Another regional technical assistance is undertaking a study of nutritional status and strategies in the Asian and Pacific region as part of the process of preparing the Bank's first nutrition policy paper, which is expected to be completed in 1999.

Bank Support for Water Supply and Sanitation

Availability of safe drinking water and appropriate sanitation facilities is essential to people's health and well-being, yet is out of reach of many people in the Asian and Pacific region. The Bank's main objective is to increase the provision of reliable and safe drinking water and sanitation services, meeting basic needs in a cost-effective, sustainable, and affordable manner. Water supply and sanitation components are often included in integrated urban development projects to provide a balanced package of development benefits aimed at human development, improving gender equity, and protecting the environment. The Bank emphasizes the participation of community and nongovernment organizations in project selection, design, and implementation, and promotes the involvement of the private sector in management and maintenance. Support is also extended to the institutions and agencies concerned to improve the efficiency of delivery, operation and maintenance, financial management, cost recovery, and other measures for long-term sustainability.

In 1998, a loan was approved for the People's Republic of China (PRC) to help solve an acute shortage of potable water and severe water pollution problems in Fuzhou City in Fujian Province. In Nepal, an engineering loan was approved to prepare a project to increase the water supply in Kathmandu Valley by tapping the Melamchi River and by artificial groundwater recharging. A supplementary loan was approved to help finance the completion of a major wastewater management project in Thailand and to strengthen monitoring systems, promote industrial pollution prevention, and develop a clean technology transfer program.

During 1998, PRC, Indonesia, Kyrgyz Republic, and Nepal were recipients of technical assistance in the water supply and sanitation subsector. In the PRC, technical assistance was approved to develop a strategic plan for wastewater management and pollution control for the Hai River Basin over the next 15 years, and improve water quality management for Suzhou Creek in Shanghai. In Nepal, technical assistance was approved to promote reforms to facilitate the private sector management of Kathmandu Valley's water supply, and to ensure the sustainability of existing and future water supplies. Project preparatory technical assistance was approved to develop water supply and sanitation projects in PRC, Fiji, Indonesia, Kyrgyz Republic, and Nepal.

in Indonesia and Thailand in response to the Asian financial crisis feature (i) mechanisms to monitor the welfare of women and to ensure their access to essential social services; (ii) block grants to support health centers, especially those delivering motherhood services; (iii) supplementary feeding for children, pregnant women, and breast-feeding mothers; and (iv) job placement and retraining opportunities for retrenched female workers.

In 1998, work commenced on a proposed regional technical assistance—Enhancing Gender and Development Capacity in DMCs—one of the initiatives included in the new policy. It is aimed at achieving quality improvements in the implementation of Bank-financed loans and technical assistance, while simultaneously building the gender capacity of executing agencies in DMCs. The technical assistance will place local gender specialists in six of the Bank's resident missions (Bangladesh, Indonesia, Nepal, Pakistan, Uzbekistan, and Viet Nam) for three years to assist both the executing agencies and the Bank in mainstreaming gender equity issues into Bank-financed projects. The primary functions of the gender and development specialists will be to (i) provide gender capacity-building assistance to executing agencies and resident mission staff to enhance their capacity to mainstream gender equity in the implementation and administration of projects; (ii) prepare and conduct in-country workshops to sensitize DMC policymakers and planners to gender and development issues; (iii) provide technical assistance particular to gender issues when administering Bank-financed projects that target women or mainstream gender concerns; (iv) assist with programming and selected project processing missions to integrate gender considerations; and (v) facilitate communication on gender issues among the Bank, DMC governments, funding agencies, and NGOs.

In March 1998, the Bank, for the first time, celebrated International Women's Day with a week-long program of activities. The celebration was aimed at drawing attention to the concerns, needs, and aspirations of women in the Asian and Pacific region. Representatives from the public and private sectors, volunteer groups and NGOs, Manila-based funding agencies, other organizations concerned, and Bank staff participated in the activities which included (i) a Library exhibit on the theme "Gender and Development in Asia: Current Status, Emerging Issues"; (ii) seminars delivered by three distinguished experts in the field of gender and development; and (iii) an exhibit mounted by Philippine-based NGOs.

Protecting the environment

Promoting sustainable development and environmental protection are key strategic development objectives of the Bank. In 1998, the Bank assisted many DMCs in building their capacity and reforming their policies in the field of environment, and helped specific DMCs such as Indonesia and Thailand by conducting a study that would predict the impact of the financial crisis on the environment. The Bank also promoted regional and subregional efforts to address transboundary environmental concerns such as climate change, acid rain, and the impact of atmospheric haze brought about by forest fires.

In 1998, the Bank provided various technical assistance grants and loans. For example, in the PRC, a technical assistance cluster was given to help improve national-level policies, institutional capacity, and financing mechanisms for the promotion and application of clean technologies to achieve sustainable development. Another technical assistance to the PRC focuses on strengthening staff capacity to formulate environmental laws for enforcement at the provincial level. In the Lao PDR, the Bank provided technical assistance to strengthen environmental and social management capacity in the energy and transport sectors. In Thailand, Bank technical assistance focuses on the promotion of market-based instruments for environmental management.

To equip DMCs in the region with the required technical capacity to prevent forest fires, the Bank also assisted in strengthening the capacity of the Association of Southeast Asian Nations to implement and monitor its regional haze action plan through better management policies and enforcement, operational mechanisms, and regional institutional capacity. This regional technical assistance complemented and reinforced a national-level initiative in Indonesia through an advisory technical assistance. The Bank also provided a regional technical assistance to prepare a strategic environmental framework that promotes the integration of environmental considerations in economic development planning and implementation within the GMS. Assistance was also granted to review, modify, and test environmental quality indicators in selected sector and project-level investments to improve the measurement of environmental quality with respect to development impact. The Bank has initiated the preparation of *The Asian Environment Outlook,* a major publication expected to provide policy prescriptions to its DMCs.

A regional technical assistance was also provided to enable the Bank and mayors of selected megacities in the DMCs to participate in the Mayors' Asia Environmental Summit and present their policies, programs, and experiences in the sustainable development of megacities in the Bank's DMCs.

Bank Support for Urban Development and Housing

In 1998, a Bank loan was approved for Bhutan to improve urban infrastructure, such as drainage, river channel improvement, roads and bridges, footpaths, and parking areas, and provide implementation assistance and training. India's priority investments in the urban subsector are being supported through an approved loan for Rajasthan for an integrated urban infrastructure project that includes water supply and sanitation, sewerage, solid waste management, road improvement and traffic management, and slum upgrading. A loan was approved for Kiribati for the improvement of water supply and sanitation, and solid waste management facilities. A loan was approved for the Kyrgyz Republic for a flood emergency rehabilitation project to restore public infrastructure damaged by severe floods and landslides. In the Philippines, an integrated urban development project loan was approved to assist eight local governments improve access to the quality of urban physical infrastructure in the Clark Special Economic Zone, as well as to strengthen planning and administrative capacities. A loan was also approved for Sri Lanka for an urban development and low-income housing sector project that will address deficiencies in infrastructure and delivery of services in as many as 27 secondary towns, as well as increase the access of low-income households to market-based finance.

Technical assistance in the urban subsector was approved for Bangladesh, Bhutan, People's Republic of China, Cook Islands, India, Indonesia, Kiribati, Mongolia, Nepal, Pakistan, Philippines, and Samoa. Advisory technical assistance was directed at institutional strengthening and capacity building, promoting good urban governance, and formulating sustainable urban strategies and policies. In addition, technical assistance was approved to prepare urban development projects for Bangladesh, India, and Philippines. Regional technical assistance was approved to prepare urban development projects for Bangladesh, Cook Islands, India, and Philippines.

In 1998, the Bank approved 10 loan projects and programs with environmental objectives, totaling about $850 million. Projects with primary environmental objectives include the Sundarbans Biodiversity Conservation Project in Bangladesh; the Central Sulawesi Integrated Area Development and Conservation Project in Indonesia; the Metro Manila Air Quality Improvement Sector Development Program with the associated air pollution control facility investment loan and technical assistance; and supplementary assistance for the Samut Prakarn Wastewater Management Project in Thailand. Of the total loan amount provided for environment projects, almost $300 million was intended for the improvement of air quality in Metro Manila.

Projects approved in 1998 were reviewed for their environmental impact, and mitigation and enhancement measures were designed as appropriate. Sixteen summary environmental impact assessment (SEIA) reports were circulated to the Board of Directors, and 37 summary initial environmental examination (SIEE) reports were prepared. Bank staff trained in environmental assessment also participated in loan review and postevaluation missions to ensure timely and appropriate compliance by project proponents of suggested environmental mitigation measures.

During the year, the Bank continued to undertake several resource center activities. Through workshops, seminars, conferences, and environment forums, the Bank helped in raising the environmental awareness of DMCs and Bank staff. Several publications were also prepared, covering the Asian experience on the use of environmental economics as a decision tool, including such topics as environment profiles of the Central Asian republics, environmental compliance and enforcement, an environmental impact assessment training manual, protected area management strategies, and the Bank's and its DMCs' performance five years after the United Nations Conference on Environment and Development. The Bank's environmental guidelines were updated and several special studies were undertaken as part of its resource center work. A study was initiated on eco-labeling practices and their implications in trade competitiveness and environmental management in selected DMCs. A study to improve the environmental and social coverage during project implementation was completed.

The Bank continued to work on several other important crosscutting issues. A Bankwide effort resulted in a draft policy paper on water that involved extensive internal, regional, and subregional consultations. The policy paper will be submitted for consideration of the Bank's Board of Directors in 1999. Several principles and recommendations, resulting from the consultations, are already being applied in the Bank's operations in the water subsector. A study on *Rehabilitation Assistance After Disasters: A Review of Lessons Learned and Emerging Issues* was completed during the year and a revision of the Bank's existing policies on disaster will be undertaken in 1999, after consultation with selected DMCs.

An overarching policy on sustainable development is currently being prepared, taking into consideration the various Bank policies on environment, social development, various sectors, and related issues. A study on further streamlining environmental and social development policies and procedures has been made, the report of which is currently under review. The Bank also hosted the first regional consultative meeting to discuss the role of regional institutions in catalyzing sustainable development.

Also in 1998, the Bank actively participated in selected seminars, workshops, and meetings within and outside the region, including the Consultative Meeting Among Regional Institutions on Sustainable Development in New York; the Global Environment Facility (GEF) Assembly in New Delhi; the GEF Council Meeting in Washington, DC; and the United Nations Framework Convention on Climate Change, Fourth Meeting of the Conference of the Parties in Buenos Aires.

Policies

In 1998, the Board of Directors approved a number policies on the Bank's strategic planning, operations, and finances. Included among these were the Anticorruption Policy, Cooperation Between the Asian Development Bank and Nongovernment Organizations, Graduation Policy, Policy on Gender and Development, and Policy on Indigenous Peoples.

Anticorruption

With the unanimous approval of the Anticorruption Policy by the Bank's Board of Directors in July, the Bank's governance work has expanded to include an important subset of issues relating to enhancing transparency and integrity in government operations. The Anticorruption Policy has three major elements: (i) supporting competitive markets and effective public administration, in the belief that such preventive measures will be the most effective way to combat corruption; (ii) responding to specific DMC requests for anticorruption assistance on a case-by-case basis; and (iii) ensuring that Bank staff and projects adhere to the highest ethical standards.

A high-level task force, chaired by the Vice-President (East), was formed for implementing the Anticorruption Policy. Subsequent work has focused on drafting operational guidelines for staff and establishing independent channels for reporting and investigating allegations of corruption. In June 1998, explicit anticorruption provisions were introduced for the first time into a Bank loan with the signing of a package of three loans totaling $1.5 billion for the Financial Governance Reforms: Sector Development Program to Indonesia.

Cooperation with nongovernment organizations

The policy Cooperation Between the Asian Development Bank and Nongovernment Organizations was approved in 1998. Updating and revising the Bank's 1987 NGO policy, the new policy outlines a broader framework for cooperation with NGOs in Bank operations and defines specific initiatives to be pursued. The thrust of the new policy is to recognize the capacities of NGOs and the many roles NGOs play in development, and to identify areas where common interests and complementarity between the Bank and NGOs exist. The new policy was developed in close consultation with NGOs.

For the Bank, cooperation with NGOs encompasses efforts and initiatives to develop and expand relationships with NGOs, and to support NGO participation in Bank operations. Cooperation with NGOs is an increasingly important aspect of Bank operations in country programming processes, loan and technical assistance operations, and policy development activities. The Bank's expanding cooperation with NGOs is a reflection of the position of NGOs as significant players in development processes.

Gender and development

The Bank's policy on women in development was adopted in 1985. In 1998, the Bank adopted the new Policy on Gender and Development. The shift from a "women in development" to a "gender and development" approach enables an analysis of the role of women in the context of their overall lives and their broader social relations. Rather than an exclusive focus on women, the gender and development approach recognizes that improving the status of women requires analysis of the relations between men and women, and the cooperation and concurrence of men. A gender-focused approach seeks to redress gender inequity through strategic, broad-based, multifaceted solutions.

Gender considerations will be reflected in the Bank's economic and sector work, and in its lending and technical assistance operations to address women's concerns more holistically and effectively.

The Bank's Policy on Gender and Development looks at gender as a crosscutting issue with relevance to and influencing all economic, social, and political processes. Mainstreaming is adopted as the key strategy in promoting gender equity. The gender and development framework facilitates and enables the Bank to incorporate gender concerns in all its programs and projects, including macroeconomic and sector studies.

Some of the mechanisms embodied in the policy are (i) developing a Gender and Development Action Plan, (ii) increasing in-house capacity for addressing gender and development issues, (iii) enhancing gender capacity in the Bank's executing agencies, (iv) setting up a regional technical assistance to fund gender and development initiatives on a grant basis, (v) producing a database and manual on best practices, and (vi) creating an external forum on gender and development.

Graduation policy for the Bank's DMCs

As a broad-based multilateral development finance institution, the Bank has an important role to play in facilitating the transition of DMCs from dependence on official concessional assistance to reliance on private capital. With the approval of A Graduation Policy for the Bank's DMCs in December 1998, the Bank now has in place a guiding framework for this transition process. The graduation policy encompasses changes in the terms, levels, and types of development assistance provided to DMCs as they progress across the development spectrum. The policy covers graduation of DMCs both from ADF and from regular Bank assistance.

Under the policy, DMCs' eligibility for and graduation from ADF are based on a decision matrix that is underpinned by two main country criteria: (i) per capita gross national product (GNP) with the current threshold set at \$925 at 1997 prices, and (ii) debt repayment capacity for OCR borrowing. The former three-tier classification of borrowing DMCs has now been modified to a four-tier structure comprising groups A, B1, B2, and C (*see box on*

Classification of Countries). The policy also extends downstream to allow graduation from regular Bank assistance based on (i) per capita GNP with the current threshold set at $5,445 at 1997 prices; (ii) creditworthiness for commercial borrowing; and (iii) stage of development of economic and social institutions. Implementation of the policy framework has resulted in seven DMCs (Pakistan was already receiving ADF-OCR blend) moving from ADF-only to ADF-OCR blend, with the opportunity to avail of limited amounts of OCR, mainly for revenue-earning projects. Four DMCs have graduated from ADF borrowing and another four have formally graduated from regular Bank assistance. Periodic reviews of DMCs' readiness for graduation are mandated under the policy.

Appropriate modifications have also been made in the operational guidelines for ceilings on Bank financing of project costs. In addition, new norms have been prescribed for government contribution to costs of technical assistance.

Indigenous peoples

In 1998, the Bank approved its Policy on Indigenous Peoples. Recognizing the real and potential vulnerability of indigenous peoples in development processes, the policy requires that for development interventions it supports or assists, the Bank will ensure that affected indigenous peoples are at least as well off as they would have been in the absence of the intervention, or that adequate and appropriate compensation is provided. The policy works to ensure the quality of opportunity for indigenous peoples, and that interventions affecting them are (i) consistent with the needs and aspirations of affected peoples; (ii) compatible in substance and structure with affected peoples' cultural, social, and economic institutions; and (iii) conceived, planned, and implemented with the informed participation of affected communities. The policy on indigenous peoples was developed in close consultation with representatives of indigenous peoples' communities in the Bank's DMCs.

When an intervention has a negative impact on indigenous peoples, an indigenous peoples' plan must be prepared. This plan would address issues and concerns related to affected populations and, as appropriate, would examine measures to avoid or mitigate negative effects, or outline compensation and assistance to be provided when negative effects cannot be avoided. The indigenous peoples' plan would become an integral part of the intervention's design and would include specific provisions to measure success in implementation as well as in delivery of benefits.

The Bank and nongovernment organizations

The Bank seeks to cooperate with competent NGOs that have substantial knowledge in their areas of operation and with which cooperation would be appropriate and mutually beneficial. Cooperation with NGOs is undertaken to strengthen the effectiveness, sustainability, and quality of the development services the Bank provides. The Bank recognizes the range of roles that NGOs have assumed, from the delivery of development services to policy advocacy. Where desirable and appropriate, the Bank works to promote interaction between governments and NGOs and to support

Classification of Countries

A revised classification system for the Bank's developing member countries (DMCs) was approved by the Board of Directors in December 1998, which will take effect on 1 January 1999. Under the revised system, two criteria—per capita gross national product and debt repayment capacity—were used to determine the classification of borrowing DMCs into Groups A, B1, B2, and C. This classification system determines the (i) degree of eligibility to borrow from the Asian Development Fund (ADF); (ii) applicable ceiling on Bank financing; and (iii) minimum share of government contribution to technical assistance costs.

Group A includes Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Lao People's Democratic Republic, Maldives, Mongolia, Myanmar, Nepal, Samoa, Solomon Islands, Tajikistan, Tuvalu, and Vanuatu.

Group B1 includes Bangladesh, Cook Islands,[1] Marshall Islands, Federated States of Micronesia, Pakistan, Sri Lanka, Tonga, and Viet Nam.

Group B2 includes People's Republic of China, Indonesia,[2] India, and Nauru.

Group C includes Fiji, Kazakhstan, Malaysia, Papua New Guinea,[3] Philippines, Thailand, and Uzbekistan.

In addition, the criteria for graduation from regular Bank assistance have been established. Four members—Hong Kong, China; Republic of Korea;[4] Singapore; and Taipei,China—have graduated from regular Bank assistance.

1 Limited eligibility for the ordinary capital resources will be applied only after the external debt position improves.
2 On a watch list for graduation from ADF.
3 Graduation from ADF is to be phased over two years.
4 Graduate, but under emergency assistance until normalcy is restored.

government-NGO cooperation in national development efforts. Operational sectors in which the Bank and NGOs have achieved the greatest degree of cooperation include agriculture and rural development, urban development and provision of urban services, water supply and sanitation, health and population, education and training, and provision of microcredit. Cooperation with NGOs is being realized in physical infrastructure projects, especially in addressing the social impact such projects may have. The scope of cooperation with NGOs in loan and technical assistance operations is broadening, with NGOs increasingly becoming involved in upstream project activities, such as project design and social and environmental analyses. Consultation with NGOs is becoming a part of the Bank's operations evaluation activities.

Cooperation with NGOs is expanding in country programming and policy development processes. In several DMCs, NGO consultation has become a part of the development of operational strategies and country assistance plans. Similarly, NGO involvement has been incorporated in sector studies and country economic work. During 1998, the Bank began implementing technical assistance that addresses, among other things, new approaches to NGO participation in the country programming process.

Consultation with NGOs is an important aspect of the development of the Bank's operational policies and the review of such policies. Policies approved during 1998 as well as those being developed all include close consultation with NGOs as a central element of the policy development process.

In 1998, 27 of the Bank's public sector project approvals, or 53 percent, included the involvement of NGOs in some significant way. A similar trend was apparent in technical assistance operations. The role of NGOs in loans and technical assistance includes consultation in project identification and design, and responsibility for the implementation of specific components of projects, and in some cases of entire projects. In 1998, sectors that reflected the most significant cooperation with NGOs were agriculture and natural resources, and social infrastructure. There was significant NGO involvement in multisector projects, including emergency rehabilitation projects and projects developed as country-level responses to the financial crisis. Countries that reflected the largest number of projects with NGO involvement were the Philippines (five); Nepal (four); and Bangladesh, Indonesia, and Sri Lanka (three each).

Law and development

In recent years, the Bank has worked closely with its DMCs in addressing legal and regulatory reforms considered necessary to foster sustainable development. The Bank's law and development program took on a new dimension in 1998, as legal and regulatory reforms became a central element in DMCs' responses to the Asian financial crisis and in the Bank's assistance to those countries affected. Such crisis-related assistance complemented the Bank's ongoing law and development assistance in 23 DMCs in support of the Bank's five strategic objectives of promoting economic growth, reducing poverty, supporting human development, improving the status of women, and protecting the environment. In 1998, law and development assistance was provided to Bank DMCs to support policy changes, build capacity for development management, improve services from both the public and private sectors, and strengthen regional cooperation through 11 program loans, 3 technical assistance loans, numerous project loans, and 65 technical assistance operations.

The Bank's assistance to DMCs affected by the crisis in its earliest days focused on reforms of their legal and policy frameworks for regulation of financial institutions, and of their financial and capital markets.

The Financial Markets Reform Program for Thailand deals with problems arising from nonperforming loans to finance companies, and rehabilitation of unliquidated finance companies by improving the legal framework for debt recovery. The program required enacting an amended Bankruptcy Law, ensuring autonomy of the Securities and Exchange Commission, increasing accountability of the Stock Exchange of Thailand, preparing a Corporatization Law allowing conversion of existing state-owned enterprises to privatized companies, and enacting amendments to the Alien Business Law to permit participation of foreign and majority foreign-owned domestic securities companies in securities brokerage and dealership businesses.

The Financial Sector Program for the Republic of Korea involved the reform of significant financial sector laws and regulatory policies. The program involved amendments to the Bank of Korea Act to guarantee the operational independence and autonomy of the Bank of Korea, the passage of an act for the establishment of the Financial Supervisory Institution to consolidate supervision of all commercial and specialized banks, and the issuance of guidelines reforming the insurance industry. In August 1998, the Republic of Korea's Bank Supervisory Authority, after reviewing prudential standards in accordance with the requirements of the program, announced revised core

Capacity Building in Drafting Legislation: National Securities and Land Administration Laws in the PRC

Subsequent to the onset of the Asian financial crisis in mid-1997, the Bank provided technical assistance to strengthen securities laws in its developing member countries. One such technical assistance grant financed legislative drafting support for the Securities Law, approved by the People's Republic of China (PRC) on 29 December 1998 after six years of preparatory work. Under this technical assistance, the Bank's Office of the General Counsel provided staff lawyers and consultants who participated in discussions during a three-day seminar in Beijing in September 1998 and an International Symposium in October 1998. The symposium, which was covered by television and print media, provided a forum for discussion of the draft Securities Law by international and domestic experts, as well as representatives of the Government and the general public prior to submission of the draft law to the National People's Congress. The Securities Law (i) strengthens the legal framework for the PRC securities market, (ii) increases transparency and accountability of the China Securities Regulatory Commission, (iii) facilitates disclosure-based initial public offerings, and (iv) prohibits such practices as insider trading and brokerage firms mixing their own and clients' money to trade shares.

Pursuant to the Bank's strategic objectives of protecting the environment and supporting human development, the Bank also provided technical assistance to the PRC to train staff of the Environmental Protection and Natural Resources Conservation Committee of the National People's Congress and to provide assistance in drafting a new land administration law. Enacted in 1998 soon after a symposium supported by a Bank technical assistance, the Land Administration Law deals with the ownership of and right to use land, overall planning for land utilization, protection of cultivated land, use of land for construction, and supervision of land administration statutes and regulations. Consistent with advice provided under this legislative capacity-building technical assistance, the new Land Administration Law increases levels of resettlement fees to be paid to people who are losing productive land. Training provided also improved the processes for adjusting contracts and resolving disputes, including permitting parties not accepting the decision of the local government under the Land Administration Law to file a lawsuit within 30 days after receiving notification of the Government's decision.

The Role of Law and Legal Institutions in Asian Economic Development: 1960–1995

A multidisciplinary study financed under a Bank regional technical assistance evaluated change in the legal systems of six Asian economies (People's Republic of China; India; Japan; Republic of Korea; Malaysia; and Taipei,China) during 1960–1995, and examined the causal relationships between legal change and economic and social development. Broadly, the study validated a basic premise upon which governments have acted in both transitional and liberalizing economies in enacting significant law reforms: that law is important to private sector development and, in particular, to the development of financial and capital markets. The study also observed a rise in the use of the courts as economic activities intensified, increased use of the courts to challenge governmental action, and an increase in the frequency with which private parties were successful in their disputes with government. These are signs of the growing importance of legal remedies as economies become more complex and impersonal, and of the growing use of the legal system to enhance the accountability of government.

The findings of the study have important implications for the law reform policies and for externally assisted legal technical assistance programs of the Bank's developing member countries: (i) economic law reform must take into account existing laws, their actual use, and the overall economic policy and institutional framework in which they function; (ii) effective congruence is necessary between prevailing economic policies and economic law reforms if such legal reforms are to be effective; and (iii) effective law reform requires pursuit of a broadly consultative lawmaking process. The study points to the need for collaboration between lawyers and economists in the design of law and development programs. By demonstrating that the effectiveness of economic laws depends on the prevailing economic policy environment and on the institutional framework for enforcement of laws, the study is likely to reinforce the growing recognition among funding agencies of the need to move beyond the narrow focus on particular laws and their content, to a more systematic approach that takes into account broader economic policies and institutional frameworks, and the functioning of the broader legal and judicial system in which laws must operate, and be administered and enforced.

The study, copublished by the Bank and the Oxford University Press, will be released in 1999. An executive summary is also available on the Bank's Internet web site (**http://www.adb.org**) and from the Office of the General Counsel.

principles relating to the treatment of financial assets and the revision of loan classification criteria. Also, in furtherance of the program loan's objectives, the Republic of Korea's National Assembly enacted at end-1998 the Mortgage-Backed Securitization Companies Act.

The Bank's 1998 Financial Governance Reforms: Sector Development Program in Indonesia addressed bankruptcy law reforms, and secured transactions law reforms and reforms to Indonesia's anticorruption legislation and regulations. Pursuant to this reform program, the Government enacted the 1998 Banking Law and approved regulations providing a framework for bank mergers and acquisitions, as well as for liquidation of commercial banks. Bank Indonesia also issued new guidelines concerning information to be included in annual reports by commercial banks and approved new loan-loss regulations. A 1998 Presidential Decree established the State Ministry for the Empowerment of State Enterprises, which will commence performance audits and recommend measures to improve accountability and transparency. Under a parallel technical assistance loan, the Bank is making available financing to the Government for training of bankruptcy personnel and for development of a secured transactions registration system.

Focusing on the importance to the crisis-affected DMCs of effective bankruptcy regimes to provide structure and process for the rehabilitation and restructuring of insolvent companies, and the liquidation of those companies that are incapable of rehabilitation, the Bank approved in 1998 a regional technical assistance on Insolvency Law Reform. The technical assistance brought together government officials responsible for bankruptcy law reform and bankruptcy administrators, bankers, leading insolvency practitioners from the legal and accounting professions, and academic experts to consider recent experiences with insolvency law reforms in the Asian and Pacific region. The legal and regulatory elements of the Bank's response to the financial crisis were shaped in part by two Bank-sponsored studies conducted in 1998: "The Role of Law and Legal Institutions in Asian Economic Development, 1960–1995" and "A Review of the Law and Development Activities of the Asian Development Bank."

The first study, "The Role of Law and Legal Institutions in Asian Economic Development, 1960–1995" (publication to be released in 1999), reports on the results of a major Bank-commissioned examination of the role that economic laws and legal institutions played in the economic development of six Asian economies during a 35-year period of dynamic economic growth (*see box*). It found that law played an important role in facilitating economic development, particularly when governments pursued economic policies that fostered free markets and reduced the role of government as a primary decision maker in the economy.

The second Bank study, "A Review of the Law and Development Activities of the Asian Development Bank," reviews the current law and development assistance of the Bank and sets forth a strategy for its further evolution in the years immediately ahead. The study was presented in an 18 February 1998 Information Paper to the Bank's Board of Directors. The information paper placed the Bank's law and development program within the context of the Bank's 1995 governance policy and documented its relevance to the economy, to private sector development, and in the public sector, to the accountability of governments. The relevance of law to private sector economic development was analyzed and is, in part, captured in the accompanying table.

The information paper emphasizes the need for further assistance in developing legal frameworks for the market economy and for a systematic approach to legal reform. The paper recognizes that the effectiveness of laws depends on the quality of government legal personnel and the operation of legal and judicial institutions, in addition to the quality of the law enacted.

Illustrative of this more systematic approach to the effectiveness of the legal system is the 1998 Bank technical assistance grant to Mongolia, which focuses on the development of local institutions capable of retraining public sector lawyers in a transitional economy. To foster continuing legal education

Laws to Support Private Sector Development

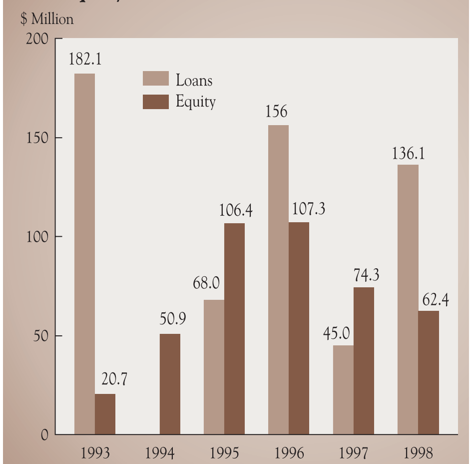
Business	Privatization and Restructuring of State-Owned Enterprises	Financial Sector	Private Sector Infrastructure
• Property law • Contract law • Law of business entities (i.e., company law, partnership law) • Insolvency and bankruptcy laws • Labor law • Intellectual property law	• Laws sanctioning the privatization process • Laws facilitating the restructuring of public enterprises (e.g., laws on liquidation of state-owned enterprises) • Laws on transfer of liabilities • Public finance law • State immunity	• Capital markets and securities legislation • Monopolies and restrictive trade practices law (e.g., competition law) • Banking laws and laws regarding prudential supervision • Credit and security laws—creation and enforcement of security (e.g., charges, mortgages)	• Laws and regulatory framework for key infrastructure subsectors (e.g., electricity, water, roads, ports) • Special laws (e.g., build-operate-transfer law)

in the application of market economy-based legal principles, this project is assisting Mongolia in the establishment of its Legal Retraining Center, for development of its faculty and teaching program and of its management. About 200 Mongolian public sector lawyers (including judges, prosecutors, and legislative draftsmen) will be trained in the first two years of the Bank's assistance.

The Bank continues to play a lead role in fostering interchanges in the field of law and development among DMCs, funding agencies, academics, and other interested parties. LAW-DEV, the Bank-sponsored Internet forum, provides a daily link for the communication of ideas and information among more than 600 participants in 40 countries. The Bank's Law and Development publications—including *Law and Development at the Asian Development Bank, Law and Development Bulletin,* and *Law and Development: An Asian Bibliography*—are important sources of information about DMC law reform activities and donor technical assistance in the field.

Private sector development

Private Sector Loans[a] and Equity Investments



a Data prior to 1998 adjusted to reflect terminated projects.

Bank support for private sector development in the DMCs is based on the belief that the private sector can make a major contribution to efficient economic growth. The past few years have witnessed the changing roles of governments and the private sector in the DMCs. Increasingly, the private sector is being encouraged to play an expanded role in development as governments progressively assume the role of catalysts and regulators of development. In support, the Bank is moving on two fronts: (i) assisting DMC governments through policy dialogue, technical assistance, and program lending to create an enabling environment for private sector development; and (ii) participating directly in the financing of private sector projects to provide assistance to commercial investors and lenders.

An efficient and effective financial sector is an important condition for private sector development. In 1998, the Bank continued to take initiatives in helping its crisis-affected DMCs strengthen their financial systems to assure a sustainable flow of resources to the private sector. For instance, the Bank approved a $1.5 billion financial package for Indonesia to support reforms of governance of its financial sector. This Indonesian reform program is designed to assist in restructuring the financial sector, and restore its ability to play a crucial role in the effective mobilization and efficient allocation of resources for investment. Under the program, the Government will implement comprehensive policy and institutional measures, such as the adoption of best practices in banking and capital market regulation, supervision, and management.

The financial crisis has made access to credit difficult for private businesses, even for exporters who should be leading the recovery process. In Thailand, the Bank addressed the liquidity problem of private sector exporters with the approval in 1998 of a $1 billion loan for the Export Financing Facility. This facility consists of two loans to the Export-Import Bank of Thailand: a $50 million loan from ADB, and a $950 million loan from a syndicate of international banks. The syndicated loan is partially guaranteed by ADB. The facility was the first major term financing for Thailand since it was hit by the financial crisis in mid-1997. The loan facility will provide preshipment financing and term funding for the modernization and replacement of existing export-producing facilities.

With physical infrastructure bottlenecks constraining growth, DMC governments are exerting efforts to encourage private sector participation in the provision of physical infrastructure services. One form of Bank support for these efforts is through assistance for sector restructuring and privatization programs. In the Philippines, the Bank approved in 1998 a $300 million loan to the Government for a power sector restructuring program. The program is designed to transfer ownership of generation to the private sector. Such privatization will shift the financial burden of power sector development from the public sector to the private sector. An accompanying technical assistance grant will fund a study of electricity pricing and regulatory policy in a competitive environment. Moving the power sector to the competitive world of private business is expected to lead to more efficiency in generation and distribution and lower electricity charges for consumers.

Through various technical assistance grants, the Bank is also helping DMCs identify the scope for private sector participation in infrastructure development and formulate appropriate policy and regulatory frameworks to facilitate private investment. In 1998, the Bank approved technical assistance grants for the study of private sector participation in such areas as gas transmission in Bangladesh and port development in the Maldives. A Bank-funded study of the road subsector in the PRC, which was completed in 1998, concluded that construction risk is best left to the public sector but that when traffic grows to a sufficient level, leasing or securitization can be considered to mobilize private capital for the transport sector. A Bank-sponsored regional workshop held in Manila in December 1998 brought together government officials, bankers, and private sector developers to discuss the results of a Bank-funded study on developing best practices for promoting private investment in power, port, airport, expressway, and water supply development.

Availability of skilled manpower is an important condition for the private sector to flourish in any given country. To help Viet Nam train workers for the private sector, the Bank approved in 1998 a loan of $54 million to the Government for a project that will orient the country's vocational and technical education system toward the changing needs of the private sector. The project will help meet the growing demand for skilled workers and production technicians in the industry sector as it becomes the dominant area in Viet Nam's rapidly changing economy.

The Asian financial crisis continued to make the financing of new private sector projects in 1998 difficult as the receding economies of the region cast doubt on the need for and affordability of added capacity in power and other physical infrastructure facilities. In addition, the resources of the Bank for private sector operations had to be devoted more to managing the Bank's private sector portfolio, which was adversely affected by the crisis. Notwithstanding, the Bank succeeded in catalyzing two private sector infrastructure projects (a telecommunications system in Bangladesh and a power plant in the PRC) and two financial sector projects (a secondary mortgage facility in Indonesia and a credit enhancement facility for a development bank in Sri Lanka). Together with its restructuring efforts, the Bank approved a total of eight private sector operations involving a total commitment of $198.5 million, comprising $136.1 million of loans and $62.4 million of equity investments. *For details, see Tables 17–19 in the Statistical Annex.* Direct assistance by the Bank for these projects is expected to facilitate investments totaling $1.9 billion, an amount which is nine times the Bank's own funding commitment.

The tight loan syndication market brought about by the financial crisis made the Bank's catalytic role key to the success in closing the limited-recourse debt financing for the Meizhou Wan Power project, a 720-megawatt coal-fired generating plant to be built in the Fujian Province of the PRC. The project is one of the first wholly foreign-owned power projects in the PRC based on build-operate-transfer (BOT) principles. It will help meet demand and reduce acute power shortages, while improving voltage and frequency stability of the power distribution system, and reducing reliance in Fujian Province on hydroelectric power, which is heavily dependent on seasonal rainfall. Insufficient power is regarded as a major constraint to economic growth in the area. The Bank's support for the $828.5 million project consists of a $50 million direct loan and equity investment, and a $150 million loan funded by international banks under the complementary financing scheme. The Meizhou Wan Power project has set a benchmark for project financing in the PRC on contractual and financing documentation. The loan syndication success has won for the project two press awards for 1998 (*see box*).

The Bank also helped a private joint venture in Bangladesh undertake a financially viable project that has significant economic merits and for which normal sources of commercial finances were not available. The project represents the first significant private investment in the country's telecommunications subsector, which is underdeveloped and has a high level of unmet demand. Costing a total of $153.8 million, the project involves the construction and operation of a nationwide cellular telephone system, which will provide common cellular services in the main cities and village pay telephone services in rural areas. These telecommunications services will contribute to the economic development of Bangladesh; improve health, education, and government services; and strengthen cultural and social ties. The project will be undertaken by GrameenPhone Limited, a joint venture between a well-established Norwegian telephone operator and a telecommunications company controlled by Grameen Bank of Bangladesh. The Bank's support, consisting of a $16.7 million loan and a $1.6 million equity commitment, was an important component of a financing package from a group of four multilateral and bilateral funding agencies.

To help mobilize international capital for the private sector in Sri Lanka, the Bank approved a $70 million credit enhancement facility for the Development Finance Corporation of Ceylon (DFCC), one of two local development banks providing term loans to private enterprises in the growing manufacturing subsector of the country. The facility consists of a direct loan of $5 million without a government guarantee and a partial credit guarantee for the principal repayments on a floating rate note issue of $65 million by DFCC. The facility will give DFCC access to international funding and enable it to meet the investment requirements of manufacturing enterprises while the domestic capital market has yet to develop sufficiently. The Bank guarantee, which will be counterguaranteed by the Government, is needed because local borrowers

Private Power Deal Wins International Awards

The Bank-financed Meizhou Wan Power project in Fujian Province, People's Republic of China, won two awards for excellence despite the difficult market environment in 1998. The awards were given by the *International Finance Review* ("Asian Project Finance Loan of the Year"), and by *Project Finance International (PFI)* ("Power Deal of the Year—Asia Pacific Awards 1998") in its *PFI Yearbook 1999*.

The project, now well under way, is for the construction of a 720-megawatt coal-fired power plant on the Zhongmen Peninsula, and will serve industrial, commercial, residential, and agricultural users.

The Bank supported the project through difficult periods, including after the onset of the Asian financial crisis. Fortunately, a truly international lead manager group consisting of Banque Paribas, Bank of America, Credit Suisse First Boston, and Tokai Bank, Ltd. had been committed with the Bank's active involvement to help find creative solutions to the challenge of providing debt financing totaling up to $566 million. In addition, the export credit agencies of France and Spain played an important role by providing various credit schemes related to equipment supply. The key factor in making the awards, according to the two publications, was the ability of the project to sell down a high percentage of the debt in the current climate, which in turn relates to solid project fundamentals. Alongside the Bank's direct loan, participating banks accepted pro rata shares of the Bank's complementary financing scheme loan, the two export credit tranches, the commercial loan, and a working capital facility. The project contributed to the creation of a legal framework for wholly foreign-owned infrastructure projects; and a detailed tariff formula was negotiated, allowing cost recovery and a reasonable return on the investment.

cannot, at present, access the international financial market without such credit enhancement.

Part of the $1.5 billion financial package approved in 1998 for financial governance reforms in Indonesia was a $3 million equity commitment for the establishment of the first company to be licensed as a secondary mortgage facility under a regulatory framework, which was developed with Bank technical assistance. The facility is expected to help develop the bond market in the country. A Bank loan of $47 million coursed through the Government was also approved to provide additional funding resources to the facility.

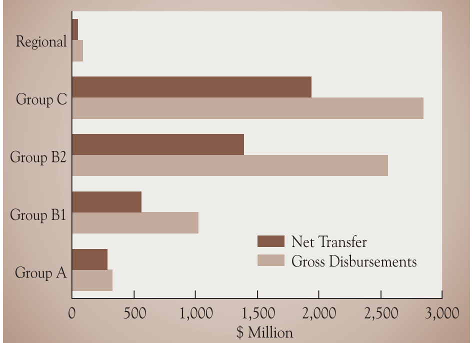
Managing the Bank's private sector porfolio has been particularly difficult, with the Asian financial crisis exacerbating the situation. In 1998, two regional financial projects in the Bank's private sector portfolio had to be supported with liquidity funding and fresh capital commitments. One is the Asian Securitization and Infrastructure Assurance Limited (ASIA Limited), a regional financial company specializing in bond insurance and securitization services. The commercial attractiveness of ASIA Limited was adversely affected by the deterioration in the credit quality and the associated downgrade in the sovereign ratings of the crisis-hit DMCs. An additional capital commitment from the Bank and ASIA Limited's other shareholders was needed to restore confidence in the company's credit enhancing capacity. Liquidity, long-term funding support, wide restructuring of the company, and change of management were required by the Asian Finance and Investment Corporation Ltd. (AFIC), a regional company providing finance for medium-sized industrial projects across a range of DMCs. Bank support was needed to help AFIC overcome the effects of nonperforming exposures to projects in crisis-hit DMCs.

A third project in the Bank's private sector portfolio that required restructuring in 1998 was Primo Oleochemicals Inc., a manufacturing firm employing new technology for producing exportable chemicals from coconut produced by millions of farmers in the Philippines. An additional loan and equity commitment from the Bank and the other lenders and shareholders to support the restructuring enabled the firm to start commercial operations after considerable delays because of market and technical problems.

The Bank is in an advantageous position to help prepare BOT projects for competitive bidding to private developers, and to process assistance to governments and the private sector to assure the successful implementation of such projects. With its public sector and private sector operations playing complementary roles, the Bank is able to take an integrated approach to a development challenge. In Bangladesh, for example, as part of an effort to overcome an impediment to the development of a growth corridor, the Bank provided technical assistance to the Government for developing a gas-fired power project on BOT basis. The project was successfully awarded in 1998 to the lowest bidder, and the Bank has started processing a loan without government guarantee for the private sector company that will undertake the project. As a complementary project, the Bank will extend a public sector loan to the Government for funding the transmission line that will distribute power from the generating plant.

Another example of the Bank's success in assisting DMCs prepare BOT projects is the water supply project in Chengdu, the capital of Sichuan Province in the PRC. Following a Bank-sponsored seminar that brought together senior government officials, bankers, and private sector water operators in Beijing, the Bank provided the PRC with technical assistance to prepare a pilot BOT water supply project to be awarded on the basis of a transparent international competitive bidding. Another technical assistance grant from the Bank helped the Government conduct a water pricing study that served as basis for the new guidelines for water tariffs issued in late 1998. The bidding process was completed in 1998 and the project was awarded to a consortium of French and Japanese companies. The resulting BOT project is now being processed for direct financing under the Bank's private sector operations. Another BOT project in the PRC—a power plant in Changsa, Hunan Province—was also bid out successfully in 1998 with technical assistance from the Bank, and is now being processed as a private sector project by the Bank.

Net Transfer of ADB Resources to DMCs, 1998



See page 51 for classification of countries.

The Bank's role in resource transfers

The net transfer of resources[1] from the Bank to the DMCs increased from $3.8 billion in 1997 to $4.2 billion in 1998. This increase was caused mainly by the additional disbursement for the Financial Sector Program loans to the Republic of Korea and Indonesia. *For details, see Tables 39–41 in the Statistical Annex.*

Of the total net transfer, $3.4 billion was from OCR and $875.9 million was from ADF.

Loan disbursements reached $6.8 billion, compared with $6.5 billion in 1997. Disbursements from OCR increased by 6 percent. Disbursements from ADF decreased by 0.9 percent, compared with 1997. *For details, see Table 21 in the Statistical Annex.*

The disbursement ratio,[2] including program loans, increased to 29.3 percent from 25.2 percent in 1997.

By volume of net flow, Republic of Korea, Indonesia, People's Republic of China, and Thailand were the top four beneficiaries of net transfers from the Bank.

Resource Transfers to DMCs
($ million)

	1997	1998
OCR	2,869[a]	3,357[b]
ADF	885	876
Total	**3,754[a]**	**4,233**

a Includes disbursements of $2 billion for the Republic of Korea's Financial Sector Program.
b Includes disbursements of $1.7 billion for the Republic of Korea's Financial Sector Program and $550 million for Indonesia's Financial Governance Reforms: Sector Development Program.

Cofinancing and guarantee operations

The Bank actively pursued its role as a leading catalyst in mobilizing financial resources to its DMCs through its cofinancing and guarantee operations. Given the financial adjustments being undertaken in the region as a result of the financial crisis, the Bank took initiatives to help stabilize the economies of its DMCs that have suffered from the financial crisis, and restore investor confidence through cofinancing operations as well as direct lending to its DMCs. The importance of cofinancing was more pronounced in 1998 because it made long-term financing possible for some DMCs that could not otherwise

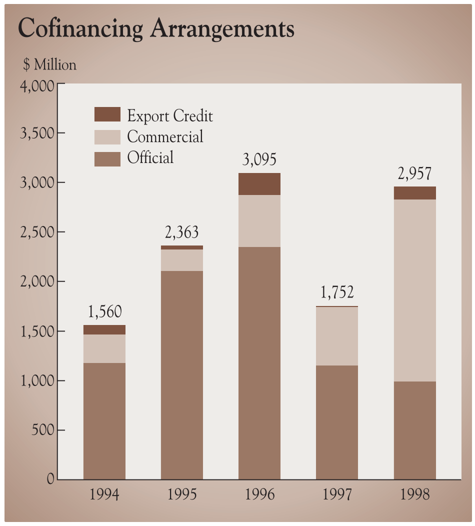
1 Defined as disbursements less principal repayments and prepayments, payments of interest and other charges, plus net equity investments.
2 Defined as ratio of total disbursements during the year over the net loan amount available at the beginning of the year, plus the loan amounts of newly approved loans that have become effective during the year; excludes private sector loans.

have obtained financing due to heightened risk perceptions. Cofinancing activities have been fully integrated into the Bank's operational processes of country strategy formulation, programming, and project processing.

In 1998, cofinancing mobilized from all sources amounted to nearly $3 billion for 24 projects, close to 50 percent of the Bank's total lending of about $6 billion. This level of cofinancing for the year was significant in view of the difficult market conditions resulting from the financial crisis. It represents a 67 percent increase over the $1.8 billion[3] achieved in 1997. Some of the important cofinancing operations during the year include (i) a $950 million syndicated loan for the Export Financing Facility to Thailand;[4] (ii) a $526 million multitranche cofinancing for the Fujian Pacific Electric Co. Ltd. in the PRC;[5] and (iii) the first floating rate note (FRN) cofinancing of $65 million for the Credit Enhancement Facility for Private Enterprises in Sri Lanka. Projects in the financial, energy, and transport and communications sectors accounted for 34 percent, 32 percent, and 17 percent, respectively, of the cofinancing volume in 1998. In terms of the number of projects that received cofinancing, the transport and communications sector had seven, followed by the social infrastructure sector with six, and the energy and agriculture and natural resource sectors with three each. Cofinancing came from official, export credit, and commercial sources. *For details, see Table 16 in the Statistical Annex.*

Eleven DMCs received cofinancing in 1998, with Thailand as the top recipient with $950 million, followed by the PRC with $948 million, Philippines with $683 million, and Viet Nam with $152 million.

During 1970–1998, a total of 496 Bank-assisted loan projects and programs attracted cumulative total cofinancing of $29.6 billion. This amount consists of $19.7 billion from official sources, $5.2 billion from commercial sources, and $4.7 billion from export credit sources. The energy sector accounts for $14 billion or 47 percent; followed by transport and communications, $4.8 billion or 16 percent; agriculture and natural resources, $3.7 billion or 13 percent; and other sectors, $7.1 billion or 24 percent.



Official cofinancing

Cofinancing from bilateral and multilateral funding agencies amounted to nearly $1 billion or 33 percent of total cofinancing in 1998, a decrease of 17 percent from $1.2 billion in 1997. Sixteen projects received official development assistance funds in 1998, compared with 30 in 1997. This decrease is mainly because of the lower lending programs in Cambodia, India, and Pakistan. Bilateral sources contributed $914 million or 92 percent of official sources, while multilateral sources contributed $77.2 million or 8 percent. Bilateral cofinancing support was received from eight countries: Australia, Canada, France, Japan, Norway, Sweden, United Kingdom (UK), and United States (US). Japan continued to be the largest source of official cofinancing

3 Adjusted for the $1 billion parallel commercial cofinancing envisaged for the Thailand Financial Markets Reform Program loan, which did not materialize. It was successfully arranged in 1998 in the form of a guaranteed syndicated loan of $950 million.

4 Awarded the "Best Deal for an Asian Bank Issuer" by a major financial publication.

5 Named the "Power Deal of the Year–Asia Pacific Awards 1998" and the "Asian Project Finance Loan of the Year" by leading international financial publications.

with a total of $842.1 million for seven projects, comprising $518.1 million from the Overseas Economic Cooperation Fund (OECF), $300 million from the Export-Import Bank of Japan (JEXIM), and $24 million from the Japan International Cooperation Agency. This amount included two projects in the Philippines cofinanced by JEXIM and OECF under the New Miyazawa Initiative. Multilateral agencies, including Nordic Development Fund and the Organization of Petroleum Exporting Countries (OPEC) Fund for International Development, provided parallel cofinancing.

The Bank actively pursued cofinancing from official donors for technical assistance. This included annual contributions to the Japan Special Fund (JSF) and untied grants from bilateral sources. The mode of cofinancing used was normally exclusive or joint-financing arrangements. During 1998, untied grants from bilateral sources where the Bank acted as grant administrator amounted to $6.9 million. Donors from bilateral sources included the governments of Belgium, Denmark, Finland, France, New Zealand, Norway, Sweden, Switzerland, UK, and US. In addition, multilateral agencies, including ADB Institute, Global Environment Facility, United Nations Development Programme, and World Bank, provided a total of $12.4 million in untied grants, which are being administered by the Bank. *For details, see Grant-Financed Technical Assistance from Other Sources, 1998 on page 5.*

Under the JSF program financed by the Government of Japan, a total of $89.2 million for 116 technical assistance projects was financed on an untied basis in 1998, accounting for 55 percent of all technical assistance approvals. *For details, see Japan Special Fund Technical Assistance by Sector, 1998 on page 161.*

During 1998, the Government of Switzerland committed to make available to the Bank additional contributions to finance, on an untied basis, technical assistance projects under channel financing arrangements administered by the Bank. Italy also agreed to consider establishing a similar channel financing arrangement with the Bank. In addition, the Bank assisted some DMCs in obtaining grant financing on a parallel basis complementary to Bank loans.

Commercial cofinancing and guarantee operations

As a result of continued Bankwide efforts to seek commercial funding, cofinancing from market sources increased to $1.8 billion in 1998 from $591.9 million in 1997, and accounted for 60 percent of total cofinancing mobilized in 1998. The share of commercial cofinancing in total cofinancing exceeded that of official cofinancing for the first time, and it is expected that the relative share of commercial cofinancing will remain larger than that of official cofinancing in the future. During the year, eight transactions were completed, including six loans arranged for public sector borrowers, one FRN, and one loan arranged for private sector borrowers. Two commercial cofinancing transactions were arranged with the support of the Bank's partial credit guarantee: a $65 million, 10-year FRN for the Sri Lanka Credit Enhancement Facility for Private Enterprises, and a $950 million, five-year syndicated loan facility for the Thailand Export Financing Facility. The guarantee for the former covered the bullet repayment at year 10. The guarantee for the latter covered the principal repayments and interest payments for the first three years, extendable to the fourth year if Thailand does not achieve the expected investment grade rating at the end of the third year. Given the uncertain market conditions, the Bank expects an increase in the use of credit enhancements, including guarantees, in its future commercial cofinancing transactions.

Export credit cofinancing

Cofinancing amounted to $128.4 million, and was provided by export credit agencies from France and Spain for a private BOT power project in the PRC.

Portfolio management

Administration

A total of 489 projects were under administration as of end-1998, comprising 435 projects in the public sector and 54 projects in the private sector. Of the public sector projects, implementation progress was satisfactory for 364 projects, including 21 projects highly satisfactory. These projects conformed to implementation schedules and project costs, and complied with loan covenants and submission dates of audited financial statements. Thirty-five projects were rated partly satisfactory and 36 were unsatisfactory, experiencing implementation or operational problems. In terms of the likelihood of achieving development objectives, as jointly rated by the Bank and the executing agencies, 402 projects were rated satisfactory, including 13 projects as highly satisfactory, while 26 projects were rated partly satisfactory and the remaining 7 projects unsatisfactory. These ratings resulted from an assessment of the development outcomes, impacts, or benefits expected from various project components and outputs.

Altogether, 861 project administration reviews, including private sector loan and multiproject reviews, were fielded to assess the progress of projects and to discuss problems, if any, with executing agencies. A total of 9,307 person-days were spent on these project reviews, which translates into an average of 15 person-days per project.

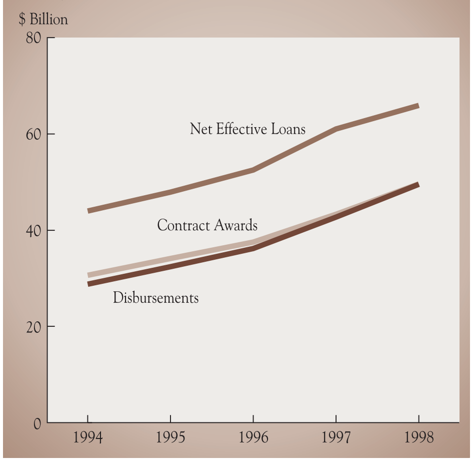
The Bank's 11 regional and resident missions provided support to executing agencies in project administration and strengthening of project implementation. Monthly meetings were held to review and discuss project implementation performance, and executing agencies were assisted with the Bank's guidelines for procurement and on the use of consultants, disbursements, audit requirements, and other operational matters. To date, administration of a total of 142 loans for 136 projects has been delegated to the five resident missions—Bangladesh, India, Indonesia, Nepal, Pakistan—and the South Pacific Regional Mission. More responsibility will be delegated to them commensurate with their project implementation administration capacity.

Country portfolio review missions were undertaken in 15 DMCs to discuss implementation problems, cross-sectoral issues, and remedial measures with senior government officials. In particular, the portfolios in Indonesia, Pakistan, Papua New Guinea, Philippines, and Thailand were restructured for better management, resulting in the cancellation of $1.4 billion of the total net loan proceeds ($9.3 billion) involving 111 projects.

The implementation of 79 projects was completed during the year, bringing the cumulative number of completed projects to 1,206. Project completion reports were circulated for 48 projects, bringing the total number of reports prepared as of end-1998 to 816. *For details, see Table 24 in the Statistical Annex.*

As in earlier years, project administration procedures continued to be revised in light of the Bank's strategic plan. In 1998, the project performance report (PPR), which replaced the project administration committee (PAC) notes, was implemented Bankwide. The PPR introduced new project rating criteria that are more stringent and consistent. Computer systems continued to be upgraded for better monitoring and evaluation of benefits. Most notably, a user-friendly client/server-based project processing information system became operational, and several Bankwide reports, which were formerly produced in hardcopy format, were made available on-line. These reports include Quarterly Procurement Statistics, Technical Assistance Implementation Status, and Contract Awards and Disbursement Statistics. Fourteen seminars and workshops were held to enhance the implementation capabilities of executing agencies. These activities benefited a total of 492 senior and middle-level officials.

Contract Awards and Disbursements, 1994-1998



Contract awards

During 1998, contracts totaling $5.8 billion (excluding contracts for technical assistance projects) were awarded by executing agencies in DMCs for consulting services and procurement of goods, related services, and civil works. This represented a 2.6 percent decrease from 1997. Consultancy contracts under loan projects totaled $157.3 million, and involved 267 consulting contracts (125 international and 142 domestic). *For details, see Tables 25–30 in the Statistical Annex.*

For technical assistance projects, contracts were awarded for consultancy services, amounting to $135.4 million and involving 152 consulting firms and 489 individual consultants. *For details, see Tables 31 and 32 in the Statistical Annex.*

Loan disbursements

The 1998 loan disbursements—$6.8 billion—exceeded the year's target of $5.6 billion by 21.4 percent, and 1997 figures by 4.8 percent. Of the 1998 total, OCR disbursements amounted to $5.6 billion and ADF disbursements to $1.1 billion, representing 83.1 percent and 16.9 percent of the total amount, respectively.

Business opportunities seminars

Seminars on business opportunities were held in Australia, Belgium, Canada, PRC, Denmark, Germany, India, Japan, Republic of Korea, Netherlands, New Zealand, and US.

Private sector investment portfolio

The Bank's private sector investment portfolio at the end of 1998 totaled $1.1 billion, up by 3 percent from about $1 billion in 1997. The increase of $26 million was the net result of new approvals, disbursements, repayments, disposals, cancellations, prepayments, write-offs, and currency translation adjustments. Of the total portfolio, 60 percent was in loans amounting to $631 million and $412 million in equity investments.

The 1998 total portfolio consisted of $655 million in disbursed investments and $388 million in undisbursed commitments. The disbursed investments increased by 8 percent in 1998. This increase was due mainly to a 46 percent rise in disbursements in 1998 at $163 million, compared with only $112 million in 1997.

Thirty-one percent of the total portfolio was accounted for by loans and equity investments in physical infrastructure projects, which are being given priority by the Bank in support of the DMCs' efforts to attract private investment in the physical infrastructure subsector (*see table on Portfolio Distribution by Sector, 1998*). Another 32 percent of the portfolio consisted of equity investments in pioneering institutions that help promote the development of the financial sector in the DMCs, and loans to established private finance companies and banks for onlending to small and medium enterprises.

The portfolio also included, to the extent of 17 percent, equity stakes in investment funds, along with their corresponding fund management companies. These funds comprised venture capital funds, mutual funds, private equity funds, and larger funds that provide equity and/or debt financing to infrastructure projects. Investments in funds enable the Bank to leverage its own resources available to support private investment. The balance of the portfolio (21 percent) consisted of loans and equity investments in manufacturing, agriculture, and other industries. Bank support for these sectors started in the mid-1980s when several DMC governments began to encourage the private sector to undertake large industrial ventures, particularly with foreign technology and investment.

At the end of 1998, the total portfolio included loans and equity investments in 100 companies, comprising 84 country-specific companies in 13 DMCs and 16 regional financial entities and funds. The net reduction in the number of companies in the portfolio from 104 in 1997 was the result of the addition of five new companies, the cancellation of one investment, the full disposal of two investments, and the write-down of six relatively small nonperforming accounts. Of the 100 companies comprising the portfolio, 59 were operating profitably, 9 were in various stages of implementation, and 32 were underperforming. The underperfoming companies include those that became problematic because of the Asian financial crisis and those whose problems were exacerbated by the crisis. These underperforming investments are being closely supervised and a few of them were the subject of workout efforts in 1998.

Interest and other income earned on the private sector portfolio in 1998 totaled $30 million, compared with $29 million in 1997. Dividends received amounted to $18.2 million (7.4 percent yield), a threefold increase from the previous year's $5.9 million (2.7 percent yield). This hefty growth in dividend receipts was due mainly to a BOT power project that started to pay

Portfolio Distribution by Sector,[a] 1998

	Investments Held		
	No. of Companies	$ Million	%
Infrastructure	11	320	31
Financial institutions	37	329	32
Investment funds	30	177	17
Agriculture, manufacturing, and other industries	22	217	21
Total	**100**	**1,043**	**100**

a At exchange rates as of 31 December 1998.

dividends in 1998. Capital gains made on equity divestments during the year amounted to $3.7 million, up by 12 percent from $3.3 million in 1997.

The continuing adverse impact of the financial crisis resulted in increased loss provisions in 1998 for the affected investments. Thus, the allowance for possible losses on impaired loans and equity investments rose by 25 percent to $114.9 million at the end of 1998 from $91.6 million in 1997. This loss allowance represented 13.2 percent of the disbursed portfolio at the end of 1998, compared with 9.3 percent in 1997.

Performance evaluation and development impact

In line with the Bank's increasing concern about the effectiveness of its development assistance, the Postevaluation Office (PEO)[6] undertook various activities in 1998 aimed at enhancing Bank operations. A major initiative was the preparation of the first country assistance program evaluation (CAPE), which reviews the Bank's overall assistance to a DMC. It was also during the year that the PPR was institutionalized to replace the PAC notes as the document to be used in recording the implementation progress and potential achievement of development objectives for all ongoing projects. Together with the Central Operations Services Office, PEO acted as the focal point for monitoring progress and providing assistance in accomplishing PPRs. Projects staff were also provided relevant training on a limited scale. PEO recently enhanced its feedback system by launching on the Internet a web page on evaluation findings and lessons. Links with the web sites of other international funding organizations provide an easy way of sharing evaluation information with DMCs as well as the general public.

PEO plays a coordinating role for evaluation by all operational units within the Bank to facilitate lesson learning. PEO is increasingly looking at larger units than the traditional single completed project or program.

In 1998, PEO completed 44 evaluation reports comprising 21 project performance audit reports (PPARs), 4 technical assistance performance audit reports, 3 impact evaluation studies, 4 reevaluation studies, 5 special evaluation studies, 2 technical assistance completion reports, 1 CAPE, 1 sector synthesis, the *Twentieth Annual Review of Evaluation Reports*, the *1998 Annual Performance Evaluation Program and Review of 1997 Activities* (APEP), and the *Seventeenth Report of Postevaluation Abstracts*.

Project performance audit reports

Half of PEO's efforts in 1998 were directed toward PPARs. Selected to reflect the variety of the Bank's loan portfolio, 21 projects were so covered. Of these, 16 were ADF-only countries and 5 were ADF-OCR blend countries. *See Classification of Countries box on page 51.* By sector, there were 10 projects in agriculture and natural resources, 4 in transport and communications, 3 in energy, 2 in social infrastructure, and 2 in the financial sector.

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6 On 12 January 1999, the name of the Postevaluation Office was changed to Operations Evaluation Office (OEO).

Postevaluation Approach and Project Classification

The Bank undertakes evaluation of completed projects to (i) provide accountability to its shareholders, and (ii) distill lessons of experience with a view to improving the design of future projects and the quality and development impact of its lending to its developing member countries. A two-step evaluation system is followed. The first step consists of the preparation of project/program completion reports (PCRs) for all completed projects/programs by the operational divisions responsible for their processing and implementation, the principle being that for most effective learning and impact on future operations, the initial evaluation should be carried out by those who have been directly involved. To ensure an independent evaluation, the second step consists of the preparation of project/program performance audit reports (PPARs) by the Postevaluation Office (PEO). The PPAR is an evaluation of the effectiveness and sustainability of a project/program in achieving its objectives. The PPAR audits the PCR for adequacy and integrity, and focuses on specific issues meriting closer attention.

On the basis of implementation experience, expected performance, and development impact, projects are classified as generally successful, partly successful, or unsuccessful. A project is generally successful if it is expected to be economically viable or can generate socioeconomic benefits commensurate with original expectations and/or costs incurred. A project is partly successful if its benefits are believed to be sustainable at reduced levels, with reasonable prospects for improvement if remedial actions are taken. If a project is not technically and/or economically viable, it is classified as unsuccessful. Such classification made at the time of the PPAR may be revised during subsequent reevaluation. A partly successful project is not to be viewed as an unsuccessful project; and, by the nature of the Bank's development mission, unsuccessful projects are expected.

Evaluation is undertaken by PEO not only through the preparation of PPARs but also through evaluation studies that are aimed at more intensive analysis of particular issues or subjects of broader relevance to the Bank's operations, practices, and procedures. These comprise impact evaluation, reevaluation, and special studies.

Impact evaluation provides insights into the extent to which the benefits of Bank lending in a particular sector are spread and sustained.

Reevaluation focuses in-depth analyses on project impact and sustainability about five years after the PPAR stage.

Special studies provide intensive analyses of particular issues, or comprehensive reviews of evaluation findings in a specific country or sector.

Evaluation by the PEO has been expanded to include the Bank's technical assistance operations.

Cumulatively, by the end of the year, 521 PPARs had been prepared for 542 projects and programs covering all major sectors and subsectors in 26 DMCs.[7] Of these, 57 percent were classified as generally successful, 32 percent as partly successful, and 11 percent as unsuccessful; two were not rated.

Of the 21 projects evaluated during the year, 9 (43 percent) were classified as generally successful, another 9 as partly successful, and 3 (14 percent) as unsuccessful. Given the small sample size by sector of this year's evaluated projects, an annual comparison of performance was not attempted.

Except for one unsuccessful project, those in the agriculture sector were either generally or partly successful. Success was enhanced by appropriate questioning of design and by making alterations during implementation. Some problems could have been foreseen, such as the difficulty of dealing with multiple government agencies, the poor capacity of executing agencies, insufficient attention to benefit monitoring and evaluation, and inadequate provision for operation and maintenance after loan closing. Several projects demonstrated the importance of considering the capacities, needs, and priorities of target groups.

Three transport projects were successful because their designs were based on adequate investigations and use of good construction practices and materials. The designs also allowed for flexibility in making modifications

7 The difference of 21 is explained by the fact that 17 PPARs covered 2 projects each, and 2 covered 3 projects each.

Performance Classification by Sector, 1998

Sector	Generally Successful No.	Generally Successful %	Partly Successful No.	Partly Successful %	Unsuccessful No.	Unsuccessful %	Total No.	Total %
Agriculture and Natural Resources	5	50	4	40	1	10	10	100
Transport and Communications	2	50	1	25	1	25	4	100
Energy	2	67	–	–	1	33	3	100
Social Infrastructure	–	–	2	100	–	–	2	100
Financial	–	–	2	100	–	–	2	100
Total	**9**	**43**	**9**	**43**	**3**	**14**	**21**	**100**

after detailed engineering. However, one railway project in the PRC performed unsatisfactorily. While its initial concept and rationale were appropriate, the traffic forecasts at appraisal did not have a sound basis. Also, the weak performance of the operating company, coupled with shortcomings at the national, provincial, and corporate levels, warranted more on-site supervision by the Bank.

The two generally successful energy projects benefited from adequate Bank monitoring and supervision, competent consultants, and relatively strong project management teams. The unsatisfactory performance of one mini hydropower project in Nepal was attributed to the inappropriate technology adopted at appraisal, which was too sophisticated and import-dependent.

The two projects in the social infrastructure sector were partly successful, having both design and implementation deficiencies. An agricultural education project in the Philippines neither properly considered the aspirations of potential students nor institutionalized benefit monitoring and evaluation. The other project, the Second Health and Population Project in Pakistan, did not heed the lessons learned from the first such project in the country.

The two financial sector projects were classified as partly successful. Both achieved the objective of providing much-needed foreign currency to the recipient institutions. However, subproject performance was mixed, particularly in terms of repayment. The key areas of credit analysis, risk evaluation, ongoing portfolio monitoring, and loan collection needed attention.

Total project costs of all the evaluated projects had originally been estimated at $1.1 billion. Actual costs upon completion came to $1 billion—lower by less than 3 percent. The total loan amount for all was estimated at $507.7 million, while the actual loans disbursed totaled about 4 percent lower, at $486.1 million. The factors responsible for underruns in both project costs and Bank financing included scaling down of original scope, overestimation of costs during appraisal, depreciation of the local currency against the dollar, and underutilization of credit lines. Projects classified as generally successful accounted for 65 percent of actual project costs and 50 percent of loan amounts disbursed, showing that larger projects tend to perform better.

Project Performance by Country Group, 1998

Country Group	Generally Successful No.	Generally Successful %	Partly Successful No.	Partly Successful %	Unsuccessful No.	Unsuccessful %	Total No.	Total %
ADF-Only	7	44	6	37	3	19	16	100
ADF-OCR Blend	2	40	3	60	–	–	5	100
OCR-Only	–	–	–	–	–	–	–	–
Total	**9**	**43**	**9**	**43**	**3**	**14**	**21**	**100**

All projects encountered implementation delays, attributable to a variety of reasons. A remedy for such delay is found in the midterm review process, investigated by a special evaluation study (*see discussion on page 73*).

A number of projects contributed to economic and social development (*see box on page 70*). The experiences of these projects also highlight several lessons relevant to future Bank operations: (i) project formulation, physical targets for various components, and implementation schedules should be based on realistic estimates of both financial resources and time required—keeping in view external limiting factors such as administrative procedures and coordination among government agencies; (ii) involvement of various stakeholders, including government agencies at the district and provincial levels, during project planning, implementation, and operation helps ensure a firm commitment to an effective maintenance program following project completion; (iii) the Bank should thoroughly assess the balance between project rationale and scope during design to avoid the inclusion of unattainable objectives; (iv) technical design specifications should be sufficiently detailed to ensure the allocation of appropriate resources; and (v) whenever considerable delays are experienced, the Bank should analyze the implications for the project's commercial viability and debt servicing capacity.

Technical assistance performance audit reports

In line with PEO's recent initiative to assess the Bank's technical assistance operations by evaluating a cluster of technical assistance, four technical assistance performance audit reports were prepared in 1998. They relate to four advisory technical assistance grants for strengthening the capacity of the Ministry of Finance in Bhutan; five for supporting the development of financial intermediation through institutional strengthening or subsector studies in the PRC; nine in the power subsector in India—the first evaluation report prepared for that subsector in the country; and three on capacity building in the financial sector of Viet Nam.

In Bhutan, except for the technical assistance that aimed to undertake final modifications of a previous technical assistance, the others covered by the review performed less satisfactorily; the lack of institutional analysis and performance criteria impeded both their design and effectiveness. In the PRC, two technical assistance grants were generally successful and three partly successful; performance varied depending on the initial conditions of the targeted institutions and subsectors, appropriateness of design, and performance of the consultants. In India, seven of the technical assistance grants fully achieved their objectives in terms of policy/plan development, institutional support, and capacity building. Of these, four are currently being administered and are contributing substantially to the ongoing reform process in Gujarat—demonstrating the Bank's leverage in accelerating the reform process. In Viet Nam, the three technical assistance grants contributed significantly to capacity building and institutional development; however, some of the specific objectives of two of these—Strategic Development Plan for a Money Market and Operationalization of the Debt Management and Financial Analysis System—were not fully met.

Impact evaluation studies

During the year, PEO carried out three such studies. A study in Bangladesh assessed the adequacy, implementation experience, and operational performance of 32 project preparatory technical assistance (PPTA) grants in the agriculture and natural resource sector, as well as their impact and effectiveness in contributing to the performance of ensuing projects. A study of secondary science education projects in Bangladesh, Nepal, and Pakistan

Economic and Social Benefits of Selected Projects

Many of the projects evaluated in 1998 were found to have provided tangible economic and social benefits. Some addressed crosscutting issues such as poverty reduction, gender and development, and environmental protection.

Under the Highland Livestock and Development Project in Bhutan, dairy and marketing development enabled farmers to double their average income from the sale of livestock products. Also, the project benefited farmers in remote areas through the provision of solar panels for the generation of electricity.

The Irrigated Command Area Development Project in Indonesia had a positive impact on the environment. Drainage improvement measures undertaken in selected flood-prone areas and localized swamps in Bengkulu reduced the incidence of malaria and permitted year-round productive use of frequently flooded land and reclaimed areas.

In Pakistan, 72 percent of the users of the primary health care facilities established under the Second Health and Population Project were women and children. The project contributed to better child spacing and improved women's health, and enabled women to engage in additional economic activities. The participation of midwives and rural female health workers highlights the advantages of employing the services of women in family planning activities.

The Bank continues to evaluate its projects to determine their impact on targeted

The project to expand the Fauji Fertilizer Co. Ltd. in Pakistan has created substantial employment opportunities for the local population near the site and in other areas where companies providing support services to the fertilizer industry are based. Local inhabitants have also benefited from the plant's various social programs, including funds provided for a local government school and a medical clinic.

The construction of small-scale communal irrigation systems, rural roads, and foot bridges, as well as the provision of support services under the Highland Agriculture Development Project in the Philippines, resulted in increased cropping intensity in vegetable-growing areas and an increase in yields and farmed area in rice-growing areas. The roads have hastened the introduction of more profitable vegetable crops.

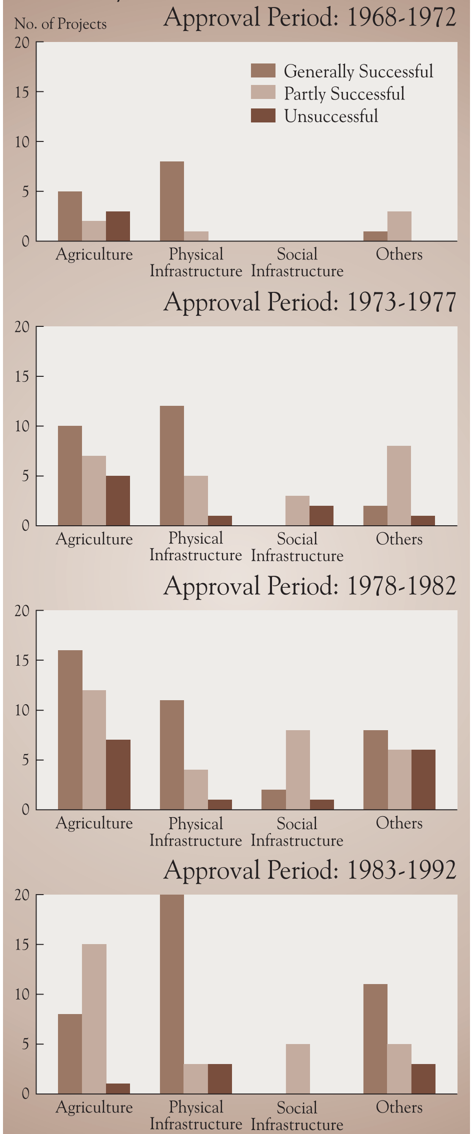
In Sri Lanka, the Secondary Towns Power Distribution Project reduced system losses and improved the quality of electricity supply. The shift to electricity is believed to have reduced the potential for fires and resultant injuries from storing kerosene or maintaining a standby diesel generator. Street lighting is claimed to have improved security.

focused on the projects' impact on institutions, graduates, and the policy and management environment. The third study looked at Bank assistance to the power subsector in Pacific DMCs.

The Bangladesh study found that PPTAs tend to produce a project design based on a predetermined project concept, rather than being a feasibility study to develop a project to achieve certain outcomes. There was minimal transfer of skills through most PPTAs, and the executing agencies generally did not improve their capacity to design projects themselves. The study on science education projects showed that, while the projects improved the institutional capacities of science education centers and secondary schools, such improvement did not always filter down to the students in terms of better learning achievements in science and related subjects. The main constraint continued to be suboptimal classroom conditions. Despite their shortcomings, the projects helped make the administrative and policy environments more conducive to science education, and provided important building blocks for the long-term development of the secondary education system as a whole. The final study showed that, other than in Fiji, power projects in Pacific DMCs have had limited direct development impact largely because of institutional weaknesses. The utilities are generally poorly managed and have financial problems. The successful projects are highly correlated with strong and adaptable institutions, and the failures, with weak institutions. The use of financial covenants alone to secure reforms apparently has been the wrong approach to dealing with structural problems such as tariffs and lack of autonomy.

All three studies point to the need to strengthen technical assistance, both project preparatory and advisory, and to further improve loan projects. Specifically, PPTAs should undertake rigorous institutional capacity studies, develop executing agencies, be participatory, identify and analyze project risks, and incorporate project performance indicators. Advisory technical assistance should focus on improving (i) operation and maintenance, (ii) standards of safety and environmental protection, (iii) efficiency and lower costs, (iv) management capacity for both administration and planning, (v) reporting and increased transparency of operations, and (vi) measurement of performance.

Performance of Postevaluated Projects, by Sector and Approval Period: ADF-Only Countries



Note: "Physical Infrastructure" includes transport and energy sectors. "Others" includes multisector, development finance institutions, and industry.

See page 51 for classification of countries.

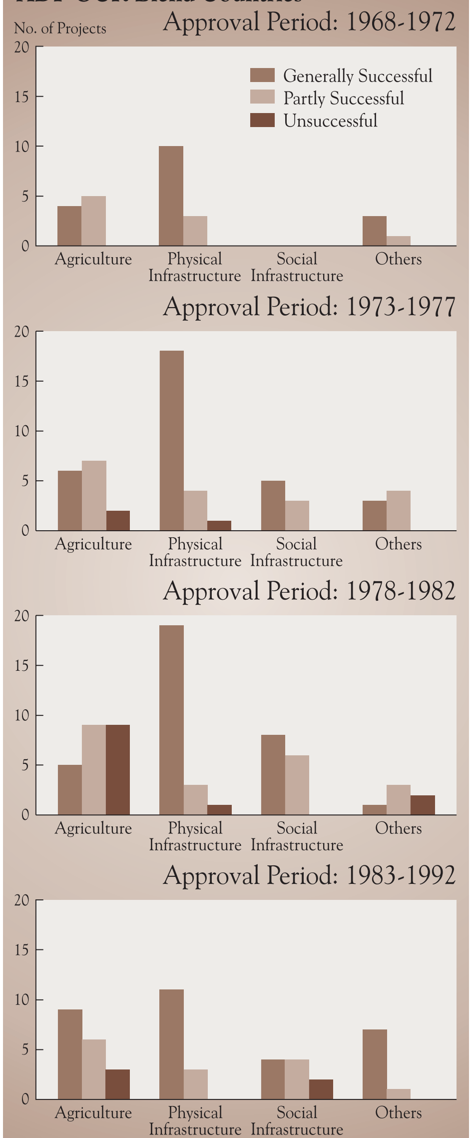
Reevaluation studies

Reevaluation studies were undertaken for two projects each in the agriculture and education sectors.

Reevaluation of the Sabah/Sarawak Fisheries Infrastructure Project in Malaysia was conducted six years after its PPAR, which was done within a year of project completion. At that time, both subprojects were assessed as generally successful based on the expectations that there would be no adverse environmental or social impact, and that the project would be sustainable and all project facilities fully utilized by 1997. These expectations did not materialize, though, and the facilities were still underutilized at the time of reevaluation. The project's contribution to fisheries output in Sabah has been limited, and in Sarawak very small, and its rating on reevaluation was therefore unsuccessful. The failure of the original PEO evaluation to identify trends correctly highlights the usefulness of undertaking a reevaluation several years after the original evaluation.

The Palawan Integrated Area Development Project in the Philippines was classified as partly successful both in the PPAR and at reevaluation. The lower-than-anticipated project impact and the low sustainability of some project benefits reflect important design weaknesses, including inadequate information and database; inadequate consideration of existing farming systems; limited consultation with intended beneficiaries and other stakeholders; and failure to recognize sociological and institutional constraints and the risk of a sudden shift to high-technology, multitier cropping systems. Except for the ports and malaria eradication components, which were by and large successful, the operational success and the impact on farm incomes of the other components such as irrigation, agricultural intensification and diversification, and livestock were below targets and continue to decline. The socioeconomic impact of the project, though positive, has been less than expected.

Performance of Postevaluated Projects, by Sector and Approval Period: ADF-OCR Blend Countries



Note: "Physical Infrastructure" includes transport and energy sectors. "Others" includes multisector, development finance institutions, and industry.

See page 51 for classification of countries.

The Technical and Vocational Education Project in the Philippines had not been evaluated in a PPAR, but was selected for study to assess its long-term sustainability and impact. The project aimed to improve planning and management of the subsector, promote research and curriculum development, institute in-service training for teaching and nonteaching staff, and enable technical education institutions (TEIs) to deliver an improved training program for middle-level technicians. It was completed in 1989 and was assessed in the PCR to have contributed to upgrading the quality of middle-level technical human resources required for social and economic development. However, the project was rated only partly successful by the reevaluation study. It improved the physical and human resources of the TEIs, but did not contribute to better management of the subsector. Reevaluation highlighted the importance of locating a TEI close to relevant industries to facilitate interaction between it and industries, thus ensuring the relevance of the program content, minimizing the cost to students of on-the-job training, and facilitating their eventual employment.

Reevaluation of the Second Vocational Education Project in Thailand confirmed the generally successful rating in the PPAR. The project not only contributed to Thailand's industrial development in the past two decades, but also expanded the technical and vocational education system in the country. It helped the Government to provide equitable access to quality technical education for more balanced national growth. Sustainability is assured by the institutional and policy frameworks in which technical and vocational education is now viewed and implemented in the country. The success and quality of upgrading technical education and vocational training in Thailand underline the importance of providing assistance and policy guidelines over the long term in the education subsector.

Special evaluation studies

Five special evaluation studies were carried out. The study of port projects in India, Indonesia, Malaysia, and Philippines reviewed the Bank's operational policies and strategies in the subsector by assessing the effectiveness of past Bank-funded port projects in these countries. It identified the changes in the transport sector and the port subsector, particularly those that would affect future Bank lending. The results show that the considerable amount of infrastructure provided has allowed the ports to grow in response to rapidly growing traffic. However, the need for Bank support of such capital investment has declined as the private sector has demonstrated a willingness to participate where the returns are reasonable. The study highlights the need for a new approach for Bank assistance to the subsector that looks beyond the provision of physical infrastructure, facilities, and equipment to the efficiency with which these assets are used and the ability of ports management to provide services that facilitate trade.

The study on the operation and maintenance of road facilities and their impact on project sustainability reviewed 40 Bank-assisted road projects in five countries—PRC, Fiji, Lao PDR, Nepal, and Thailand. The Bank's experience in these countries shows that paucity of funds for operation and maintenance leads to weak institutional capacities reflected in the lack of adequate management information systems and the shortage of skilled staff. However, even with insufficient funds, operation and maintenance receives better attention in countries with stronger economies and/or with a better developed road network such as PRC, Fiji, and Thailand. For weaker economies, an option for dealing with such costs is to construct well-designed roads that require less maintenance. Operation and maintenance can then focus more on operational aspects, particularly road safety and traffic management, that can gain public support easily as their impacts are immediate and highly visible. The study recommends that DMCs and the Bank strengthen their efforts in road financing and cost-recovery measures, institutional programs, standardization of maintenance equipment, linking disbursement with adherence to loan covenants, and participation of road users and beneficiaries.

An evaluation of the Bank's midterm review process for project lending was conducted to determine whether it should be retained. The findings show that the midterm review is the only mechanism available for taking corrective action during project implementation, thus playing an important role in the Bank's efforts toward improving project quality. However, this potential was found to be underused because of limited staff resources and mission budgets. While a properly structured midterm review requires significantly more resources than a regular review, there are proportionately greater benefits in the form of reduced implementation costs. The Bank should earmark resources for project administration over and above the current allocation if an effective midterm review system is to be established. All loan agreements should specify a milestone or date at which a decision should be made on whether a midterm review is needed. A position paper would be prepared at that time to assess project progress and to identify relevant issues, including terms of reference for the review. Preparatory work for the review should involve the executing/implementing agencies, ministries of finance and planning, and other stakeholders. The study also recommends that such reviews question the relevance of project objectives in light of the changing conditions, consider social and environmental aspects, and compare them with the original environmental impact assessment (EIA) and related covenants specified in the loan documents.

The Bank's Policy on Indigenous Peoples ensures that they participate in and benefit equally from Bank-financed development.

A study of the factors affecting project performance in the agriculture and social infrastructure sectors was an attempt at using statistical techniques to identify explanatory variables for success and failure specific to these sectors. The major findings of the study are as follows: (i) monitoring only the project implementation schedule and disbursement levels is insufficient to improve projects in these sectors; (ii) both project-specific and external factors that impact significantly on project performance should be given equal attention; (iii) a policy environment favorable to project operation, government commitment to a project, and provision of counterpart funds can improve project performance significantly; and (iv) project success in the sectors depends on the executing agency's capability to supervise project implementation and to use facilities properly, and on its commitment to maintenance and repair. The study also suggests a need for a critical review of Bank policies and practices relating to PPTAs to enhance their contribution to project performance.

A study of the environmental mitigation measures in selected Bank-financed projects focused on two thermal energy generation projects each in PRC, India, Indonesia, and Philippines, and two urban development projects in Indonesia. These four countries account for about half of all Bank lending in the power sector. The study found that the EIA process required by the Bank has often resulted in successful identification and mitigation of major environmental problems. The projects studied generally complied with the environmental protection regulations and guidelines of their respective DMCs, although the mandates and capacities of the environmental management agencies (EMAs) to regulate and monitor environmental mitigation measures (EMMs) seemed low. EMMs were often designed after the site and the technologies for the plant had been selected. Some of the study's major recommendations are as follows: (i) the Bank should consider more detailed itemizing and earmarking of greater portions of project financing to implement EMMs; (ii) the Bank needs to develop and implement an EMM evaluation and reporting system for sensitive projects; (iii) the Bank should promote regular external audits of large power plants to ensure compliance with regulations, and should continue to develop the institutional capacities, as well as the enforcement, compliance, and monitoring capabilities of EMAs; and (iv) the EIA should be done during the feasibility stage, prior to finalizing the site and type of technology.

Completed infrastructure projects in the PRC showed a positive trend when evaluated.

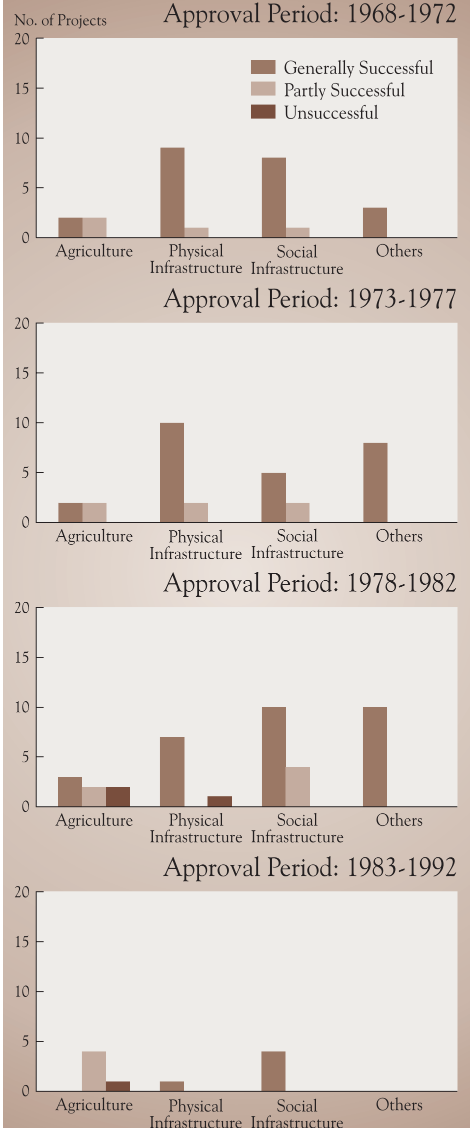
Country assistance program evaluation

In 1998, PEO reviewed the Bank's assistance program in the PRC from 1987 to 1997 and assessed the relevance, efficacy, and effectiveness of past Bank operations there. This initial CAPE assessed the relevance of the Bank's strategy in terms of the needs of the PRC and the constraints that narrow the choice of strategic options. At the beginning, the financial and industry sectors dominated the Bank's operations in the country; over the years, the transport and communications, energy, and environment sectors have become the main areas of concentration. Overall, the quality of the Bank's portfolio in the agriculture, financial, and industry sectors revealed mixed results. In contrast, the completed projects in energy and infrastructure indicated a positive trend. The major recommendations of the evaluation are as follows: (i) the country operational strategy should provide a better basis for evaluation of success, while the country assistance plan should reflect the directions provided by the strategy; (ii) the Bank should support the recently established Inspectorate under the State Development Planning Commission to improve development impact and project quality; (iii) although the PRC has considerable strengths in the areas of project planning and preparation, the Bank needs to apply diligence in reviewing and accepting projects; (iv) the Bank's technical assistance program in the PRC should be more focused and managed more effectively; (v) high-level policy dialogue between the Bank and the PRC is needed to agree on better linkage between technical assistance and loans; (vi) the Bank should consider classifying social safety net projects as poverty projects; and (vii) the Bank should broaden its approach in the environment subsector to cover preservation of the natural environment, especially living natural resources.

Annual performance evaluation program

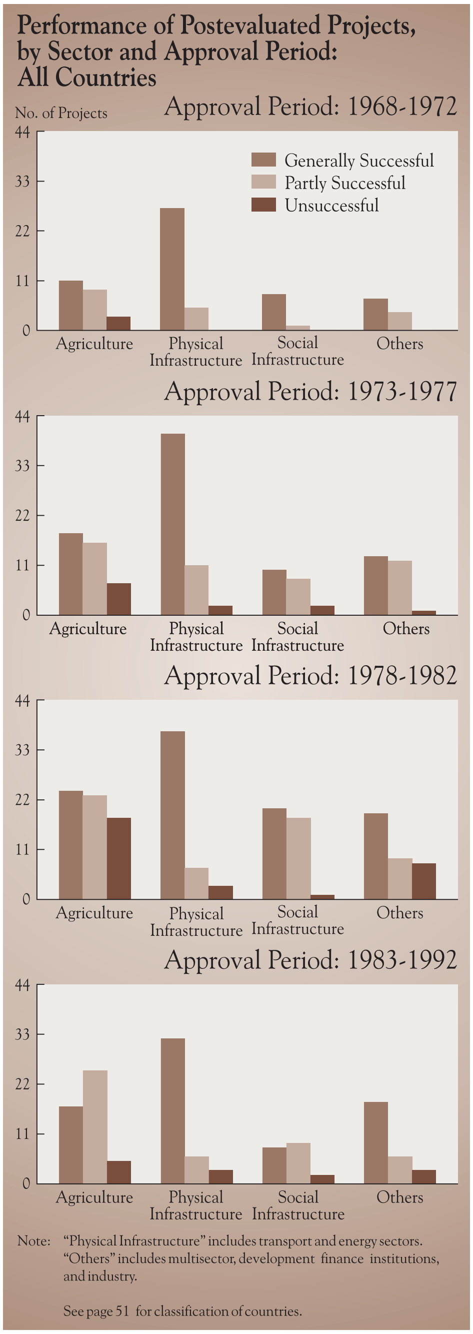
This year's APEP focused on the activities of various departments and offices as they relate to project and portfolio performance, with a view to providing more effective feedback from Bankwide assessment of project performance for improving project quality. It provided both a review of activities in 1997, together with activities for 1998, and an update of actions on recommendations made under earlier APEPs. A key conclusion of this year's review is that the most important action the Bank can take to improve portfolio performance and project outcomes is to strengthen the quality of its own project supervision. This requires an improved performance measurement and monitoring system, which the introduction of the PPR and the project performance management system (PPMS) targets. Almost as important is the need for more thorough and comprehensive economic and sector analyses to help improve project identification and design. The other recommendations are (i) support for the interdepartmental working group recommendations on improving the country operational strategy/assistance plan process and country portfolio review missions (CPRMs), including the establishment of performance targets; (ii) systematic evaluation of the country operational strategy and reassessment of its relevance on a yearly basis through the country assistance plan exercise; and (iii) support for the proposed guidelines for the CPRM, which cover the need for a review of sector and policy issues affecting portfolio performance, and for developing appropriate performance indicators, an area where more work is needed.

Performance of Postevaluated Projects, by Sector and Approval Period: OCR-Only Countries



Note: "Physical Infrastructure" includes transport and energy sectors. "Others" includes multisector, development finance institutions, and industry.

See page 51 for classification of countries.



Strengthening the performance evaluation capability of DMCs

In 1998, PEO administered three technical assistance grants aimed at developing or strengthening the PPMS in Nepal, Philippines, and Sri Lanka, and one technical assistance to the PRC for strengthening evaluation capacity. The technical assistance completion report (TCR) prepared in 1998 on the evaluation of Bank assistance to DMCs for benefit monitoring and evaluation (BME) highlighted the need to improve BME by establishing conceptual clarity and changing the terminology itself to reflect the revised concept. The technical assistance resulted in initiating a shift to the PPMS as the Bank's approach to monitoring and evaluating projects. Following the technical assistance, all new projects under processing are expected to have a PPMS properly built into them. A handbook on the PPMS as a practical guide for Bank staff and DMC counterparts was developed to facilitate the shift to the new system. The TCR on the study of project planning and management in the PRC highlights the effectiveness of conducting workshops to share development experiences of best practices in project planning and management among the Bank's member countries. Such workshops not only enhance project quality but also strengthen partnership among DMCs, and between the Bank and its DMCs.

Feedback of postevaluation findings

The computerized postevaluation information system, which was made accessible on-line to Bank staff in 1997, was expanded. By the fourth quarter of 1998, PEO had operationalized web sites to enhance the current feedback system. An Internet page enables external downloading of documents, and advanced searches for information in evaluation reports. It contains links with the web sites of other organizations and provides an easy way of sharing evaluation information with DMCs as well as the general public. A new Internet facility enables keyword searching and easier access within the Bank to PEO's extensive existing database of evaluation results.

Regional Highlights

Developing Asia

The slowdown in Asian growth—that began with the export deceleration of 1996 and worsened with the 1997 currency crisis—turned into a widespread regional contraction in 1998. Economic growth in developing Asia at over 1 percent was the lowest since the post-World War II period. Net private capital flows to developing Asia, which reached nearly $170 billion in 1996, fell to an estimated $16 billion in 1998, according to information released by the Institute of International Finance, Inc. The data reflect a net outflow of $30 billion in 1998 from Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand. This brought about a financial crunch that led central banks into monetary contraction, reducing domestic demand and exacerbating the problem of nonperforming assets in the banking subsector. Although currencies remained depreciated well below their precrisis levels, export earnings did not respond to the exchange rate stimulus. Contributing factors included the decline in export prices, especially in dollar terms; the severe import compression that adversely affected exports; and the tight export credit faced by companies, particularly small and medium enterprises.

Factors that contributed to the protracted nature of the crisis were pegged exchange rates, financial sector fragility, and weak governance capability. Southeast Asia remained at the center of the crisis, with Indonesia suffering a large economic contraction, and Malaysia and Thailand experiencing substantial declines. Of the four newly industrialized economies (NIEs), only Taipei,China weathered the storm without major damage. The economy of the Republic of Korea suffered a major contraction. Hong Kong, China; and Singapore were unable to avoid the impact of the regional slowdown on their trade- and financial services-based economies. The crisis revealed that a careful sequencing of reforms was necessary. Countries that strengthened their financial sector prior to the adoption of capital account convertibility fared better during the crisis. The People's Republic of China (PRC) and the economies in South Asia, which were less exposed to international capital flows or had exchange controls, did relatively better than the rest of the Asian and Pacific region. Growth in the Central Asian republics was constrained by the Asian and Russian crises. The Pacific economies continued to experience economic difficulties in 1998.

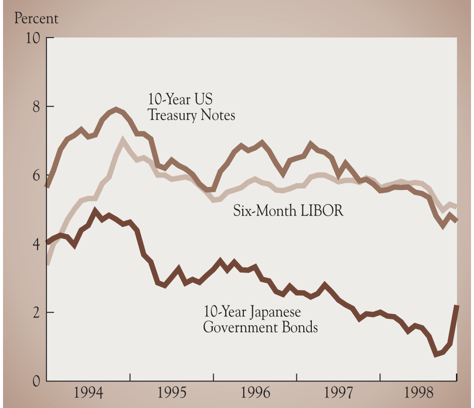
Currency devaluations drove up inflation rates in several crisis-affected Asian countries. Across Asia, the average rate of consumer price inflation rose to over 8 percent from 4.7 percent in 1997. The rupiah's sharp depreciation against the United States (US) dollar in late 1997 resulted in double-digit inflation in Indonesia. More moderate depreciations in the Republic of Korea, Malaysia, Philippines, and Thailand also prompted increases in inflation.

Net Private Capital Flows to Developing Asia
($ billion)

	1995	1996	1997	1998
Five most affected Asian economies[a]	79.0	103.2	(1.1)	(28.3)
China, People's Rep. of	43.7	50.1	60.0	38.0
Other Asian economies	10.1	16.4	9.5	6.1
Total	**132.8**	**169.7**	**68.4**	**15.8**

( ) Negative.
a Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand.
Sources: The Institute of International Finance, Inc., *Capital Flows to Emerging Market Economies* (27 January 1999); and World Bank, Global Development Finance 1999 (advance release).

Major Interest Rates



Source: ADB data file.

Elsewhere—notably in Hong Kong, China—monetary contractions implemented to defend the currency exerted deflationary pressures.

Current accounts improved throughout the region as a result of severe import contraction and the slowdown in economic activity. From an approximate balance in 1997, Asia's aggregate current account moved to a surplus in 1998. Most of that improvement came from reduced imports rather than increased exports.

Weak banking and governance systems contributed to Asia's initial vulnerability to capital flow reversals. Loss of confidence in the banking system converted the currency depreciation into a full-blown financial crisis. Financial sector and governance reforms are progressing in the Republic of Korea and Thailand and, to some extent, in Indonesia. The ratio of nonperforming loans to total lending continued to rise in 1998. This was an expected result of restructuring efforts of the banking subsector; however, some progress was made in reducing their levels in the latter half of 1998. The 20–30 percent regional nonperforming loan ratio represented an equivalent percentage of output, as financial leverage in Asian economies remained at about 100 percent of their gross domestic product (GDP). Affected countries have been hard pressed to clear the wave of defaults prompted by liquidity shortages, currency and maturity mismatches, directed and connected lending, and weak prudential standards and financial supervision.

In the first round of responses to the crisis, many countries, in consultation with the International Monetary Fund (IMF) and other multilateral development banks, adopted conventional strategies to reverse capital outflows, such as tightening monetary and fiscal policies, implementing financial and other structural reforms, and floating exchange rates. However, the social cost of these policy packages has induced a rethinking of those strategies. As the crisis continued, the most seriously affected countries, in consultation with IMF, adopted less austere and more interventionist economic policies to stimulate domestic demand. In September 1998, Malaysia adopted a different policy stance: it imposed capital controls and fixed its exchange rate at 3.8 ringgit to the US dollar. The PRC and Viet Nam also tightened existing exchange controls. The Government of the Hong Kong Special Administrative Region took the exceptional step of intervening in the stock and futures markets to deter currency manipulation.

The crisis has led to widespread bankruptcies and severe cutbacks in public outlays on social services, including education and health. As a result, unemployment has soared, household incomes have fallen dramatically, and human development indicators in the most seriously affected countries have declined sharply. Without social safety nets to rely on, the poor have suffered disproportionately from the Asian financial crisis. During the two decades of rapid growth that preceded the crisis, the average poverty rate in East Asia and Southeast Asia fell from 60 percent to 26 percent. This represents a substantial increase in average living standards for the more than 1.6 billion people living in the region. However, since the crisis struck in mid-1997, unemployment, inflation, and reductions in social services have combined to reduce effective income for tens of millions. The impact of the crisis has been hardest on Indonesia's poor, but lower-income groups in the Philippines, Thailand, and elsewhere have also been adversely affected.

The global economy

The world economy grew at a much slower pace in 1998, at 2.2 percent compared with 4.2 percent in 1997. This decline in growth was mainly because of sharp falls in output of emerging market economies, following months of financial turbulence. Economic conditions in continental Europe and North America remained favorable until the middle of 1998. By the middle of the third quarter, the financial markets in the developed countries began to be affected by the Asian financial crisis. In addition, Russia suffered from severe financial distress in August 1998, and several Latin American countries were affected by the contagion. Japan's economic situation continued to deteriorate despite efforts by the Government to pump prime the economy.

Commodity prices fell by 25 percent in 1998 and are now at their lowest levels in nominal terms since 1986, and in real terms since the early 1970s. This is further aggravating the slump in some developing countries that are dependent on exports of primary commodities. This development, however, has had a favorable impact on inflation rates. Oil prices have been depressed by market conditions of oversupply and weak Asian demand. Demand growth was further muted by the sluggish world economy, coupled with mild winter weather. Oil prices averaged $14 per barrel in 1998, significantly below the $19 per barrel in 1997. Non-oil commodity prices declined by 16 percent in 1998 and are now at their lowest levels since 1986. The price of industrial materials declined by 20 percent, reflecting the slump in economic activity in the NIEs and the decline in industrial production in Japan. World prices

Economic Indicators of ADB Developing Member Countries and Rest of Developing World

	DMCs[a]			Western Hemisphere			Africa		
	1996	1997	1998[b]	1996	1997	1998	1996	1997	1998
GDP Growth Rate (%)	7.4	6.2	1.2	3.5	5.1	2.5	5.8	3.2	3.6
Inflation Rate (%)	7.3	4.7	8.5	20.8	13.9	10.3	26.7	11.0	8.5
Merchandise Exports Growth Rate (%)	6.9	6.9	(5.3)	11.8	10.2	0.1	11.9	2.2	(9.2)
Merchandise Imports Growth Rate (%)	7.8	2.2	(14.4)	10.7	18.5	6.4	0.7	5.0	(0.3)
External Debt Outstanding ($ billion)	756.1	805.4	...	631.0	634.0	681.3	295.9	283.1	281.1
Debt Service Ratio[c]	13.1	12.1	...	41.7	46.7	42.7	24.9	21.0	25.1

... Data not available.
( ) Negative.
a Developing member countries.
b Preliminary estimates.
c As percentage of exports of goods and services.

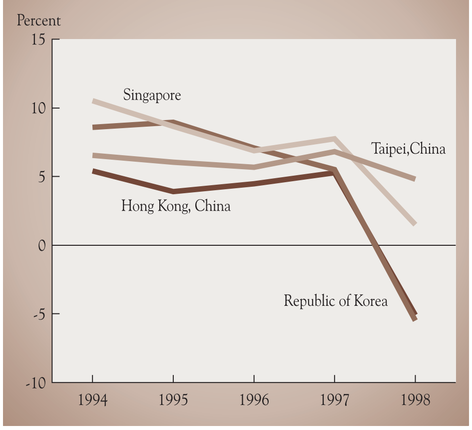
Sources: International Monetary Fund, *World Economic Outlook*, October 1998, Washington, DC, and Interim Assessment, December 1998; and ADB data file.

of foodstuffs fell by 14 percent in 1998. The world grain market was characterized by good harvests in the US and stagnant import demand.

Although the effects of the contagion have tempered growth in the developed economies of the world, the major economic blocs of North America and Western Europe are not in recession. The European Union economy grew by 3 percent during the first half of the year and the US economy expanded by 4 percent over the same period. However, exports from both regions are being affected by the recession in developing countries. It is estimated that the Japanese economy will contract further by 2.2 percent in FY1998/99 (ending 31 March) from 0.4 percent in FY1997/98. The main reasons for the downturn of the Japanese economy are the deterioration of the financial system and a shortfall in effective demand.

Newly industrialized economies

Newly Industrialized Economies
GDP Growth Rates



The crisis engulfed developing Asia's richest economies in 1998, including the financial centers of Hong Kong, China; and Singapore. Sharp drops in regional trade, tourism, and financial activity slowed both economies; and the currencies and stock markets came under tremendous pressure. The generally conservative Hong Kong Monetary Authority (HKMA) intervened in the stock and futures markets in August 1998. Singapore adopted measures in the second half of 1998 to reduce labor costs and stimulate domestic demand. The Republic of Korea took firm steps to stabilize the financial markets, causing the won to strengthen in the second half of 1998. Taipei,China was able to resist the regional contagion because of a strong financial system, substantial foreign reserves, and flexible factor markets.

Aggregate growth for the NIEs was negative, and two of the four economies suffered recessions in 1998. Only Taipei,China managed a substantial growth of 4.8 percent. The Republic of Korea's recession was worse than anticipated. At the end of 1998, annual output fell by 5.5 percent. GDP growth in Hong Kong, China was negative 5.1 percent, while Singapore's GDP growth was 1.5 percent.

Reductions in export demand contributed to the contractions in Hong Kong, China; Republic of Korea; and Singapore in 1998. In Hong Kong, China; and the Republic of Korea, outflows of foreign capital forced up domestic interest rates, thus reducing domestic demand. But investment increased in Taipei,China, due in part to opportunities arising from privatization of public utilities, expansion of the airline industry, and the preemptive devaluation of the currency. The private sector accounted for all of Taipei,China's investment growth of about 20 percent. A strong banking system made Taipei,China more resistant to the financial contagion than most of its neighbors.

Inflationary experiences in the NIEs in 1998 were mixed. While the Republic of Korea faced rising prices as a result of the won's depreciation, Hong Kong, China had lower inflation in 1998 than in 1997, largely because of a steep drop in asset prices. Singapore experienced asset price deflation together with some currency depreciation, while Taipei,China registered a moderate increase in inflation.

The poor export performance of the NIEs in 1998 largely reflected weak demand from other crisis-affected Asian economies. Weak global demand for electronic products also hurt exports from the NIEs. However, currency depreciation and reduced domestic demand caused imports to contract, resulting in trade and current account surpluses.

The number of bad loans in the financial systems increased because of the impact of high interest rates on weak financial institutions. The two regional financial centers experienced massive stock market swings, with Hong Kong, China's Hang Seng Index and the Singapore Straits Times Index dropping by more than 30 percent and 40 percent, respectively, in 1998. Financial links to affected countries contributed to those stock market drops.

Hong Kong, China

Economic performance

Economic growth: Despite sporadic speculative attacks, the Hong Kong dollar has remained stable since the regional currency crisis began in mid-1997. However, by the very nature of its currency board monetary system, the stability of the exchange rate has been accompanied by high interest rates, depressed asset prices, and a severe contraction in aggregate demand and GDP. For the first time since Hong Kong, China adopted the currency board arrangement in 1983, GDP contracted by 5.1 percent in 1998. The sharp contraction in GDP led to an increase in the average unemployment rate from 2.2 percent in 1997 to 4.7 percent in 1998.

Hong Kong, China's stock market remained depressed in 1998. The Hang Seng Index, which was at its peak of 16,000 in mid-1997 before the Asian crisis erupted, declined to a five-year low of around 6,600 in August 1998. However, since then the index has picked up somewhat due partly to a $15 billion intervention in the stock market by the HKMA. Property prices also declined, with apartment prices and rentals, and commercial property and office rentals all below their 1997 peaks. Property prices have declined by over 40 percent since the Asian crisis. But as in the case of the stock market, property prices increased toward the end of 1998, due mainly to the introduction of various incentive schemes for residential property purchases.

The economic slowdown and declines in asset prices adversely affected the banking subsector. Although the proportion of nonperforming loans of banks in Hong Kong, China is low by regional standards, it increased from less than 2 percent before the Asian crisis to 7 percent by the end of 1998. Banks in Hong Kong, China are well regulated and, on average, well capitalized with the banks' capital in the range of 15–20 percent of their assets. Consequently, the main impact of the increase in nonperforming loans was on the profitability and not on the solvency of banks. Net profits of the listed banks declined by an average of one third in the first half of 1998, in comparison with a year earlier.

Inflation: The stable exchange rate, high interest rates, and economic recession led to a steady decline in inflation. Average inflation declined from 5.9 percent in 1997 to 2.8 percent in 1998.

External sector: Dollar earnings from merchandise exports declined by 7.5 percent in nominal terms in 1998. Much of this decline was because of the lack of import demand from Japan and from the crisis-affected economies in the region. A weakening in exports to the PRC also contributed to the poor export performance. With the contraction in GDP, merchandise imports also declined by 11.6 percent in nominal terms in 1998. This led to a substantial fall in the trade deficit. As regards services trade, exports declined especially because of subdued demand for trade-related and other business services in the region. Reflecting the depressed economy, imports of services also declined in 1998. Overall, with foreign exchange reserves of $89.6 billion, Hong Kong, China's external payments position is comfortable.

Domestic policies: The fixed exchange rate maintained under the currency board system has served Hong Kong, China well for more than a decade and a half. It has also withstood speculative attacks since the Asian crisis erupted in mid-1997. The key challenge for the Government of the Hong Kong Special Administrative Region is to facilitate an economic recovery from the current recession without at the same time abandoning the currency board arrangement and the fixed exchange rate.

The pace of recovery will depend crucially on the external environment. From the Government's side, the recovery can be facilitated by improving the international competitiveness of the economy. Among other things, this would require further downward adjustment in domestic costs. As Hong Kong, China has a flexible labor market, wage declines are expected to contribute to a downward adjustment in costs. However, as the economy is dominated by the services sector, domestic property prices in general and office rentals in particular play an important role in determining the costs of operating the services sector business. The decline in office rentals and property prices in the last year and a half should improve the international competitiveness of the economy.

Republic of Korea

Economic performance

Economic growth: With the assistance of the IMF-led rescue package in December 1997, the Republic of Korea has made considerable progress in stabilizing its external financial position and in overhauling its financial and corporate sectors. However, these achievements have been accompanied by a sharp contraction in GDP by about 5.5 percent in 1998. This represents a dramatic reversal from 8 percent average growth achieved in the last three decades. The decline in output was driven by contraction of domestic demand. Weaknesses in the financial and corporate sectors, difficult external environment resulting from the Asian financial crisis, and tight fiscal and monetary policies implemented in early 1998 led to a severe contraction in aggregate demand. The economic contraction was accompanied by a significant increase in unemployment, reflecting the large number of laid-off workers following the implementation of financial and corporate reforms. The unemployment rate, which remained below 3 percent for many years, surged to 6.8 percent in 1998.

Inflation: The inflation rate rose to 7.5 percent in 1998 from 4.5 percent in 1997. The increase in prices was partly because of the depreciation of the won, resulting in higher import prices.

Republic of Korea: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Financial	22	4,710.0	74.3
Social Infrastructure	22	635.1	10.0
Transport and Communications	11	459.5	7.3
Energy	10	234.4	3.7
Agriculture and Natural Resources	8	163.8	2.6
Industry and Nonfuel Minerals	8	135.5	2.1
Total	**81**	**6,338.3**	**100.0**

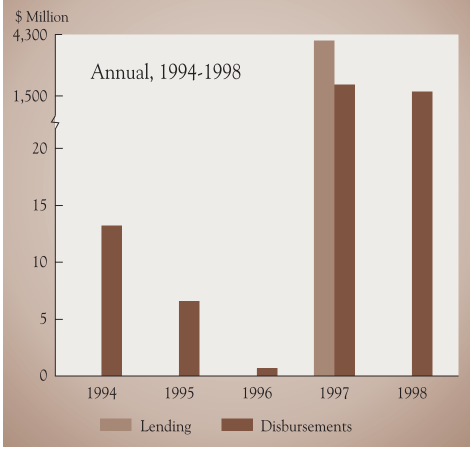
External sector: After depreciating by about 50 percent against the US dollar in January–February 1998, the won (W) stabilized at around W1,200 per dollar toward the end of 1998. The sharp depreciation of the won has not yet resulted in growth in exports. The dollar value of exports, which grew by 6.7 percent in 1997, declined by 4.9 percent in 1998, marking the first decline in the last three decades. The unprecedented economic recession has caused a sharper decline in imports than in exports. The dollar value of imports, which fell by 2.2 percent in 1997, declined by 36.1 percent in 1998, resulting in a current account surplus of about $40 billion or 13 percent of GDP. Usable foreign exchange reserves, which were dangerously low at $8.9 billion in December 1997, increased to $48.5 billion (more than six months' import cover) by end-1998. External debt declined slightly to $152 billion by the end of 1998 from about $158 billion in December 1997. However, the share of short-term debt in total external debt has declined from 40 percent in December 1997 to 21 percent in December 1998.

Domestic policies: As the won-dollar exchange rate stabilized, the Government shifted to a less restrictive fiscal and monetary stance in mid-1998 to stimulate the economy. In the supplementary budget presented in August 1998, the fiscal deficit for 1998 was revised to about 5 percent of GDP from the initial target deficit of 1.7 percent fixed in April 1998. Short-term interest rates were 6–8 percent at the end of 1998, compared with over 25 percent in 1997. To cushion the adverse effects of worsening unemployment, the Government strengthened its social safety net programs, including providing unemployment benefits, public works, and job training. The 1998 budget provided W5.7 trillion ($4.7 billion) for financing these programs. During the year, the Government undertook several measures to reform the financial sector and initiate the restructuring of the corporate subsector. Financial sector reform focused on (i) restructuring financial institutions; (ii) strengthening prudential regulation and supervision; and (iii) capital market liberalization. Under the restructuring program, several nonviable financial institutions were closed; the operations of several troubled financial institutions were suspended; some banks were merged; and a publicly funded bank recapitalization and depositor protection program was implemented. To strengthen financial sector governance, internationally comparable prudential norms for loan classification, loan-loss provisioning, capital adequacy, and information disclosure were introduced and strengthened. The supervisory apparatus for the financial sector was revamped, and a new regulatory body, the Financial Supervisory Commission, was established. The capital market was liberalized by opening up many sectors to foreign direct investment (FDI), removing the ceiling on foreign equity holdings in domestic companies, encouraging foreign investment in domestic bonds and short-term money market instruments without restrictions, and allowing hostile mergers and acquisitions of domestic companies by foreigners.

Bank operations

Against the backdrop of the currency and liquidity crisis faced by the Republic of Korea, the Bank approved a $4 billion Financial Sector Program loan (FSPL) and a related technical assistance loan of $15 million on 19 December 1997.

Republic of Korea: Lending and Disbursements



The first three tranches of the loan, amounting to $3.7 billion, have been disbursed in installments of $2 billion in December 1997, $1 billion in January 1998, and $0.7 billion in December 1998.

Project implementation: The FSPL for $4 billion was to be disbursed in four tranches. The release of the first three tranches amounting to $3.7 billion left a balance of $300 million, which is scheduled to be released in December 1999. The Bank has closely monitored implementation of the program and the overall progress has been substantial.

Singapore

Economic performance

Economic growth: Bettering pessimistic midyear expectations, Singapore achieved economic growth of 1.5 percent in 1998, compared with 7.8 percent in 1997. Nevertheless, despite sound economic fundamentals, Singapore was not spared from the contagion. The Asian financial crisis has cut demand for Singapore's electronic products, as well as chemicals and refined petroleum. Stimulative government spending, however, led to an increase in construction output. The decline in regional trade flows reduced the demand for shipping services. Tourism also declined as the regional recession affected incomes. The country's financial sector, however, expanded slightly as some international banks bolstered their Singapore operations. Low growth caused the unemployment rate to rise to 4.5 percent—its highest level since the recession in 1986.

Inflation: The Singapore dollar appreciated slightly against the US dollar in 1998, permitting the Monetary Authority of Singapore to adopt a more expansionary monetary policy in the latter part of the year. However, with the low level of demand, the relaxation in monetary policy did not provoke any inflationary pressures. Annual average inflation has been kept at 1.4 percent since 1993. In 1998, Singapore actually experienced a mild deflation as consumer prices fell by 1.5 percent.

External sector: Aside from the collapse of regional demand, a slowdown in the key export markets of the European Union and the US also dampened export growth. Exports contracted by 5.6 percent in 1998, while imports fell by 9 percent. As a result, Singapore's current account surplus increased to 18.2 percent of GDP. As did most of its neighbors, Singapore experienced substantial capital outflows in 1998, equivalent to about 13 percent of GDP. However, the large current account surplus enabled the country to maintain its stock of foreign reserves at around $73 billion.

Domestic policies: Low growth reduced revenues by about 1.3 percent of GDP, resulting in a budget deficit of 0.3 percent of GDP in 1998. The Government bolstered the fiscal stimulus in the middle of the year by increasing outlays on infrastructure, providing rebates on property tax, and expanding credit for small businesses. To make the economy more competitive, following devaluations of neighboring currencies, the Government persuaded workers and employers to agree on a broad wage reduction to keep down unit labor costs. To counter the negative effects of the wage reduction on domestic demand, the required contributions to the national pension fund was reduced from 40 to 30 percent of wages. Toward the end of the year, the Monetary Authority moved to reduce interest rates.

Taipei,China

Economic performance

Economic growth: Taipei,China was also affected by the Asian financial crisis, particularly in terms of weakening export demand. Consequently, real GDP growth slowed to 4.8 percent in 1998 from 6.8 percent in 1997. Taipei,China's economy is structurally sound, with an industrial base that is, for the most part, internationally competitive, adaptable, and relatively unburdened by foreign debt. The financial sector is generally well supervised and has a low nonperforming loan ratio of less than 5 percent. These factors have underpinned a prolonged period of strong growth in per capita GDP and generated consistent surpluses on the trade and current accounts, thereby boosting international reserves. There are reports, however, that in recent months, Taipei,China's industry sector and export growth has been affected by the overall weak market conditions.

Inflation: Inflation rose to 1.7 percent, which is modest by international standards. Both wholesale and consumer price indexes showed moderate increases. Low international raw material prices and decreasing tariff rates, as well as stable nontraded goods prices with respect to housing and transport and communications, have helped create a low inflation environment.

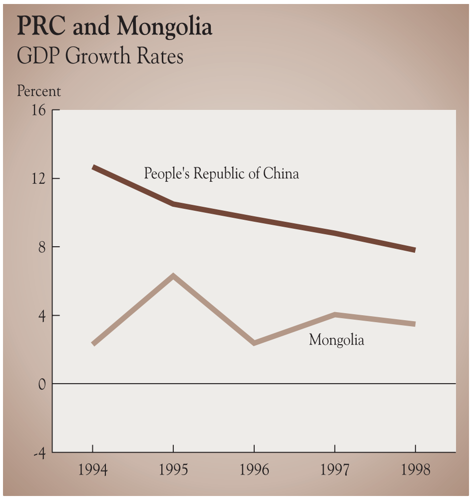
External sector: The economic slowdown in the region affected Taipei,China's trade performance last year. As about half of Taipei,China's exports are for Asian markets, its exports fell by 9.4 percent in 1998 on a customs basis. With domestic consumption and investment adversely affected by the economic downturn, imports also declined. Despite declining exports, Taipei,China continuously generated surpluses in its merchandise trade account and its current account, and maintained the steady growth of its foreign exchange reserves. Taipei,China's $90 billion foreign exchange reserves, which were almost double the $54 billion external debt, provided a solid basis for maintaining the external account balances.

Domestic policies: The Government undertook a number of measures to minimize the adverse effects of the Asian financial crisis. Under the precondition of price and exchange rate stability, an expansionary monetary policy was implemented to support the medium- and long-term funds needed for public sector infrastructure and private investment, to reduce the cost of funds of businesses, and to boost domestic demand. An expansionary fiscal policy was also implemented, which increased public spending by 5 percent to accelerate public sector construction and to shore up economic growth. Given the modest external debt and the solid foreign exchange reserves of the country, there is scope for stimulating growth through expansionary fiscal and monetary policies, without endangering the exchange rate stability. With the increasing financial difficulties in some corporations, the Government has provided economic relief packages, including exhorting financial institutions to roll over expired loans to troubled firms for another six months. In addition, measures have been taken to implement structural and regulatory reforms to rectify the current situation.

People's Republic of China and Mongolia

People's Republic of China

Economic performance



Economic growth: Amidst the unprecedented financial crisis faced by Asia in 1998, the PRC has been one of the few bright spots. The PRC's economic performance continued to be robust. Despite a major slowdown in exports and severe floods that adversely affected agriculture sector production, according to official sources, GDP grew by 7.8 percent, close to the Government's 8 percent growth target. The PRC was able to maintain strong economic growth in the face of a slowdown in exports and weak domestic consumption demand. This was because the Government followed a strategy of generating growth by stimulating domestic demand, especially investment, by easing monetary policy, and by implementing a fiscal stimulus package that increased public investment in infrastructure.

The People's Bank of China, the central bank, eased monetary policy by reducing both the statutory cash reserve requirements and interest rates. The key component of the Government's growth strategy was a large public investment stimulus package that was announced in the second quarter of 1998. The total package consisted of about yuan (Y)200 billion ($24 billion, or about 2.4 percent of 1998 GDP) of additional public investment to be implemented during 1998 and 1999. Half of this investment was financed through the issue of special treasury bonds by the Central Government and the remainder by bank credit.

Inflation: Despite expansionary monetary and fiscal policies, excess capacities in the industry sector and the overall deflationary trends in Asia put downward pressure on domestic prices. On average, consumer prices declined by 0.8 percent in 1998.

External sector: Although the Asian financial crisis has not had a major direct effect on the PRC's economic performance, it adversely affected the country's exports in 1998. In 1997, exports increased by about 21 percent and accounted for 2–3 percentage points of the growth in GDP. In 1998, largely because of the severe recession in Asia, exports grew by only 0.5 percent. Although exports to Europe and North America increased, exports to Asia declined in 1998. In 1998, imports declined by 1.5 percent. Despite the slowdown in exports, the PRC had a $44 billion external trade surplus and a $25 billion current account surplus.

In contrast to the experience in other emerging markets of capital outflows in the aftermath of the Asian financial crisis, the PRC's realized FDI of $45 billion in 1998 was slightly higher than the level in 1997. By December 1998, at $145 billion, the country's official foreign exchange reserves were more than its $138 billion external debt. Despite much speculation of a possible devaluation of the renminbi, the comfortable external payments position and other macroeconomic parameters enabled the Government to stand by its public statements not to devalue the currency. This was a major contribution to containing the Asian contagion.

Domestic policies: Except for leading to a slowdown in exports, the Asian financial crisis has not yet had a direct impact on the PRC. In terms of the basic macroeconomic parameters, the PRC does not appear to be vulnerable to external shocks. In addition, the cautious approach of the PRC's policymakers to external sector liberalization should enable the country to avoid the financial crisis experienced by other Asian economies. Coupled with robust macroeconomic parameters, the cautious policy approach toward capital account liberalization has enabled the country to avoid the contagion effects of the crisis. However, some of the structural weaknesses in the Southeast and East Asian economies are also evident in the PRC. The structural vulnerabilities are most evident in two areas: the financial sector and the state-owned enterprises (SOEs).

To ensure project quality, technical assistance is provided to prepare detailed engineering, including designs, specifications, cost estimates, sectoral surveys, or master plans.

Over the last two decades, the PRC has made considerable progress in establishing the foundations for a modern financial system. Despite these impressive achievements, there are weaknesses in the country's financial sector. The key issues that need to be addressed include (i) prudential norms, risk management practices, and financial soundness of the banking system; (ii) institutional capacity of the central bank to manage and supervise the financial sector; (iii) development of the regulatory framework for nonbank financial institutions (NBFIs); and (iv) reform and development of the capital markets. Since the four state commercial banks dominate the financial sector, strengthening them is a crucial component of the financial sector reform strategy.

In 1998, the Government took a major policy initiative to increase the capital adequacy ratios of the four state banks to 8 percent. Special state treasury bonds worth Y271 billion (about $32 billion) were issued to provide funds for the recapitalization of the four banks. The Government has also initiated measures to introduce stricter prudential norms and internationally comparable risk management methods among banks. On the other hand, the Government has shown the political will not to provide funds to bail out some of the ailing NBFIs financial institutions. The legal framework for the capital market was significantly improved with the passage of the new Securities Law in December 1998.

Many problems in the financial sector are related to ailing SOEs that have large volumes of loans from the financial sector, especially from banks. Restructuring and reforming these enterprises are needed to improve industrial efficiency, maintain high levels of economic growth, and prevent the further worsening of the position of financial institutions. The Government is placing high priority on SOE reform. Its long-term goals in SOE reform are threefold: (i) concentrate state resources in a core group of 1,000 companies that will dominate the PRC's major sectors and allow them to compete on a global scale; (ii) reduce the role of government in commercial decision making of SOEs by separating the business operations under ministries from their policy and regulatory functions; and (iii) dispose of the remaining SOEs.

Bank operations

Operational strategy: The Bank's operational strategy for the PRC emphasizes four broad objectives: (i) improve economic efficiency; (ii) promote economic growth to reduce poverty in the interior provinces; (iii) enhance environmental protection and natural resource management; and (iv) improve monetary policy formulation, and prudential financial supervision and regulation.

Market-based approaches are being used to improve economic efficiency in all sectors in which the Bank operates by (i) improving the policy, legal, and regulatory frameworks so that they are more suited to a market economy; (ii) using the pricing mechanism to provide market-based signals that encourage service users and providers to improve efficiency, allocate better the use of scarce resources and capacity, recover operating and capital costs and some of the external costs related to congestion and pollution, and create the conditions necessary for private sector investment; (iii) encouraging competition and promoting the growth of the nonstate sector to improve efficiency and provide better services and more choices for users; (iv) commercializing operators so that they respond to market forces; and (v) helping expedite the implementation of macroeconomic structural reforms to remove economic inefficiencies. Improving economic efficiency also requires investments to remove infrastructure constraints, especially in energy, transport and communications, and water supply/conservation; adopt appropriate technology to improve energy efficiency and reduce pollution; and modernize the financial sector to meet the needs of a market economy.

While all provinces have benefited to some degree from the reform process and the accompanying economic growth, the interior provinces have lagged behind those on the coast. The interior provinces have fewer natural trade and investment partners, poorer infrastructure, weaker managerial skills, and smaller numbers of trained labor.

To help address these problems, the Bank's strategy includes the following initiatives: (i) promote market-based policy changes in the interior provinces to attract more foreign and domestic investment; (ii) create conditions to foster growth in the interior provinces such as providing adequate infrastructure and access to credit; (iii) improve the environment and infrastructure in urban centers; (iv) promote rural job creation by developing township and village enterprises and revitalizing agriculture; and (v) improve the transport and communications, and marketing linkages between the interior provinces and the rapidly growing centers on the east coast. As an integral part of the Bank's strategy, traditional growth projects are being strategically located in officially identified poverty counties or in areas where the average income is well below the national average. While attempts are being made to increase the share of Bank-supported projects in the interior provinces, this does not rule out support for key projects in the provinces on the coast, especially those that improve the environment and infrastructure in urban centers, and develop the interlinkages between the urban centers and the rural hinterland, or address social concerns.

Strengthening environmental protection and natural resource management is the third objective of the Bank's operational strategy. There are serious environmental problems in the PRC, particularly in urban areas on

People's Republic of China: Cumulative Bank Lending
(as of 31 December 1998)

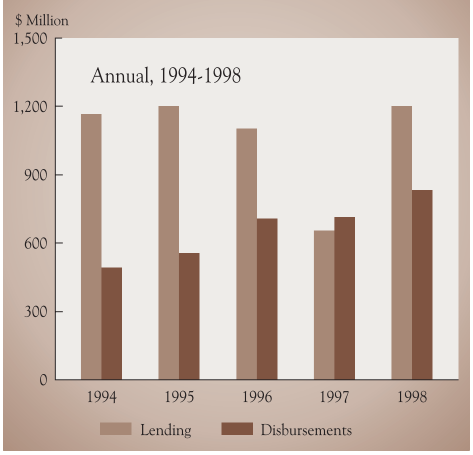
Sector	No. of Loans	$ Million	%
Transport and Communications	30	3,848.0	47.1
Energy	15	1,706.3	20.9
Industry and Nonfuel Minerals	5	686.8	8.4
Financial	6	530.0	6.5
Agriculture and Natural Resources	7	449.6	5.5
Multisector	3	400.0	4.9
Social Infrastructure	4	390.0	4.8
Others	1	156.0	1.9
Total	**71**	**8,166.7**	**100.0**

the east coast. These problems are primarily caused by the large heavy industry sector that uses outdated, polluting technology, and coal as a major energy source. The Bank's strategy for promoting environmental protection and natural resource management, which is aligned closely with the PRC's objectives for sustainable economic development, focuses on (i) improving the policy, legal, and regulatory frameworks to strengthen environmental management; (ii) building capacity of key agencies, including the National Environmental Protection Agency, the State Science and Technology Commission, and local environmental protection bureaus; (iii) improving the quality of the environment in selected urban centers; (iv) promoting the efficient utilization and conservation of soil, water, and marine resources; and (v) promoting the use of cleaner, more energy-efficient process technology, and clean coal technology for industrial production and power generation.

Policy dialogue: The policy dialogue in 1998 between the Government and the Bank covered a broad range of areas to support the PRC's operational program. At the macro level, the Bank is supporting financial sector reforms through new and ongoing technical assistance grants. In 1998, discussions in the area of financial sector reforms focused on strengthening the supervision capabilities of the central bank, liquidity risk systems, and risk management systems, and introducing pension reform in the country. As part of the ongoing Bank assistance in strengthening governance in the financial sector, issues addressed were related to developing a national payments system, policies affecting foreign and joint venture banks, social security, off-budget revenues and expenditures, municipal finance, and reforming the rural cooperative system. Enterprise reform to increase commercialization and responsiveness to market forces was promoted in the context of individual projects, as well as for providing broader assistance to address issues related to restructuring insolvent state enterprises. Strengthening environmental management continues to be a major element of the Bank's policy dialogue in the PRC. Environmental issues addressed in 1998 included the use of market-based instruments for environmental management, building capacity related to environmental impact assessment procedures, strengthening provincial environmental legislation, and developing alternative clean energy sources (including wind power, other renewables, and coal-bed methane production). The Bank is also promoting clean technology development through a phased, multicomponent cross-agency technical assistance cluster. Through both technical assistance and policy dialogue linked to specific loan projects, the Bank also promoted energy conservation and price adjustments to provide incentives for energy conservation. To help mobilize the resources necessary to finance the huge infrastructure expenditures that are needed in the PRC, the Bank is actively promoting tariff adjustments, alternative sources of financing, such as build-operate-transfer, and leasing and securitization schemes in the transport, energy, and water resource sectors.

Loans and technical assistance: The Bank's assistance program for the PRC for 1998–2000 has been finalized in the context of the emerging economic challenges and within the overall framework of the Bank's operational strategy. In particular, it was designed to assist the Government in its efforts to accelerate infrastructure investment and address some of the structural issues in the financial and SOE sectors. The Bank continues its support for developing the legal, regulatory, and supervisory frameworks in the financial

People's Republic of China: Lending and Disbursements



sector; and in strengthening specific financial intermediaries. Reform of the pension system, development of the domestic bond market, and SOE reform are other areas to which the Bank's assistance is directed.

Reflecting the strategic objectives of its assistance package, the Bank's lending is heavily weighed in favor of the physical infrastructure subsector. Eight loans totaling $1.2 billion were approved in 1998. These include seven public sector loans: five were for transport ($960 million), and one each for energy ($100 million) and social infrastructure ($102 million); and a private sector loan also for the energy sector ($40 million). Thirty-three technical assistance grants were approved in 1998, amounting to $23.5 million. Of these, 10 were for the preparation of new projects. The remaining 23 technical assistance grants were advisory and aimed at sustainable development of land and water resources, clean technology development, strengthening legislation and improving legal systems, capacity building for several government agencies, and development of a regional road sector strategy.

In helping the Government address the issues relating to the financial sector, SOE reform, and pension reform, the Bank's program relies on the technical assistance modality. The Bank addresses issues relating to the development of the capital market, modernization of the infrastructure for the financial sector, strengthening of smaller banks and other financial institutions, and pension reform.

Project implementation: Since becoming a member in 1986, the PRC has received a total of 71 loans, of which 23 had been closed and 48 remained active by the end of 1998. Contracts worth $538.6 million were awarded during the year, bringing the cumulative total of contracts to $4.5 billion. The contract award ratio for 1998 was 17.6 percent.[1] Disbursements for the year totaled $831.3 million, bringing cumulative disbursements to $4.2 billion. The disbursement ratio for 1998 was 25.6 percent.[2]

The PRC portfolio performed generally well. Several factors have contributed to good performance: (i) strong technical capabilities of the executing agencies and government agencies, (ii) strong ownership of the projects, (iii) clear accountability for project implementation for loan repayment, and (iv) financing responsibility for loan repayment. Despite overall satisfactory performance of the PRC projects, the portfolio also faced several difficulties. These include (i) securing counterpart funds in a timely manner, aggravated by cost overruns because of domestic inflation; (ii) high cost of domestic borrowing; (iii) asynchronized project processing of the Government with the Bank; and (iv) the Government's internal approval procedures. A recent postevaluation report also suggests that there is a need for continuing efforts to improve development impact and project quality in the PRC. The Bankwide implementation of the project performance report system in November 1998

1 The contract award ratio is the ratio of contracts awarded during the year over the value available for contract awards at the beginning of the year. The value of the contracts to be awarded under newly approved and signed loans during the period is added to the opening balance of the value available for contract awards. The Bankwide contract award ratio is 26.7 percent.

2 The disbursement ratio is the ratio of total disbursements during the year over the net loan amount available at the beginning of the year plus the loan amounts of newly approved loans that have become effective during the year, excluding private sector loans. The Bankwide disbursement ratio is 29.3 percent.

is expected to help monitor the achievement of development objectives. Also, in 1998, the PRC transferred the official "window" to the Bank from the People's Bank of China to the Ministry of Finance. To ensure smooth project implementation in the future, the Bank has been providing training seminars to enhance the capacity of the executing agencies, and technical assistance to develop the national bidding law, policies, and regulatory framework for the contracting industry.

Mongolia

Economic performance

Economic growth: The overall economic performance in 1998 remained positive, as real GDP expanded by 3.5 percent for the year. Although down from 4 percent in 1997, such growth performance was remarkable in the face of the negative impact of the Asian and Russian crises and sharp decline in world prices for principal exports. The agriculture and industry sectors, together accounting for about 71 percent of GDP, contributed substantially to the positive economic growth in 1998 as Mongolia countered the negative impact of depressed world prices for copper, gold, and cashmere by increasing their volume of production. Parallel with these developments, social indicators improved: the number of unemployed persons declined by about 14 percent, infant mortality decreased, and the overall number of reported crimes declined in the course of the year.

Inflation: Price inflation continued its downward path in 1998. The consumer price index (CPI) rose by 6 percent in December 1998, compared with 17.5 percent a year ago. Factors contributing to this downward path included the relative stability of the tugrik (Tug), and the continued tight monetary policy implemented by the Bank of Mongolia during the year.

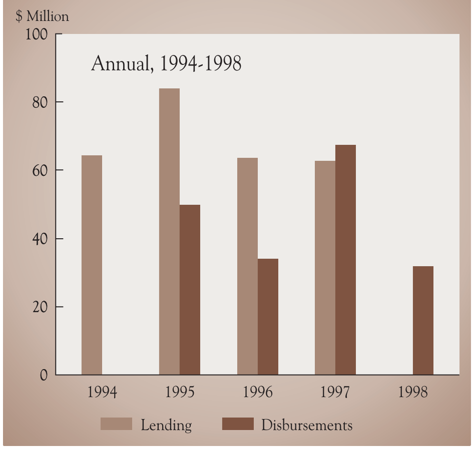
External sector: The continuing depressed state of international prices for Mongolia's main exports—gold, copper, and cashmere—offset the increased volume of production of these commodities, contributing to a 17.5 percent reduction in export earnings. At the same time, a relatively stable tugrik contributed to a 7 percent increase in imports. As a result, the trade deficit widened to $107 million in 1998, compared with a surplus of about $30 million in 1997. The current account balance moved from a surplus of about $13 million to a deficit of $124 million in 1998. This led to a substantial drawing down of the country's international reserves from $90 million at end-1997 to $80 million at end-1998. External debt is estimated at $686.5 million (66.5 percent of GDP) at end-1998, compared with $605 million (63.7 percent of GDP) at end-1997. Mongolia's policy of prudent borrowing at concessional terms in recent years has kept the debt service ratio at its 1997 level of 6 percent of export earnings.

Domestic policies: Fiscal performance in 1998 was disappointing. The Central Government's deficit widened to Tug89.8 billion (10 percent of GDP) in 1998, compared with Tug65 billion (8.6 percent of GDP) in 1997. This occurred because the Government's tax collection declined because of a sharp fall in corporate tax collections, and efforts at cutting current expenditure were not successful. However, the Bank of Mongolia remained committed to maintaining a tight monetary policy aimed at keeping inflation under control and the domestic currency stable. Political instability during 1998 substantially weakened the Government's efforts to continue the reform process. This slowed the pace of planned reform and restructuring efforts under the IMF Enhanced Structural Adjustment Facility (ESAF), the Bank's Financial Sector Program Loan (FSPL), and the Government's Public Administration Reform Project.

Mongolia:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Transport and Communications	4	109.5	29.0
Energy	4	93.8	24.8
Industry and Nonfuel Minerals	2	60.0	15.9
Social Infrastructure	5	38.2	10.1
Agriculture and Natural Resources	2	38.0	10.1
Financial	2	38.0	10.1
Total	**19**	**377.5**	**100.0**

Mongolia:
Lending and Disbursements



Bank operations

Operational strategy: The Bank's existing operational strategy for Mongolia was prepared in 1994. It aimed at facilitating Mongolia's transition to a market economy by (i) creating an environment in which a competitive efficient market economy can flourish; (ii) upgrading the human resources and skills necessary for a market economy; and (iii) developing the infrastructure needed for a market economy. Preparatory work was begun to update Mongolia's development policies and tackle the environmental, social, and human development aspects of economic reforms. The dialogue for identifying Mongolia's medium-term development priorities was aborted because of the change in Government. The process of preparing a new operational strategy for Mongolia will be finalized in 1999, pending the return of political stability.

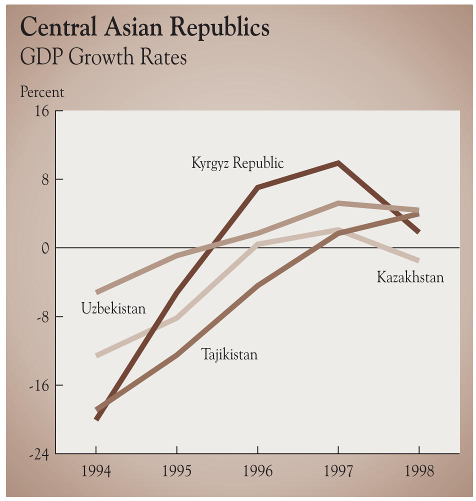
Policy dialogue: The policy dialogue on the design and scope of actions needed under the Bank's ongoing FSPL slowed in 1998. With the budgetary and banking situation deteriorating, the Bank and the Government continue to coordinate efforts to reform and restructure insolvent and distressed banks, with those of IMF under its ESAF.

Loans and technical assistance: Further processing of loans and technical assistance proposed for 1998 was postponed pending the passage of required legislation and a confirmation of the Government's priorities. As a result, no loan to Mongolia was approved in 1998. The Bank approved seven technical assistance grants totaling $3.1 million. The political situation also led to the Government's noncompliance with some loan covenants on existing loans.

Project implementation: Since becoming a member in 1991, Mongolia has received a total of 19 loans, of which 15 were still active at the end of 1998. During the year, contracts amounting to $18.5 million were awarded, bringing the cumulative total to $276.8 million. The contract award ratio for 1998 was 19.1 percent, and disbursements amounted to $32 million, resulting in a cumulative total of $242.1 million and a disbursement ratio of 20.3 percent. Mongolia's already limited absorptive capacity for assistance contracted further in 1998, reflecting the political turmoil. Major issues of project implementation, including the limited capacity of executing agencies, delays and noncompliance with submission of audited financial statements, and the increasingly difficult availability of counterpart funds continued or intensified in 1998. Efforts at improving Mongolia's absorptive capacity—including efforts to strengthen the linkage between the public investment program and the budgetary allocations, develop efficient project implementation and monitoring systems and procedures, and increase focus on project quality—have been identified. Their implementation, however, awaits the return of political stability in Mongolia.

During the 1998 country portfolio review, the 1997 action plan agreed with the Government was reviewed. Substantial progress was made related to the issues on delays in loan signing and effectiveness, caused by delays in receiving parliamentary approval and ratification. To resolve the issues related to delays and noncompliance with submission of audited financial statements, the Bank provided a technical assistance for capacity building in project accounting in Mongolia. A *Project Accounting Manual* was created under this technical assistance and was adopted in September 1998 as an official document of the Government. In addition, two technical assistance grants—for improving accounting and auditing systems and for the development of procurement legislation and guidelines—were approved by the Bank and are being implemented to help develop the accounting and auditing systems, as well as procurement guidelines in Mongolia. Successful implementation of the technical assistance will help the Government facilitate the implementation of Bank-financed projects in a more accountable and transparent manner.

Central Asian republics



Economic recovery in the Central Asian republics (CARs) slowed in 1998 because of the weakness in world commodity markets, the Asian contagion, and the Russian economic and financial crises. Because the CARs and Russia shared a common economic system before 1991 and still maintain close economic ties, the Russian financial crisis that erupted in August 1998 has exerted a profound negative impact on the subregion. This is being transmitted to the CARs through the volume of merchandise trade, inflows of foreign investment, stability of exchange rates, and external debt service obligations. The adverse impact of these external shocks is further compounded by the high degree of economic interdependence among the CARs themselves. The decline in world commodity prices—a result of continued weakness in global demand—severely affected export earnings in 1998, since the CARs rely heavily on commodity exports. Prices of major export commodities of the CARs, such as oil and gas, ferrous and nonferrous metals, cotton, and grain, have declined significantly, with oil prices dropping to 38 percent during the year.

The combined effects of these events are severe but are not uniformly distributed among the four countries. Real GDP in Kazakhstan contracted by 1.5 percent from 2.1 percent growth in the previous year, hurt by the precipitous fall in crude oil prices and the decline in Russian demand. The substantial decline in growth in the Kyrgyz Republic from 9.9 percent in 1997 to 1.8 percent in 1998 was partly attributed to considerable crop damage resulting in lower agriculture sector growth. Apart from the adverse external environment, growth in Uzbekistan was also dampened by a disappointing cotton harvest. In contrast, Tajikistan continued to achieve significant progress in macroeconomic adjustment in 1998, with GDP growing by 4 percent.

Tighter monetary policies had some beneficial effect on the subregion's high inflation rates, with price increases ranging from 2 to 23 percent in 1998. However, the CARs, with the exception of the Kyrgyz Republic, suffered from rising budget deficits. The Kyrgyz Republic managed a fiscal contraction through vigorous implementation of tax and budget reforms.

In the difficult transition from centrally planned to market economies, Kazakhstan and the Kyrgyz Republic have made significant progress in privatization, agrarian reform, governance, and banking reform. Tajikistan and Uzbekistan still face difficulties in restructuring and privatizing the SOEs and in reforming financial institutions. Their similar experiences in the transition period after 1991 have brought forth the need for closer regional economic cooperation among these countries. Specifically, because the CARs are located geographically remote from markets in other parts of the world, there is potential resource complementarity among them. This implies large potential gains from economies of scale and scope, and more efficient use of resources based on a more integrated regional market. Turkmenistan's membership application was approved by the Board of Governors in 1998. Upon its capital subscription, five CARs will be members of the Bank.

Kazakhstan

Economic performance

The primary objective of the Bank's operational strategy in the Central Asian republics is their transition from centrally planned to market-based economies.

Economic growth: The economic expansion achieved in 1997 started to slow during the first half of 1998. The slowdown was mainly attributed to a decline in exports, caused by the weakened world commodity markets. The price of crude oil, Kazakhstan's major export, fell by 35 percent in the first nine months of 1998, while prices of other important export items, such as metals and wheat, also dropped by 10–30 percent. There was a general decrease in the production index of many subsectors of the industry sector during the same period. Apart from the drought, the agriculture sector was also constrained by a lack of access to financial resources, insufficient input use, and underinvestment. Construction activities, boosted in 1997 by the building and refurbishing of the new capital, also slowed because of increased budgetary difficulties. The economic slowdown turned into a major contraction with the onset of the Russian economic crisis in mid-August. This crisis affected Kazakhstan severely since Russia is its leading trade partner. Consequently, growth for 1998 contracted by 1.5 percent, following a 2.1 percent expansion in 1997.

Inflation: In 1998, end-of-period inflation fell to 1.9 percent from 11.3 percent in 1997. While the nominal exchange rate to the US dollar depreciated slightly, the tenge continued to appreciate in real terms because of Kazakhstan's higher inflation rate. The economic crisis in Russia put tremendous pressure on the tenge to depreciate. The National Bank of Kazakhstan spent $600 million defending the currency.

External sector: Due mainly to the falling commodity prices, exports fell for the first time since 1995. During the first half of 1998, the trade balance was in deficit equivalent to 4 percent of GDP due mainly to a fall in exports. Compared with the same period in 1997, exports decreased by 6 percent, characterized by a decline in deliveries to the former Soviet republics. Since 40 percent of Kazakhstan's total trade is with Russia, the Russian crisis further increased the trade deficit toward the end of the year. The current account deficit stood at about 6.7 percent of GDP at midyear, significantly higher than previous trends. FDI in the oil, gas, and metal subsectors has played a major role in financing the current account deficit in the past. However, discouraged by the Russian crisis, FDI suffered a substantial decline in 1998. International reserves by the end of 1998 were about $2 billion (three months of imports) and external debt was almost $4 billion or 17.9 percent of GDP.

Domestic policies: Since the deterioration of the economic situation in the third quarter, the Government has focused on crisis control and management. Spending has been cut further, which would lead to more reductions in government structure and staffing. While these measures may be necessary for restoring the fiscal balance in times of crisis, it is imperative to maintain policy stability during the process. The Government has been engaged in drawing up development strategies, guided by "Kazakhstan-2030," unveiled in October 1997, to tap the country's vast mineral and hydrocarbon resources and use them efficiently for long-term development. One of the main priorities will have to be the restructuring of loss-making SOEs, which by 1998 made up over 50 percent of all enterprises, a 7 percent increase over last year. Restructuring these enterprises would also benefit the development of a capital market, which is crucial to the success of second-generation reforms, such as the pension reform initiated in 1997.

Bank operations

Operational strategy: The main objectives of the operational strategy for Kazakhstan include (i) encouraging the transition to a market-based economy by supporting the Government's reform agenda, promoting institutional change, and strengthening social protection; (ii) promoting the rehabilitation of the environment; (iii) strengthening the long-term potential for sustainable growth; and (iv) encouraging the creation of a new output structure and new production capacity through private sector investment. Cofinancing with other funding agencies is sought to address difficulties in sourcing local counterpart funds.

Kazakhstan's development needs are vast, but the Bank's resources and experience in working with the country are limited. Moreover, other funding agencies provide extensive support and technical assistance. Therefore, Bank activities will focus on a limited number of strategic sectors and subsectors: (i) strengthening the management of reform at the Central Government and local government levels; (ii) infrastructure, especially rehabilitation projects; (iii) education and training; (iv) industry, focusing on the problems of medium-sized enterprise reform; and (v) agriculture. In implementing this strategy, a number of considerations must be addressed, including coordination with other multilateral finance institutions.

Policy dialogue: There was a hiatus in new loan and technical assistance operations in Kazakhstan in 1998. This resulted mainly because of considerable delay in the formulation of the Government's public investment program and external borrowing strategy. As such, no new areas of policy dialogue were initiated.

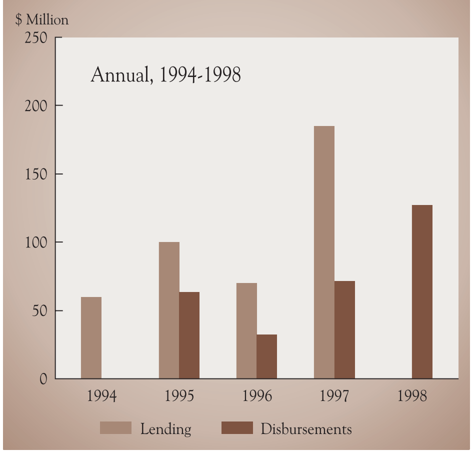
Loans and technical assistance: No loans were approved for Kazakhstan in 1998. A technical assistance grant of $840,000 was approved for public information and education in support of pension reform.

Project implementation: Since becoming a member in 1994, Kazakhstan has received a total of 10 loans, of which 3 had been closed and 7 were still active at the end of 1998. Contracts worth $117 million were awarded during

Kazakhstan:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	3	140.0	33.7
Financial	1	100.0	24.1
Social Infrastructure	3	65.0	15.7
Multisector	2	60.0	14.5
Transport and Communications	1	50.0	12.0
Total	**10**	**415.0**	**100.0**

Kazakhstan:
Lending and Disbursements



the year, bringing the cumulative total of contracts to $314.7 million. The contract award ratio for 1998 was 66.9 percent. Disbursements for the year totaled $127.3 million, bringing cumulative disbursements to $294.9 million. The disbursement ratio for 1998 was 52.2 percent.

A substantial portion of the contract awards and disbursements for 1998 was related to the release of both the first and second tranches for pension reform, totaling $100 million under a program loan approved in December 1997. The Kazakhstan Resident Mission, which became operational in early 1998, is expected to help expedite project implementation.

Kyrgyz Republic

Economic performance

Economic growth: Real GDP continued into its third year of expansion in 1998 and grew by 1.8 percent. Despite the damage inflicted by heavy rains in May and June, the agriculture sector registered a 4.1 percent growth, with a modest increase in livestock production. The strength of the agriculture sector is largely attributed to improvements in the policy environment. The industry and construction sectors, which posted a high 20 percent growth in 1997 because of production in the Kumtor gold mine, contracted in 1998, with the construction subsector falling by about 48 percent. The transport and communications sector declined substantially, but total services still posted respectable growth in 1998. The Russian crisis that erupted in August 1998 contributed significantly to the general economic slowdown.

Inflation: Because of the tight monetary policy, average inflation was brought down further to 12.1 percent in 1998, compared with 25.5 percent in 1997. However, the Russian crisis pushed the som to depreciate against the US dollar by about 34 percent between mid-August and end-1998. In defending the som, the National Bank expended about 12 percent of its reserves.

External sector: In 1998, imports far outgrew exports, resulting in an increase in the trade deficit to $151 million in 1998 from just $15 million a year earlier. The economic contraction in Russia and neighboring countries, especially Kazakhstan—both major trading partners of the Kyrgyz Republic—caused Kyrgyz exports to decrease and its imports to increase. The current account deficit more than doubled from that in 1997. The worsening of the current account underlines the fragile nature of the country's external balance, which relies primarily on official external transfers for financing. By mid-1998, international reserves declined to $173 million (imports of about two and two-fifths months) from $196 million (three months of imports) at the end of 1997, while external debt stood at $1.4 billion or 77.5 percent of GDP.

Domestic policies: The Kyrgyz Republic continued with its policies of macro stabilization and structural reforms. In mid-October 1998, it became the first country among the former Soviet republics to privatize land. This, together with other positive policy measures in the sector, will give major impetus to agriculture sector development. The country also became a formal member of the World Trade Organization in December 1998. On the fiscal front, the Government succeeded in further reducing the budget deficit by improving tax collection and rationalizing expenditures.

Bank operations

Operational strategy: The primary objective of the operational strategy is to facilitate the country's transition to a market economy, and to help the country build a solid base for sustainable development. The basic elements of the strategy include (i) supporting the Government's reform agenda, encouraging institutional change, and strengthening social protection; (ii) arresting the rapid deterioration of economic potential by investing in physical infrastructure and human development; and (iii) encouraging the creation of a new output structure and new production capacity through private sector investment and job creation. The strategy concentrates the Bank's operations on four priority areas: (i) improvements in the provision of public services, particularly social services provided by local governments, and management of reform by the Central Government; (ii) agriculture, including rural finance; (iii) human development; and (iv) infrastructure, especially in the road and energy sectors.

Policy dialogue: The Bank's policy dialogue with the Government focused on supporting policy and institutional reforms in the infrastructure and social sectors. Key policy areas addressed included (i) establishing appropriate funding and cost-recovery mechanisms in the road subsector; (ii) developing and pilot-testing reforms in the delivery of health and education services at the provincial level; and (iii) establishing an efficient and sustainable system of pensions.

Loans and technical assistance: Three loans totaling $65 million were approved for the Kyrgyz Republic: $50 million for the transport and communications sector, and two multisector projects totaling $15 million. The Bank also approved seven technical assistance grants totaling $3.9 million.

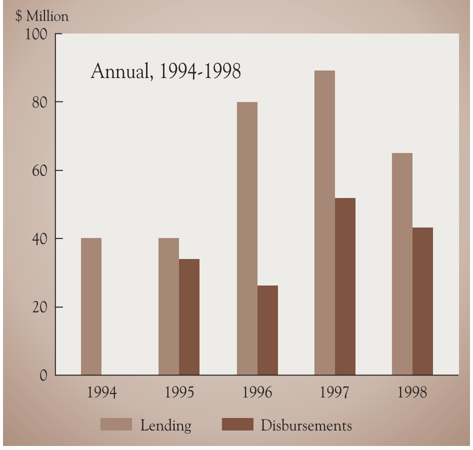
Project implementation: Since becoming a member in 1994, the Kyrgyz Republic has received a total of 12 loans, of which one had been closed and 11 remained active by the end of 1998. Contracts worth $29.4 million were awarded during the year, bringing the cumulative total of contracts to $185.7 million. The contract award ratio for 1998 was 20.7 percent. Disbursements for the year totaled $43.3 million, bringing cumulative disbursements to $155.4 million. The disbursement ratio for 1998 was 32.6 percent.

A country project implementation and administration seminar was held in August 1998 to familiarize executing agency staff with the Bank's procedures and guidelines on procurement, use of consultants, and disbursements. In processing the Flood Emergency Rehabilitation Project approved during the year, particular attention was paid to ensuring expeditious project implementation.

Kyrgyz Republic:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Transport and Communications	2	100.0	31.8
Multisector	3	55.0	17.5
Agriculture and Natural Resources	2	52.5	16.7
Financial	2	44.0	14.0
Social Infrastructure	2	32.7	10.4
Energy	1	30.0	9.6
Total	**12**	**314.2**	**100.0**

Kyrgyz Republic:
Lending and Disbursements



Tajikistan

Economic performance

Economic growth: After independence in 1991, Tajikistan experienced an economic crisis because of the combined effects of the breakup of the former Soviet Union, the civil war (1992–1997), and a series of heavy floods. In response to the severe economic difficulties, the Government undertook stabilization and structural reform programs to restore economic growth and reduce macroeconomic imbalances. A peace agreement was signed in June 1997, providing a basis for national reconciliation and implementing the stabilization and structural reform programs. After a persistent decline by almost 60 percent from 1991 to 1996, GDP increased by 1.7 percent in 1997, the first year of positive growth since independence. Economic growth accelerated to 4 percent in 1998, but was constrained by the adverse effects of the Russian crisis and the decline in world commodity prices. In 1998, agriculture sector output expanded because of increased cotton production, while industry sector production rebounded from very low levels. Services sector output expanded as a result of the strong supply response of private traders and privatized small enterprises to price and trade liberalization.

Inflation: Inflation declined sharply from 160 percent in 1997 to 7 percent in 1998. The Government's tight fiscal and monetary policies and an increase in agriculture sector output were the major factors responsible for the reduction in inflation.

External sector: The balance-of-payments situation deteriorated in 1998, mainly because of the effects of the weak world commodity markets and the Russian crisis that reduced export demand. The current account deficit rose from 5.5 percent of GDP in 1997 to 7.2 percent in 1998, resulting from a worsening trade account. Total exports for 1998 fell below the 1997 level as export earnings from cotton and aluminum—Tajikistan's two principal export commodities—contracted because of the declining world prices. Imports for 1998 stagnated at their 1997 levels, mainly because of lack of financing. The capital account registered a surplus in 1998 as increased disbursements from the international aid community offset the decline in FDI. Although international reserves tripled from $30 million 1997 to $91 million by the end of 1998, this was just enough to finance nearly two months of imports. External debt was $1.3 billion or 102.3 percent of GDP. The exchange rate was under strong pressure as a large amount of Russian rubles flowed into Tajikistan for conversion (via Tajik rubles) into US dollars. The national currency depreciated by over 10 percent in 1998.

Small- and medium-sized enterprises are being enhanced to create more jobs and help reduce poverty, especially among households headed by women and communities in remote areas.

Domestic policies: Since the signing of the peace agreement in June 1997, the Government has adopted tight fiscal and monetary policies to reduce the budget deficit and bring down inflation. Measures have been taken to raise government revenues and rationalize public expenditures. As a result, the state budget deficit, on a cash basis, was reduced from 11 percent of GDP in 1995 to 3.3 percent per annum during 1997–1998. The authorities have also made efforts to control the growth of credit and money supply. Major measures undertaken included restricting the extension of credit to the Government and SOEs, raising the refinancing rate, introducing treasury bills and credit auctions, and strengthening bank regulations and supervision. In light of growing pressure on the exchange rate, the central bank stepped up its interventions and spent about 20 percent of gross foreign reserves to defend the Tajik ruble during August-October 1998. Some progress was made on structural reforms. This included price liberalization—by which price controls on almost all commodities were eliminated—and the abolition of the state orders system. A liberal trade and exchange system has been established as trade restrictions were dismantled, export duties were removed, and import duties were unified at a maximum rate of 5 percent. Land reform has been undertaken to allow farmers to have transferable land use rights, among others. The privatization of small SOEs has accelerated after some delays, and work has begun on the privatization of medium- and large-sized SOEs. A bank restructuring program was recently developed with assistance from IMF and the World Bank, and initial steps have been taken toward legal and institutional reforms.

Bank operations

Operational strategy: The Bank's interim operational strategy for Tajikistan was endorsed by the Board of Directors on 9 October 1998. The overriding objectives of the strategy are to (i) facilitate the country's transition to a market economy, (ii) assist in its postconflict reconstruction efforts, and (iii) provide support for natural disaster rehabilitation. Bank assistance will be extended in support of policy reforms, institution building, and investment operations. Bank operations will pay attention to promoting the development of small- and medium-sized enterprises and reducing poverty, particularly for households headed by women and communities in remote mountainous areas.

Taking into account the Bank's resource constraints, the strategy focuses the Bank's country assistance on a few priority sectors to maximize its development impact. In view of the Government's development priorities and the activities of other funding agencies, Bank assistance in the near term will concentrate on three priority areas: (i) agriculture and agroprocessing; (ii) infrastructure rehabilitation, especially roads and power; and (iii) education. Involvement in these sectors builds on the Bank's experience gained from similar operations in other republics of the former Soviet Union in Central Asia.

Policy dialogue: Extensive discussions were held with the Government on reforming the transport and energy sectors in the context of the development of the Bank-financed Postconflict Infrastructure Program. The objective of the program is to promote economic recovery and growth by addressing key constraints to the functioning of the transport and energy sectors through support for market-based policies and institutional reforms. The program will assist the Government in (i) creating an enabling framework for the delivery of market-based transport and energy services; (ii) improving management efficiency of the transport and energy sectors by restructuring key institutions; separating regulatory and operational functions of the transport and energy sectors; (iii) improving corporate governance; (iv) implementing market pricing and user pays principles to improve cost recovery; (v) promoting competition; and (vi) establishing systems for public participation in the reform process and for addressing adjustment costs.

Loans and technical assistance: The Bank's first loan to Tajikistan amounting to $20 million was approved in 1998 for the Postconflict Infrastructure

Program to support reforms in the transport and energy sectors. The Bank also approved two technical assistance grants, totaling $1.65 million.

Project implementation: Implementation of the Bank's program of assistance will commence in 1999, following the approval of the first loan for the Postconflict Infrastructure Program amounting to $20 million, and technical assistance grants in the final quarter of 1998.

Uzbekistan

Economic performance

Economic growth: Official statistics show that Uzbekistan's economy grew by 4.4 percent in 1998 (staff estimates 2.8 percent), compared with the 5.2 percent increase in 1997. The slowdown of economic growth in 1998 resulted mainly from a disappointing cotton harvest and two external shocks. The first was a sharp decline in 1998 in the world commodity prices of cotton and gold, Uzbekistan's two major export commodities. This resulted in a drop in its export earnings. Second, the Asian and Russian crises adversely affected the Uzbekistan economy as both reduced the external demand for Uzbekistan's exports and the inflow of foreign investment. Production of cotton, the country's principal agricultural crop, fell by 2 percent in 1998, largely because of poor weather conditions and an inappropriate incentive system in the cotton subsector. In 1998, agriculture sector output increased by 4 percent and industry sector output expanded by 5.8 percent, slower than their respective growth rates of 5.8 percent and 6.5 percent in 1997. Growth of the services sector also slowed in 1998 as the Government's policy of restricting imports of consumer goods stifled private trading activities.

Inflation: The official inflation rate for 1998 declined to 22.8 percent from 28 percent in 1997. The reduction reflected the Government's tight monetary policy stance. However, inflationary pressure rose in the second half of 1998 as public sector wages and benefits were raised by 50 percent in July, and the official US dollar exchange rate depreciated by over 30 percent in 1998 largely as a result of the Russian crisis.

External sector: The balance-of-payments situation came under pressure in 1998 after an improvement in 1997. The current account deficit for 1998 was 3.6 percent of GDP, compared with 4 percent in 1997, but this was achieved mainly through import compression rather than export expansion. Total exports in value terms declined in 1998 as export earnings of cotton and gold fell because of the declining world prices of these two commodities. The crisis unfolding in Russia, Uzbekistan's major trading partner, lowered its demand for Uzbekistan's exports. Imports for 1998 were compressed by the existing government restriction on foreign trade and exchange and an increase in grain production that reduced the need for grain imports. Foreign exchange reserves decreased to $925 million (equivalent to four months of imports) in 1998 because of a loss in the value of gold reserves and for financing public sector deficit. External debt was $2.8 billion or 17.9 percent of GDP.

Domestic policies: The Government maintained a tight monetary policy to contain inflation; consequently, the growth of money supply was reduced in 1998. However, the fiscal policy stance was relaxed in 1998. While a new tax code and several tax policy changes designed to enhance government revenues became effective in January, government expenditures expanded because of increased spending on wages and benefits. Moreover, conscious of the need to minimize the social costs of the transition from a centrally planned to a market economy, the Government continued to allocate fiscal resources for providing social services and protecting vulnerable groups, thus imposing an additional burden on the budget. The consolidated state budget deficit for 1998 was equivalent to 2.3 percent of GDP. The Government adhered to a gradual approach to structural reform and limited reforms were undertaken in 1998. A working group was set up in March to develop a timetable for completing the reform agenda. A new land law was enacted in July, aimed at improving land use rights and giving greater security of tenure to individual farmers. While foreign exchange restrictions remained in force, several modifications to the foreign exchange system were introduced in July. These included (i) abolishing the 12 percent limit on the spread between the commercial bank rate and the official exchange rate; (ii) allowing foreign exchange receipts from centralized exports, except for cotton and gold, and nontraditional exports to be surrendered to the central bank at the commercial bank rate, rather than at the originally required official exchange rate; and (iii) permitting commercial banks to buy foreign exchange from the central bank at the commercial bank rate. To reduce the fiscal deficit, a government decree was issued in September 1998 requesting all government ministries and agencies to cut employment by 25 percent beginning in January 1999.

Bank operations

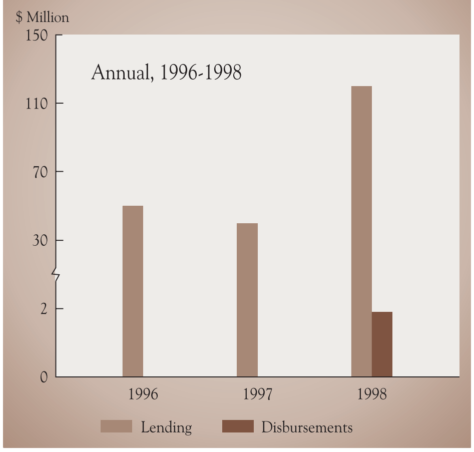
Operational strategy: The objective of the Bank's interim operational strategy for Uzbekistan is to assist the Government in its efforts to further the transition to a market economy. The strategy emphasizes (i) the provision of support for policy reforms, (ii) capacity building, (iii) institutional strengthening, and (iv) financing investments that promote growth, improve efficiency, and rehabilitate deteriorating infrastructure. The Bank's assistance program in the near term is sharply focused on three priority areas: (i) agriculture, including financial support for small- and medium-sized agro-industrial enterprises; (ii) infrastructure, especially rehabilitation in the road and railway subsectors; and (iii) education. Technical assistance is geared toward laying the groundwork for future sector lending programs, institutional strengthening, and capacity building.

Policy dialogue: In 1998, the Bank held extensive discussions with the Government on policy reforms and major issues in the agriculture sector, and road and railway subsectors. In agriculture, dialogue focused on issues regarding (i) developing a state procurement system for cotton and grain; (ii) increasing farmers' incentives in cotton production, and rural and trade financing; (iii) encouraging private sector participation in input supply, machinery services, output processing, marketing, and trade; (iv) commercializing state marketing agencies; and (v) restructuring farm debt. In the road subsector, dialogue addressed (i) restructuring the road subsector institutions to separate government functions from the service delivery and implementation functions, and create a competitive environment; (ii) establishing an enabling

Uzbekistan:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Transport and Communications	2	120.0	57.1
Agriculture and Natural Resources	1	50.0	23.8
Social Infrastructure	2	40.0	19.1
Total	**5**	**210.0**	**100.0**

Uzbekistan:
Lending and Disbursements



policy and regulatory environment that is consistent with the requirements of a market economy; (iii) improving the road maintenance system and implementing it in a selected road corridor; (iv) setting up a financial framework to increase financing for the development and maintenance of the road network through improved cost recovery, and appropriate tax administration; and (v) developing human resources and institutional capacity. In the railway subsector, policy dialogue continued to focus on the following reforms: (i) regulatory framework; (ii) restructuring of the Uzbekistan Temir Yullari (UTY) into cost/profit centers (business units); (iii) separation of ancillary operations from the transportation business of the railways; (iv) institutional strengthening of UTY's financial accounting systems and business plans; (v) introduction of pricing policies aimed at full cost recovery and responsiveness to market conditions; and (vi) downsizing of staff and assets for efficient and sustainable operations.

Loans and technical assistance: Two loans amounting to $120 million in the road and railway subsectors were approved in 1998. Six technical assistance grants amounting to $4.7 million were also approved. One of these was for the preparation of a new project for improving grain productivity.

Project implementation: The Basic Education Textbook Development Project for $40 million, approved in December 1997, became effective in August 1998. Two new loans amounting to $120 million were still waiting to become effective. Contract awards during the year amounted to $1.4 million. Disbursements amounted to $1.9 million. The disbursement ratio for 1998 was 2.1 percent. The Uzbekistan Resident Mission became fully operational in early 1998, and started to contribute toward expediting project implementation.

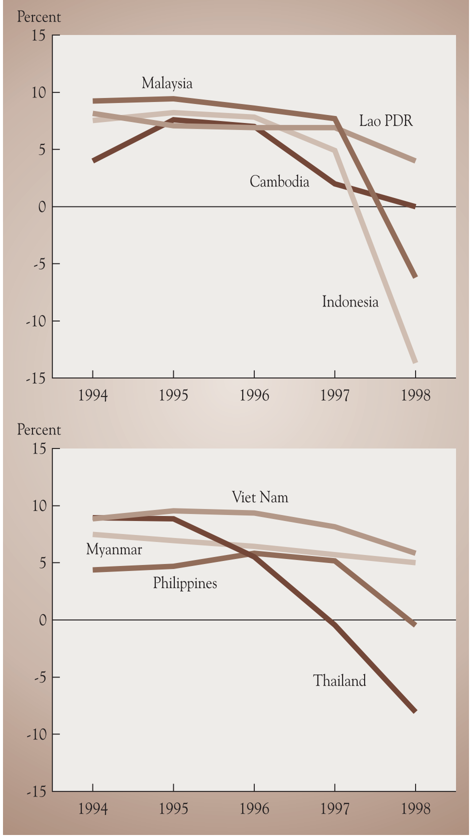
Southeast Asia

Southeast Asia's economies remained at the vortex of the Asian financial crisis in 1998. Civil unrest and an unexpected change of government in Indonesia heightened the sense of instability, as the subregion's largest country struggled to regain its economic footing. First to experience a drain in its foreign exchange reserves in July 1997, Thailand moved decisively to reverse capital outflows in 1998 through financial and other structural reforms. Malaysia chose a different path, shutting down capital flows and expanding the Government's economic role in an attempt to shield the domestic economy from the volatility of international capital flows. Having participated to a lesser degree in the economic boom than its neighbors, the Philippines experienced a weaker contagion effect, while the countries of the Greater Mekong Subregion (GMS) other than Thailand (i.e., Cambodia, PRC, Lao People's Democratic Republic [Lao PDR], Myanmar, and Viet Nam) were even less affected but also suffered export demand shocks.

After 4 percent growth in 1997, the economy of the Southeast Asian subregion contracted by 8 percent, underperforming even the most pessimistic expectations for the year. Over $30 billion fled Indonesia, Malaysia, Philippines, and Thailand in 1997 and 1998. Indonesia continued to bear the brunt of the crisis as exports and investments collapsed, reducing output by 13.7 percent. Malaysia at first appeared to avoid the worst effects of the crisis, but poor agriculture sector performance, loss of asset values as a result of the ringgit's depreciation against the US dollar, and capital outflows late in the year brought growth down to negative 6.2 percent. Thailand implemented a series of financial reforms but still suffered 8 percent contraction.

Growth in Cambodia was interrupted by the combined effects of political uncertainties and the regional economic downturn. Growth in the Lao PDR and Viet Nam slowed compared with the previous year: the Lao PDR was hurt by the baht's depreciation and a decline in Thai investment, and Viet Nam suffered from a decline in FDI from the NIEs. In the Philippines, tight monetary policy to defend the peso constrained investment demand, while poor agriculture sector performance limited growth from the supply side. The Philippines' relatively low level of financial leverage, about 60 percent of GDP, and continued strong export demand cushioned the economy from the worst effects of the crisis.

Southeast Asian Economies
GDP Growth Rates



Inflation in Southeast Asia in 1998 increased almost fivefold from the previous year, driven by currency devaluations and, in some cases, food price increases arising from the impact of the drought caused by the El Niño phenomenon. Indonesia—stricken by shortages of basic products and import price increases—contributed most to the subregional price increase. Fiscal constraints limited the ability of governments to cushion the effects of depreciation, resulting in higher food, gas, and electricity prices.

Exchange rate stabilization remained a major economic objective for Southeast Asian countries in 1998. The Indonesian rupiah, Malaysian ringgit, Philippine peso, and Thai baht all dropped to their lowest levels against the US dollar during the first half of 1998. However, these currencies recovered much lost ground and stabilized by the end of the year. The crisis also prompted moderate devaluations of the Vietnamese dong, and a larger devaluation of the currencies of Cambodia and the Lao PDR.

The corporate and banking subsectors continued to deteriorate, particularly in Indonesia and Malaysia. Nonperforming loans increased, and many financial institutions found themselves insolvent. At the end of 1998, Indonesia had the highest level of nonperfoming loans at 35 percent of loans outstanding or more, followed by Thailand at more than 30 percent, Malaysia at 25 percent, and Philippines at 10 percent or more. In some cases, tight monetary policy exacerbated loan default problems. Short-term interest rates in Indonesia rose as high as 60 percent, forcing bank and corporate defaults. In Malaysia, the central bank's policy of limiting domestic credit expansion to 12–15 percent resulted in a complete lending freeze by several domestic banks. In the face of widespread defaults by borrowers, the central bank in Thailand tightened the criteria for commercial bank lending to corporate clients.

The crisis created a dilemma for the monetary authorities in Southeast Asian countries. Defending their currencies required them to maintain relatively high interest rates, but that worsened the financial condition of banks and firms. Through the end of the year, Indonesia held on to high interest rates, while Malaysia and Thailand gradually lowered their key rates, albeit for different reasons. Malaysia's currency controls allowed the central bank to lower rates without prompting further attacks on the currency. Thailand, on the other hand, gained some breathing space from investors through implementation of financial and structural reforms. Viet Nam also tightened its already stringent capital restrictions, requiring certain companies to convert 80 percent of their foreign exchange holdings into domestic currency.

The social cost of the crisis in Southeast Asia has been substantial. About 16–20 percent of Indonesia's population of over 200 million were estimated to be living in poverty in 1998, up from 11 percent in 1996. Unemployment rates rose to 5.5 percent in Indonesia, 9.6 percent in the Philippines, and 5.3 percent in Thailand. Measures to mitigate the social impact of the crisis included the creation of temporary jobs, provision of affordable education and training facilities, and free or subsidized distribution of basic goods. The large cost of these programs contributed to widening budget deficits in 1998.

The economic slowdown caused a significant import contraction, which bolstered current accounts throughout Southeast Asia. For the first time in a decade, the aggregate current account for the subregion registered a surplus. While export revenues weakened as some creditors refused to roll over trade loans, export volumes started to pick up in the second quarter of 1998, possibly pointing the way to an export recovery.

Cambodia

Economic performance

Economic growth: Economic expansion in 1998 faltered because of the combined effects of election-related political uncertainties, a deepening Asian financial crisis, and severe weather disturbances. Preliminary indications of no real GDP growth in 1998 were based on expected real agriculture sector growth of about 1.4 percent, no growth in industry sector, and a services sector contraction of 1.7 percent. Agriculture sector growth was constrained by drought conditions. Continued garment subsector expansion provided some strength in industry, but this was offset by a severe contraction in construction. A weak tourism subsector hurt the performance of the services sector. Investments fell because of a drop in foreign aid because of the political stalemate, and a decline in FDI arising from the regional economic downturn.

Inflation: Inflation was about 14.8 percent in 1998, up from about 8 percent in 1997. The depreciation of the riel against the US dollar and regional currencies—nearly 30 percent against the Thai baht—contributed to this increase in inflation as did a rise in net claims on the Government, as a result of the weak budget position caused by low revenues and loss of aid.

External sector: The overall balance-of-payments surplus narrowed in 1998 because of the prolonged regional downturn and continued political uncertainty. Despite a 40 percent increase in garment exports, the current account deficit, excluding transfers, widened from 8.4 percent of GDP to 9.1 percent as wood export and tourism earnings fell. The capital account surplus fell in 1998 because of a 20 percent drop in FDI. There was also a large negative errors and omissions balance, possibly the result of unrecorded capital outflows and imports. Gross official reserves improved from $266 million (over three months' import cover) in 1996 to $324 million (nearly three-and-a-half months' import cover) in 1998 because the Bank for International Settlements released $117 million in long-frozen gold reserves.

Domestic policies: Although policy reform was limited because of political problems, the formation of the new Government in late 1998 sent a positive signal that Cambodia was ready to tackle difficult economic reforms. Improving forestry management, fiscal reform, downsizing the military, reducing corruption, and enhancing the private sector environment are on the Government's agenda. Several funding agencies signaled willingness to resume operations in Cambodia, but stressed the need for progress in the implementation of reforms.

Bank operations

Operational strategy: The Bank's operational strategy in Cambodia is focused on (i) building capacity for good governance and project management through an integrated program of technical assistance and sector program lending activities; (ii) human development as a national priority, with emphasis on the provision of basic health and education services, especially in rural areas; (iii) promoting economic growth as the principal means of creating employment and reducing poverty; and (iv) natural resource conservation and environmental protection as critical inputs for sustainable development, taking account of the Government's limited financial and technical resources.

Policy dialogue: In light of Cambodia's nascent stage of economic development and transition to a market economy, it was essential for the Bank to continue dialogue with the Government on macroeconomic management, particularly public investment planning, and policy reform in the agriculture, financial, trade, and industry sectors. The Bank also continued its assistance in strengthening good governance practices in Cambodia in various areas such as external auditing, public procurement, project accounting, external aid management, and national account statistics.

Loans and technical assistance: In late 1998, a $40 million loan, a component of the GMS: Phnom Penh to Ho Chi Minh City Highway Project, was approved. Two technical assistance grants were approved for $1.4 million.

Project implementation: Since becoming a member in 1966, Cambodia has received a total of 11 loans, of which 9 were still active at the end of 1998. Contracts amounting to $29.1 million were awarded, bringing the cumulative total to $158.5 million. The contract award ratio for 1998 was 21.2 percent. Disbursements in 1998 totaled over $29.3 million, with cumulative disbursements totaling $126.1 million. The disbursement ratio for 1998 was 21.5 percent, which is a vast improvement over the 1997 ratio of 6.9 percent. A seminar on project implementation was held in the country to help improve understanding of the Bank's policies and procedures.

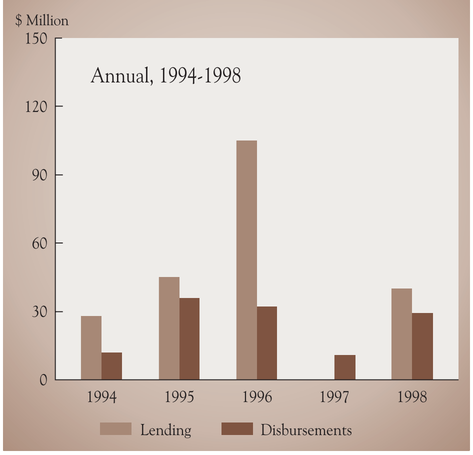
In 1996 and 1997, project implementation in Cambodia was slow as a result of (i) an increasing number of new projects, which were under initial stages of project implementation; (ii) adverse political situation; (iii) delayed recruitment and ineffective use of consultants; (iv) shortage of skilled staff; (v) delayed release of counterpart funds; (vi) lack of knowledge of the Bank's and Government's operational policies and procedures; and (vii) slow approval procedures of the Government. In 1998, the implementation performance in Cambodia improved through important steps taken by the Government and the Bank. These include (i) an improved political situation; (ii) issuance of the *Project Accounting Manual* to government agencies to clarify the fund flow and budget management policies and procedures; (iii) strengthened institutional

Cambodia:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Social Infrastructure	4	80.0	27.8
Multisector	1	67.7	23.5
Agriculture and Natural Resources	2	55.1	19.2
Transport and Communications	2[a]	55.0	19.1
Energy	2	29.9	10.4
Total	**11**	**287.7**	**100.0**

a Includes Cambodia loan component of the Greater Mekong Subregion: Phnom Penh to Ho Chi Minh City Highway Project.

Cambodia:
Lending and Disbursements



capacity of executing agencies through counterpart staff training and close monitoring and guidance provided by the Bank's Cambodia Resident Mission; and (iv) provision of sufficient counterpart funds for Bank-financed projects.

Indonesia

Economic performance

Economic growth: Indonesia is battling its worst recession in 35 years. Real GDP contracted by 13.7 percent for the whole of 1998, in sharp contrast to the 8 percent average growth rate in 1995 and 1996. The banking and corporate subsectors continued to reel under a huge debt overhang, and the budget has been strained by the social consequences of the crisis. The severe economic contraction has substantially increased poverty incidence. Households compensated for declining real income by sending additional members to work, as reflected in a surge in the labor force. The weakening labor market, however, has been accompanied by an increase in unemployment.

Inflation: Inflation measured by changes in the CPI rose by 78 percent by end-1998. The rise in prices was felt in every category from food to transportation with foodstuffs contributing the highest increase. The rise in food prices was sparked by significantly lower rice supplies and inefficient management of the food distribution system. The volatility of the domestic currency heightened. The monetary authority tightened its monetary policy to stabilize both the rupiah and the inflation rate. Credit was squeezed and bank lending was virtually at a standstill.

External sector: The current account surplus in FY1998/99 (ending 31 March) is estimated at 1.1 percent of GDP. This is in contrast to a precrisis (FY1996/97) deficit of 3.4 percent of GDP. A higher trade surplus is expected because of a contraction of imports rather than an improvement in export revenues, which are expected to remain flat. Some exports grew in volume terms but failed to generate a substantial increase in revenues because of depressed world commodity prices. Net international reserves at $14.1 billion were sufficient to finance about six months of goods imports at end-1998. External debt is estimated at $138 billion.

Domestic policies: A tight monetary stance since the second quarter of 1998 has kept credit growth at virtually zero and the other monetary aggregates on target since June. With increasing signs of a decline in inflation and strengthening of the rupiah, monetary policy was relaxed somewhat in late 1998. The new Government initiated or completed important legislation during the year, including the Banking Restructuring Law, the Competition Law, a new Central Bank Law, and the Anticorruption Law. The budget deficit in FY1998/99 is estimated at 4.7 percent of GDP and for the first time in recent years, public dissaving has occurred. However, for the first six months of the fiscal year, a small surplus was realized. This is mainly because of a surge in revenues from income tax, reflecting withholding tax on interest income, and lagging development expenditures. The slow disbursement of development expenditures is partly because of greater prudence exercised by project officials in the face of public awareness of corruption related to project disbursements. The banking system is technically insolvent, with a negative net worth estimated at around a third of GDP. Restructuring and revitalizing the banking subsector is among the most important priorities of the Government. Economic recovery cannot begin without resumption in bank lending to the real sectors. The Government has taken commendable steps in recent months to restructure the banking subsector. The passage of amendments to the Banking Restructuring Law has strengthened the Indonesian Bank Restructuring Agency's (IBRA) legal powers to deal with the restructuring process. Fifty-four troubled banks are under IBRA control. More than half of these banks are in advanced stages of resolution. In September, the Government announced a major recapitalization scheme for private banks, excluding joint venture banks. The bank restructuring costs will be financed through bond issues and sale of assets transferred to IBRA. In September 1998, the Jakarta Initiative was launched to facilitate corporate debt restructuring. ADB, together with the World Bank, is providing technical assistance to support the activities of the Jakarta Initiative.

Bank operations

Operational strategy: In response to the deepening financial crisis, the Bank has reviewed its operational priorities in consultation with the Government and adopted an interim strategy to guide its operations during 1998–1999. The Bank's interim strategy has three dimensions: (i) support the Government in pursuing policy reforms and in restructuring the financial sector; (ii) support a select number of sectors, including trade, industry—especially small and medium enterprises—and energy; and (iii) support social safety net programs to mitigate the social impact of the crisis. Successful implementation of reforms in these priority sectors will help restore public confidence and pave the way for a return to more sustainable growth. The Bank's assistance will strengthen measures for efficient use of resources for social protection and poverty reduction. The Bank places greater emphasis on managing the loan portfolio to Indonesia to ensure its continued relevance in the current situation. The Bank pursues the interim strategic agenda in close coordination with other bilateral and multilateral agencies.

The Asian financial crisis has prompted many urban residents to migrate to the rural areas.

Policy dialogue: The Bank's policy dialogue during the year continued to focus on the Government's strategy for economic reforms and mitigation of the impact of the crisis. The Bank actively participated with IMF and the World Bank in the joint review of the implementation of the Government's program for macroeconomic stabilization and structural reforms. In the financial sector, the Bank carried out policy discussions with the Government on banking sector restructuring, capital markets, and public financial management. The policy dialogue resulted in the formulation of a substantial reform agenda for the Financial Governance Reforms: Sector Development Program supported by the Bank. The key reforms aim at (i) adopting improved financial governance practices that conform to international standards; (ii) increasing the disclosure and transparency of financial information; and (iii) strengthening the legal and regulatory frameworks. The program includes significant anticorruption components, including modernization of public sector management and institutional strengthening of the State Audit Agency. The Bank has placed an extended mission in Indonesia to provide further day-to-day advice to the Government for program implementation. In the social sectors, the Bank also engaged in policy dialogue with the Government on effective utilization of public resources for primary education and preventive health care, and to protect vulnerable groups against the adverse impact of the crisis. The policy dialogue led to the formulation of the Social Protection Sector Development Program supported by the Bank. The policy dialogue also addressed issues of effective involvement of the community and civil society in monitoring and evaluating program implementation, thereby maximizing public accountability, and simplification of the funds flow mechanism with a view to minimizing leakages. In the agriculture and natural resource sector, the policy dialogue continued to focus on involving local governments, nongovernment organizations (NGOs), and communities in conserving and managing the country's natural resources. At the request of the Government, the Bank has taken the lead role in coordinating assistance from bilateral and multilateral funding agencies to small- and medium-sized enterprises.

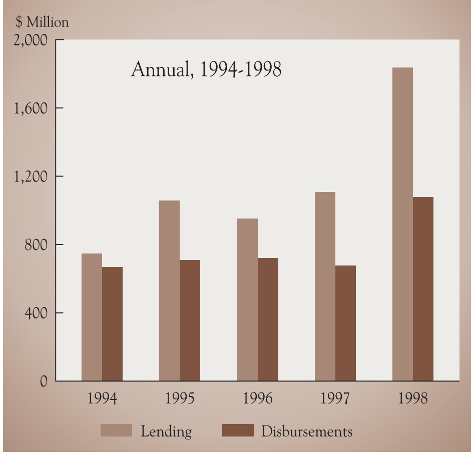
Loans and technical assistance: Seven loans for four projects, totaling $1,836 million, were approved during the year. All were financed from the Bank's ordinary capital resources. Three loans were for the financial sector ($1,497 million), two were multisector ($300 million), and two were for the agriculture and natural resource sector ($39 million). In addition, the Bank approved an equity investment of $3 million to support the establishment of a secondary mortgage facility as part of the Financial Governance Reforms: Sector Development Program. The Bank also approved 16 technical assistance grants totaling $12.3 million. Of these, five were for the preparation of new projects.

Project implementation: Since becoming a member in 1966, Indonesia has received a total of 241 loans, of which 162 were closed and 79 were still active at the end of 1998. Contract awards during the year totaled $880.1 million, bringing the cumulative total to $8.6 billion. The contract award ratio for 1998 was 21.2 percent. Total disbursements for the year amounted to $1.1 billion, with cumulative disbursements, including interest during construction and private sector loans, reaching $9.3 billion. The disbursement ratio for 1998 was 19.4 percent. Project implementation was adversely affected by the financial crisis and the fiscal constraint faced by the Government. However, contract awards and disbursements for 1998 substantially increased from the corresponding figures in 1997 because of large disbursements under two program loans approved during the year. In 1998, the Bank and the Government jointly undertook a comprehensive portfolio review to streamline the Bank's existing loan portfolio to respond better to the changed development priorities in the crisis period, to alleviate the budgetary burden of counterpart funds, and ensure timely implementation of priority projects. The comprehensive portfolio review identified a surplus of loan proceeds amounting to $1.1 billion, of which $975.7 million was subsequently canceled from the portfolio. ADB and the World Bank jointly conducted a country portfolio performance review to discuss with the Government measures to further improve the performance of project

Indonesia:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Social Infrastructure	60	3,854.1	24.1
Agriculture and Natural Resources	93	3,691.7	23.1
Energy	26	2,730.0	17.0
Financial	10	2,437.0	15.2
Transport and Communications	30	2,354.9	14.7
Industry and Nonfuel Minerals	13	431.7	2.7
Multisector	5	369.0	2.3
Others	4	140.6	0.9
Total	**241**	**16,009.0**	**100.0**

Indonesia:
Lending and Disbursements



implementation. The Bank continued its efforts in delegating to the Indonesia Resident Mission greater responsibility for project administration, including disbursement functions for all public sector loans. Also, the Bank organized a seminar in Indonesia to familiarize executing agency staff with Bank procedures and guidelines on the use of consultants.

Lao People's Democratic Republic

Economic performance

Economic growth: The Lao PDR sustained positive real economic growth in 1998 despite the deep recessions experienced by some of its major economic partners (Republic of Korea, Malaysia, and Thailand). The trend, however, has resulted in a gradual slowing of the economy from its 1994 real GDP growth rate of 8.1 percent to 6.9 percent in 1997 and about 4 percent in 1998. Agriculture sector growth declined in 1998 as drought conditions partially offset benefits from increases in irrigated land, from 12,000 hectares (ha) in 1996 to 50,000 ha in 1998. Led by the garment and hydropower subsectors, the growth of real value added in industry recovered in 1998. The services sector registered moderate growth resulting from a small increase in the tourism subsector.

Inflation: The average inflation rate accelerated from 19.3 percent in 1997 to around 90 percent in 1998. The kip depreciated against the US dollar by over 50 percent in 1998 and by over 40 percent against the Thai baht. The inflation was because of a rise in food prices brought about by the drought, exchange rate depreciation, and an expansionary monetary policy.

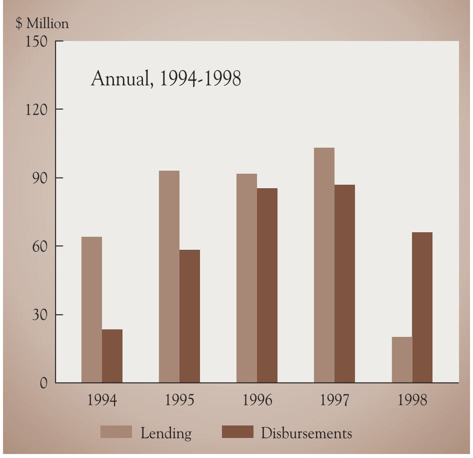
External sector: The weakness of the Lao PDR's balance-of-payments position continued in 1998, with the current account deficit estimated to be over 17 percent of GDP. Export performance was mixed as continued weakness in exports of wood products to regional markets was balanced against some strength in garment exports to western markets, electricity exports, and tourism. The depreciation of the kip has not stimulated export performance, partly because of weak regional demand. In the capital account, FDI continued to lag as the Lao PDR's traditional sources of investment (Malaysia and Thailand) continued to suffer economic and financial difficulties. Official reserves were the equivalent of a little over two months of imports in the third quarter of 1998 compared with two-and-a-half months in 1997.

Domestic policies: The FY1997/98 (ending 30 September) budgets presented to the National Assembly by the Government included several new fiscal measures designed to enhance revenues and reduce reliance on trade taxes. Delays in implementation, however, resulted in poor fiscal performance in 1998. Some structural reform progress was made in the banking subsector with the reorganization and increased autonomy of the state-owned commercial banks. Efforts by the Bank of the Lao PDR (BoL) to control the money supply continued to be hampered by widespread circulation of US dollars and Thai baht in the country. To combat inflationary credit expansion, BoL introduced several policy measures in 1998, including sales of treasury and BoL bills, and minimum deposit rates. These measures had minimal effect.

Lao People's Democratic Republic: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Transport and Communications	9	247.0	32.1
Energy	13	223.3	29.0
Social Infrastructure	10	143.4	18.6
Agriculture and Natural Resources	9	105.7	13.8
Financial	2	50.0	6.5
Total	**43**	**769.4**	**100.0**

Lao PDR: Lending and Disbursements



Bank operations

Operational strategy: The Bank's operational strategy for the Lao PDR recognizes that, at the present stage of economic development, it is appropriate to (i) continue emphasizing economic growth with crosscutting social and environmental objectives (sustainable economic growth is essential for raising the level of national income); (ii) address directly poverty reduction in a more concerted and focused manner (this requires sound economic policies and reform measures); and (iii) strengthen the financial sector. In parallel, the Bank is increasing its focus on agriculture and rural development to facilitate the transition toward a market economy. By extending the transport and communications, and energy infrastructure to selected rural areas, the Bank assists in providing the necessary rural infrastructure for economic and social development. It also enhances governance by focusing on government accounting and auditing systems to raise the efficiency of public sector management activities. The Bank is also facilitating subregional cooperation to enhance market opportunities for this landlocked country.

Policy dialogue: The Bank's policy dialogue with the Government has focused on two major areas: financial sector reforms and energy sector issues. Policy dialogue has focused on the continuous need to strengthen the commercial banks and encourage transparent operations under prudential regulations. During 1998, a large step toward advancing good governance issues was initiated when the Bank assisted the Government in establishing the National Audit Office. The Office will, among other activities, formulate guidelines for auditing government ministries and external loans and projects. In addition, a Bank-supported technical assistance will help draft auditing regulations. The Bank is increasingly becoming a facilitator for hydropower development in the Lao PDR, while at the same time ensuring that environmental and social considerations are taken into account during project design and implementation. The Bank plans to support capacity-building activities to strengthen the social infrastructure sector and environmental management in the Lao PDR. Policy dialogue has also led to the formulation and development of national procurement guidelines and regulations, which will assist in the transparency of procurement-related activities.

Loans and technical assistance: One loan amounting to $20 million was approved in 1998 for Basic Education (Girls) Project. Nine technical assistance grants were approved totaling $4.8 million, of which two were for project preparation and the rest were advisory in nature.

Project implementation: Since becoming a member in 1966, the Lao PDR has received a total of 43 loans, of which 27 had been closed and 16 were still active at the end of 1998. Contracts worth $56.1 million were awarded during the year, bringing the cumulative total contracts to $597 million. The contract award ratio for 1998 was 32 percent. Disbursements for the year totaled $66 million, bringing cumulative disbursements to $517.8 million. The disbursement ratio for 1998 was 24.2 percent.

In recent years, project implementation performance in the Lao PDR has been generally good, as a result of the efficient implementation of projects by qualified counterpart staff in the physical infrastructure and power subsectors. However, it is expected that project implementation may become more difficult as the Bank shifts to a loan portfolio with a larger number of social infrastructure projects that are traditionally more complex to implement. The Government recently took several important steps to ensure smooth project implementation in the future by (i) decentralizing project implementation responsibilities for some projects to the provincial level; (ii) streamlining the internal approval procedures for road projects; and (iii) issuing an interministerial decision to adopt, as an official government document, the *Project Accounting Manual* to clarify the internal fund flow, and budget management policies and procedures.

In addition, the impact of the Asian financial crisis has started to put a severe strain on the Government's ability to fulfill its counterpart funding requirements. Faced with these challenges, the Government and the Bank agreed to take more proactive measures to further improve the environment for smoother project implementation.

Malaysia

Economic performance

Economic growth: It is now clear that Malaysia has been severely affected by the Asian financial crisis. By August 1998, Malaysia was in the grip of a severe economic recession. Real GDP contracted by 6.2 percent in 1998 as output of all major sectors of the economy declined. The serious weakening of economic performance was led by a sharp contraction in the construction and manufacturing subsectors. Agriculture sector output declined because of supply constraints. Malaysia suffered from the combined impact of (i) a steep depreciation of the Malaysian ringgit against the US dollar, (ii) sharp increases in short-term domestic interest rates, and (iii) a decline in the stock market index. This was exacerbated by the substantial exposure of the banking system to the property subsector and the stock market. Nonperforming loans increased from the precrisis level of less than 5 percent of total outstanding loans to about 16 percent by September 1998.

Inflation: The CPI rose 5.3 percent in 1998. The inflationary pressures that were on the upswing during the first half of the year moderated in the second half.

External sector: The current account of the balance of payments is estimated to record a significant surplus in 1998. This was largely because of the substantial decline in imports of goods and nonfactor services in 1998, reflecting the impact of contraction in domestic demand and selective import-substitution measures. Although Malaysia's export performance was generally weak in 1998, the export value in US dollars has picked up since October to record double-digit annualized rate of growth in December 1998. The outflow of short-term capital, which began in mid-1997 following the onset of the Asian financial crisis, continued into 1998. Nevertheless, as a result of the large surplus in the current account of the balance of payments, the net international reserves rose significantly from $21.7 billion at end-1997 to $26.2 billion by end-1998, which is sufficient to finance over five-and-a-half months of retained imports. External debt was $33.8 billion at end-1998.

Domestic policies: Malaysia's favorable initial macroeconomic conditions, relatively strong financial system, and low external debt exposure shaped

Private sector participation in development projects helps facilitate the transfer of advance technology to developing members. Bank financing in private sector projects provides confidence and comfort for other lenders and investors.

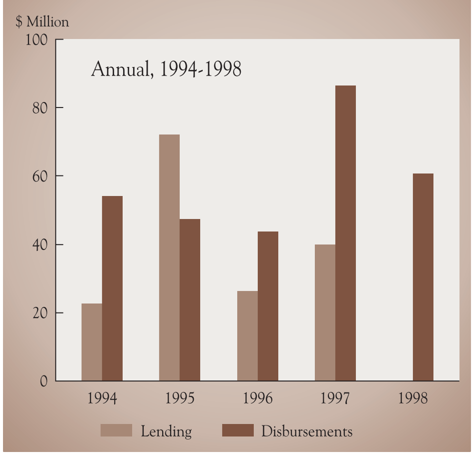
the Government's response to the crisis in the early stages. The crisis proved to be more protracted than earlier envisaged, and weaknesses in the financial and corporate subsectors gradually assumed serious dimensions. By the first quarter of 1998, the Government had further tightened its monetary and fiscal policies, increased reliance on market-based monetary instruments, and undertook a series of measures aimed at proactively addressing financial and corporate subsector weaknesses. A moderation of inflationary trends after June, an emergence of a significant surplus in the current account, and an increasing slant in policy making toward self-reliance to deal with the crisis have laid the basis for a shift in the policy approaches of the Government. In July 1998, the Government declared its intention to revive the economy by relaxing its monetary and fiscal policies. The National Economic Recovery Plan, released in July 1998, is the cornerstone of the new policy framework. Measures that seek to boost liquidity flows in the economy, encourage banks to resume lending activities, and mitigate the severe cash crunch confronting the corporate subsector, have been adopted by the Government.

To stem further the economic slide and minimize the adverse impact of the financial crisis, the Government adopted a cautiously expansionary fiscal policy. In March, while continuing with the policy of maintaining a surplus in the federal budget, the Government augmented budget allocations for strengthening social safety nets for vulnerable groups and small businesses. In mid-1998, countercyclical fiscal measures were adopted to revive economic activity and to support investments in physical and social infrastructure. The fiscal situation came under severe strain as the revenue collection fell, compared with the budget estimates. Fiscal year 1998 ended with a federal government budget deficit of 1.9 percent of GNP.

Malaysia:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Social Infrastructure	21	750.6	37.8
Agriculture and Natural Resources	26	566.0	28.5
Energy	11	321.5	16.2
Transport and Communications	15	255.1	12.8
Industry and Nonfuel Minerals	1	53.0	2.7
Others	1	26.3	1.3
Financial	1	15.0	0.7
Total	**76**	**1,987.5**	**100.0**

Malaysia:
Lending and Disbursements



Bank operations

Operational strategy: The objectives of the operational strategy for Malaysia, which was approved in December 1997, are aimed at (i) supporting human development, (ii) reducing socioeconomic disparity across states and regions of the country, (iii) promoting sustainable environmental management, and (iv) supporting capacity building in selected areas. Following the onset of the effects of the financial crisis, the Bank is considering the possibility of revising the strategy to help the Government deal with the crisis. Provision of social safety nets and financial sector adjustment are two key areas of concern for the Bank in the proposed review of the strategy.

Policy dialogue: Although the financial sector in Malaysia is relatively better developed with a diverse range of products and players, compared with other DMCs, the ongoing crisis has revealed fundamental weaknesses in the sector. The Bank is exploring various ways to assist the Government in this area. The Bank worked closely with the Government to help develop Malaysia's skills delivery system for meeting the long-term skills demand necessary to support development for a globally competitive industry sector. Policy dialogue in this area focused on (i) institutional strengthening of the skills delivery system, (ii) developing national occupational skills standards, (iii) increasing public/private sector cooperation in the delivery of technical education and skills training, (iv) enhancing labor market information systems, and (v) enabling greater participation of part-time workers and women in the labor force.

Loans and technical assistance: No loans or technical assistance projects were approved in 1998.

Project implementation: Since becoming a member in 1966, Malaysia has received a total of 76 loans, of which 67 had been closed and 9 were still active at the end of 1998. Contract awards during the year amounted to $47.1 million, bringing cumulative contract awards to $1.3 billion. The contract award ratio for the same period was 23.9 percent. Disbursements in 1998 amounted to $60.7 million, bringing cumulative disbursements to $1.3 billion. The disbursement ratio was 22.6 percent.

Project implementation experienced initial delays because of the long time generally taken for loan effectiveness, as well as subsequent procurement delays because of lack of familiarity with the Bank's guidelines and procedures. Further, the pace of implementation slowed and suffered from budget setbacks, as well as from a shortage of qualified technical staff.

Myanmar

Economic performance

Economic growth: Myanmar's economic growth has slowed in recent years. Real GDP growth slowed from 6.4 percent in FY1996/97 (ending 31 March) to 5.7 percent in FY1997/98 and is expected to slow to about 5 percent in FY1998/99. The economic downturn is largely attributable to the weak performance of the agriculture sector, which accounts for more than one third of GDP. In addition to unfavorable weather, the country has suffered from a shortage of agriculture sector inputs induced by foreign exchange constraints. Agriculture sector growth was estimated to be 2.6 percent; the industry sector growth was 5.4 percent and services subsector was 7 percent. Myanmar continues to face structural problems that have prevented the economy from achieving macroeconomic stability and higher growth. However, concerted efforts are being undertaken to increase the participation of private entrepreneurs in the agriculture sector. Myanmar's accession to ASEAN in 1997 was expected to increase trade and FDI. However, before Myanmar could benefit from this, the country was adversely affected by the Asian financial crisis, particularly in terms of slower FDI inflows.

Inflation: In addition to a fiscal deficit and expansionary monetary policy, a decline in agriculture sector production led to an increase in commodity and food prices. The inflation rate rose by around 30-40 percent in FY1997/98 and FY1998/99.

External sector: Although new restrictions on imports have suppressed imports, stricter state control on some export commodities has discouraged exports during the year. As a result the current account deficit remained high. Official reserves continued to decrease.

Domestic policies: The most critical economic policy issue is the dual exchange rate system. Affected by the Asian financial crisis, the parallel market rate depreciated sharply in the second half of 1998. This has made it more difficult for the country to liberalize the exchange rate system and reform the SOEs. A second important issue is the recurrent large fiscal deficit, which results from a small tax base. There has been no inflow of

Myanmar:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	15	316.1	59.5
Social Infrastructure	6	99.1	18.7
Transport and Communications	2	42.5	8.0
Energy	5	31.8	6.0
Industry and Nonfuel Minerals	2	21.4	4.0
Financial	2	20.0	3.8
Total	**32**	**530.9**	**100.0**

international assistance since 1988 and the Government has been using public sector credit to finance physical infrastructure and social infrastructure sector development. This has contributed to inflationary pressure.

Bank operations

Operational strategy: The Bank continued to monitor economic developments in Myanmar. An operational strategy will be formulated when appropriate.

Loans and technical assistance: No loan has been provided to Myanmar since 1986 and no technical assistance since 1987.

Project implementation: All 32 loans approved for the country prior to 1986 were closed by end-1998 and no contract awards or disbursements were made in 1998. During the year, the Bank closed a loan, which had been approved in 1986 but was inactive after initial disbursement of a small amount, and canceled the unused balance; the loan was kept open until 1998 at the Government's request.

Philippines

Economic performance

Economic growth: The Asian financial crisis and the El Niño phenomenon have interrupted the steady growth experienced since the mid-1990s. GDP contracted by 0.5 percent in 1998, a sharp drop from the 5.2 percent growth posted in 1997. This is the result of weak industry sector performance, which contracted by 1.7 percent in 1998, and a 6.6 percent contraction in the agriculture sector because of the El Niño phenomenon during the first half of the year and the destructive typhoons during the second half. The economic slowdown in 1998 led to increased unemployment and contractions in levels of saving and investments.

Inflation: Average inflation rate rose to 9.7 percent in 1998, compared with 5.9 percent in 1997 despite flagging demand, owing to sharp supply contractions and high import costs.

External sector: Export growth continued to be robust despite contraction in major Asian markets. This provided demand stimulus to the economy. A sharp contraction in imports, because of the peso depreciation and economic slowdown, was witnessed in 1998, leading to improvements in the trade and current account deficits, with a near balance achieved in the current account in January-November 1998. However, reduced net capital inflows resulted in inadequate buildup of gross foreign exchange reserves, which stood at $10.8 billion (equivalent to nearly three months' imports) at the end of 1998. Although the level of reserves has declined from the precrisis March 1997 level of about $12 billion, imports have similarly declined. The current level of reserves, sufficient for nearly three months of imports of goods and services, needs to be built up. Despite the crisis, external debt and its servicing remained at manageable levels. Although external debt had risen to $46.4 billion by September 1998 from $41.9 billion at the end of 1996, the share of short-term debt in total external debt was only 17.2 percent. The debt service ratio stood at 11.9 percent in 1998, down from 12.7 percent in 1996.

Domestic policies: The Government adopted an expansionary fiscal policy to ease the impact of the Asian financial crisis. The fiscal deficit increased to the equivalent of 2.8 percent of GNP for the consolidated public sector during the first three quarters of 1998 and to 1.8 percent for the national government for the year. The wider deficit is caused mainly by reduced revenues resulting from slower imports and corporate income, and for the most part higher expenditures because of increased debt service costs arising from the currency depreciation and higher interest rates.

Monetary policy was tightened following the currency depreciation in July 1997, which led to high interest rates. Interest rates, both nominal and real, were lower in 1998 than in the previous year. Domestic credit in November 1998 was only 1 percent higher than that in November 1997.

In the area of financial and capital markets, reforms have been ongoing since the late 1980s. Reforms include better supervision and adoption of higher prudential standards, and stricter controls over lending to nonpriority sectors. The Philippines entered the crisis with better initial conditions in the financial sector, compared with some of its neighbors. Further measures have been initiated that have strengthened the capacity of the Philippines to cope with the Asian financial crisis. With the floating of the peso in July 1997, the interest rate initially came to be used as an instrument for checking capital flight. Later, with the external situation stabilizing, a policy of reducing interest rates was followed to ease corporate distress emanating from high debt service costs and to spur private investment activity.

The development of the financial sector and the promotion of corporate governance are aimed at restoring investor confidence in the region.

The new administration's initial policy statements include an emphasis on observing fiscal discipline, ensuring price stability, encouraging economic revival through lowering interest rates, maintaining the competitiveness of the peso, and promoting exports. To reduce poverty and manage the social impact of the current economic disruptions, high priority has been accorded to agriculture and rural development and strengthening of safety nets. The new administration has assigned top priority to governance issues, particularly anticorruption. It has also placed high priority on environmental protection and mitigation of the social impact of the crisis.

Bank operations

Operational strategy: The Bank's operational strategy for the Philippines was revised in April 1998. The new strategy takes into account the operational priorities emerging from the Asian financial crisis. The strategy gives increased emphasis to poverty reduction and social development. In particular, the strategy stresses (i) promotion of equitable growth; (ii) better provision of basic social services, including health and education; and (iii) management and protection of the environment. The promotion of equitable growth is to be achieved through increased attention to rural development, a more balanced regional development particularly focused on southern Philippines, and policies and programs to improve the country's infrastructure with greater private sector participation. In health and education, the emphasis is mainly on improving people's access to primary health care and basic education. Environmental protection focuses on the management of natural resources and the urban environment. The new strategy also gives high priority to capacity building at the local government level for development management.

Policy dialogue: In 1998, the Bank addressed a wide range of policy issues in the context of preparing two fast-disbursing loans—the Power Sector Restructuring Program and the Metro Manila Air Quality Improvement Sector Development Program. For these loans, discussions focused on improving economic efficiency through removing impediments to competition, increasing transparency, providing an enabling environment for private sector participation, improving regulatory mechanisms, and strengthening the enforcement of laws and regulations. In the context of preparing the Southern Philippines Irrigation Sector Project, the Bank's policy dialogue with the Government focused on the crucial issue of sustaining irrigation assets through the levy of an irrigation service fee. The Bank has continued to support capacity building and institutional strengthening at the local level, particularly in the poverty-stricken areas of southern Philippines. Elements of capacity building are included in the Agrarian Reform Communities Project, the Secondary Education Development and Improvement Project, and the technical assistance for local government units and the Southern Philippines Special Zone for Peace and Development. The Bank approved a technical assistance for optimizing the flow of funds to local government units for carrying out devolved functions. The results should help improve the allocation of funds between national government agencies and local government units and enhance accountability for public expenditures.

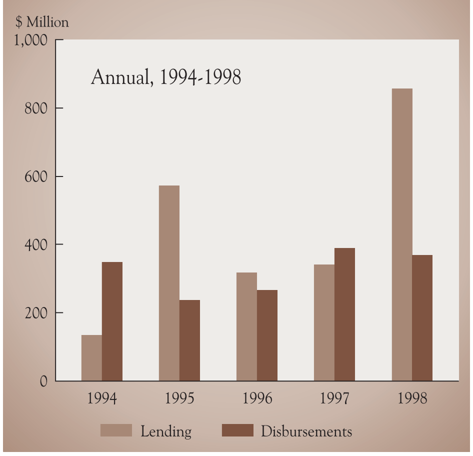
Loans and technical assistance: Ten public sector loans for seven projects totaling about $851 million were approved in 1998 for power ($300 million), education ($77.5 million), urban development ($24.3 million), agriculture ($153.2 million), and a sector development program on environment ($296 million). The record lending volume reflected the Bank's response to the Government's request for fast-disbursing assistance to deal with the economic difficulties arising from the financial crisis. In 1998, the Bank also approved two loans amounting to $4.4 million under its private sector operations. In addition, the Bank approved 11 technical assistance grants amounting to $6.7 million, of which one was for the preparation of a new project.

Project implementation: Since becoming a member in 1966, the Philippines has received a total of 172 loans, of which 114 had been closed and 58 were still active at the end of 1998. Contract awards in 1998 totaled $324.3 million, bringing the cumulative total to $4.4 billion. The contract award ratio for 1998 was 18 percent. Total disbursements for the year amounted to $368.1 million and cumulative disbursements reached $4.6 billion. The disbursement ratio for 1998 was 17.7 percent. The high disbursements indicate the efforts of the Bank to deliver the fast-disbursing assistance requested by the Government. A portfolio review was conducted jointly by the Bank and the Government with a special focus on assessing the possible impact of the financial crisis on project implementation. The review confirmed the priority of Bank-financed

Philippines: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Energy	27	2,257.6	31.0
Agriculture and Natural Resources	60	1,670.3	22.9
Social Infrastructure	32	1,115.6	15.3
Transport and Communications	24	1,020.9	14.0
Financial	14	595.0	8.2
Others	3	296.0	4.1
Multisector	6	283.7	3.9
Industry and Nonfuel Minerals	6	47.2	0.6
Total	**172**	**7,286.3**	**100.0**

Philippines: Lending and Disbursements



projects in the country. It also identified for cancellation loan saving arising from the peso depreciation and adjustment of project scope. The Bank and the Government agreed to work together to improve further project processing and monitoring through periodic joint reviews.

Thailand

Economic performance

Economic growth: Although the stabilization program adopted by the Government immediately after the onset of the 1997 currency crisis restored exchange rate stability, the economic downturn deepened in 1998. Real GDP declined further by 8 percent after a 0.4 percent contraction in 1997. Domestic demand contracted sharply, particularly private consumption and investment, owing to the fall in real income and wealth, increasing unemployment, prevailing uncertainty and risk, and a credit crunch. Private consumption contracted by 14.2 percent in 1998 mainly because of a decline in household purchasing power because of massive layoffs, asset price deflation, and decreased consumer credits. Private investment dropped sharply by 40 percent in 1998 compared with a decrease of 24.8 percent in 1997, reflecting the severe demand contraction and tight liquidity conditions. The economic recession resulted in a historically high unemployment rate of 5.3 percent.

Inflation: Inflation averaged 9.7 percent in the first half of 1998, reflecting the baht depreciation, a rise in import prices, and tax increases. However, as the recession worsened and the baht stabilized during the second half of 1998, inflationary pressure subsided. The inflation rate for 1998 was contained at around 8 percent.

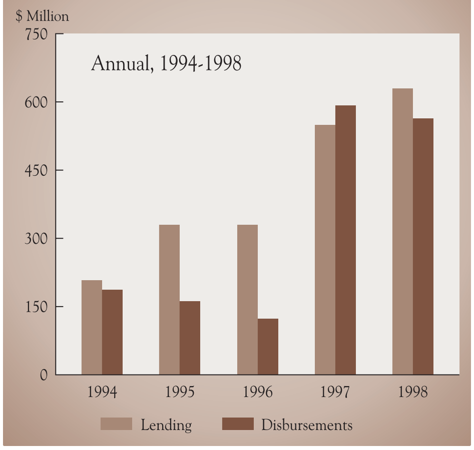
External sector: Export recovery has been weak. While the volume of exports increased steadily, the dollar value of exports contracted by 6.6 percent. Imports decreased by 32.3 percent in value. Consequently, the current account balance improved dramatically, posting a surplus of 11.5 percent of GDP from a deficit of 2 percent in 1997. The capital account remained in deficit, despite substantial FDI inflows, largely because of external debt repayments and offshore swap settlements. Official international reserves increased to a comfortable level of $29.5 billion at the end of 1998. External debt was $85.8 billion as of November 1998. The average exchange rate in 1998 was about baht (B)41.

Domestic policies: The adjustment program supported by IMF helped restore macroeconomic stability, but the fiscal and monetary targets were unduly contractionary. To stimulate the economy, the fiscal deficit target has been relaxed several times since the beginning of 1998, especially during the last quarter of 1998. The central government deficit for 1998 increased to about 2.5 percent of GDP from 0.9 percent in 1997. To alleviate the negative impact of the crisis, including unemployment, the Government allocated additional funds for strengthening the country's social safety nets during 1998. Monetary policy was also relaxed to ease the liquidity shortage and allow a reduction in interest rates. The interbank and deposit rates declined in the third quarter, and lending rates finally showed a downward

Thailand:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Energy	27	1,632.3	32.8
Transport and Communications	17	1,214.5	24.4
Social Infrastructure	14	699.4	14.0
Multisector	1	500.0	10.0
Financial	8	490.0	9.8
Agriculture and Natural Resources	12	409.1	8.2
Industry and Nonfuel Minerals	1	39.0	0.8
Total	**80**	**4,984.3**	**100.0**

Thailand:
Lending and Disbursements



trend in the last quarter of 1998. This represents somewhat easier liquidity conditions in the market. However, financial institutions have become extremely loan-shy, as they face large nonperforming loans and more rigid loan classification and provisioning requirements. To promote reorganization and recapitalization of financial institutions, and encourage lending to the real sector, the Government announced a comprehensive financial sector restructuring package in August 1998. However, implementation of the package has proceeded at a slow pace.

Bank operations

Operational strategy: The Bank's medium-term operational strategy for Thailand was being revised when the currency crisis emerged in 1997. In response to the crisis, the Bank immediately shifted its approach and introduced fast-disbursing program loans. An earlier emphasis on physical infrastructure projects gave way to an emphasis on the financial, social, rural, and agriculture sectors to contain the adverse social impact of the crisis and reposition the economy for resuming efficient growth. A new interim strategy is being finalized to consolidate this approach. The new interim strategy will pursue three objectives: (i) stabilization and adjustment to restore the process of growth; (ii) strengthened competitiveness to promote efficient, regionally balanced, and sustainable long-term growth; and (iii) poverty reduction and improvements in the quality of life. To attain these objectives, the Bank will use a combination of program and project loans, cofinancing (including guarantee operations), technical assistance, and economic and sector work that focuses on the financial, social infrastructure, and agriculture sectors. The strategy will also attempt to mainstream crosscutting concerns, governance issues, and private sector development.

Policy dialogue: Policy dialogue continued to focus on reform programs, including in the financial and social infrastructure sectors, in light of the financial crisis in the country. These reform programs, which were formulated immediately after the onset of the crisis, are now being implemented. In the Financial Markets Reform Program loan, the agreed policy matrix, including strengthening of the authority of the Securities and Exchange Commission, is being closely monitored. In the Social Sector Program loan, the ministries concerned have identified and started implementing a number of schemes, including vocational training, job creation, student loans, scholarship administration, and subsidized health care, especially for displaced worker households. Policy priority has now shifted from short-term emergency measures to economic recovery measures. The Bank is actively pursuing a program of policy and institutional reforms in the agriculture sector.

Loans and technical assistance: Two new loans and one supplementary loan totaling $630 million were approved in 1998 for social sector reform ($500 million), an export financing facility ($50 million), and wastewater management ($80 million, supplementary). A partial guarantee for a $950 million syndicated commercial loan for the export financing facility is additional. The first two loans and the guarantee were extended to reduce the adverse impact of the crisis and revitalize the economy. Technical assistance grants totaling $2.9 million for five projects were also approved.

Project implementation: Since becoming a member in 1966, Thailand has received a total of 80 loans, of which 64 had been closed and 16 were under administration at the end of 1998. Contracts amounting to $500.7 million were awarded during the year, bringing the cumulative value to $3.4 billion. The contract award ratio for 1998 was 30.8 percent. Disbursements during the year totaled $563.7 million, bringing cumulative disbursements to $3.3 billion. Because of the program loan, the disbursement ratio for 1998 was 38.4 percent.

A substantial portion of the contract awards and disbursements for 1998 was related to the release of the first tranche in the amount of $300 million for the Social Sector Program loan approved in March 1998.

Assistance to exporters to help raise the much-needed foreign exchange was provided through the Export Financing Facility, set up with the participation of 68 international financial institutions.

Cutbacks in the Government's budget allocation were effected in the first phase of the stabilization process, causing difficulties in meeting existing project implementation targets. During the second quarter, the Government and the Bank jointly assessed the performance of the existing loan project portfolio to restructure it as necessary, focusing on high-priority projects, and to improve implementation performance. Substantial loan saving was realized out of this exercise and $88.5 million were subsequently canceled from the loan portfolio. The level of counterpart funds improved toward the end of the year.

The Bank addresses deficiencies in urban infrastructure and delivery of services in Asian cities.

Viet Nam

Economic performance

Economic growth: Viet Nam is one of the few countries in Southeast Asia that continued to grow in the midst of the Asian financial crisis. The economy, however, was not completely spared from the adverse effects of the regional turmoil that affected exports and foreign investment flows, and dampened real GDP growth to 5.8 percent during 1998, according to official statistics (staff estimates 4 percent). Adversely affected by natural calamities, growth in the agriculture sector was less than 3 percent. Rice output, however, further increased, and rice exports reached 3.8 million tons, making Viet Nam the second largest world exporter of rice after Thailand. The industry sector continued to expand, underpinned by manufacturing subsector growth. The construction subsector was adversely affected by the sharp reduction of FDI inflows and the fiscal austerity measures adopted by the Government. Services sector growth also fell as tourism and related services experienced a downturn in activity.

Inflation: End of period consumer price inflation jumped to slightly over 9 percent in 1998, from 3.6 percent in 1997. The pressure of higher rice and other food prices, and of a 14 percent devaluation of the Vietnamese dong against the US dollar, contributed significantly to the rise in inflation. The conduct of monetary policy continued to remain prudent in 1998.

External sector: Merchandise exports, which had grown by 22 percent in 1997 to nearly $9 billion, expanded by a modest 3.9 percent in 1998.

Crude oil exports expanded considerably in volume to make up for lower international prices. Export contracts for a record 3.8 million tons of rice were signed in 1998. Import growth was constrained by slower economic growth, dong depreciation, and a number of temporary administrative restrictions, leading to a 2.3 percent fall in merchandise imports in 1998. As a result, the current account deficit shrank from 6.8 percent of GDP in 1997 to about 4 percent in 1998. Capital inflows declined because of the significant fall in FDI inflows, causing some pressure on foreign exchange reserves. Net international reserves as of November 1998 stood at $1.6 billion, approximately the same level as at end-1997. Total external debt in convertible currencies is estimated at $12.5 billion at the end of 1998. In addition, the country has nonconvertible currency debt, largely denominated in rubles.

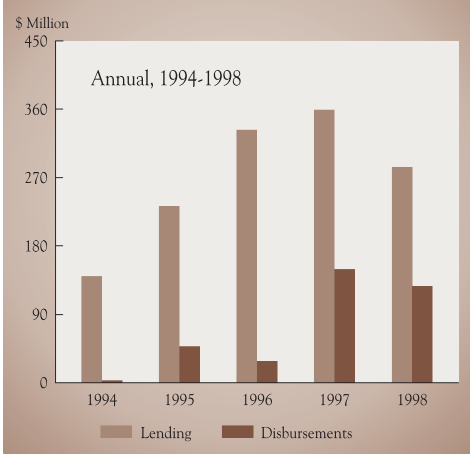
Domestic policies: While Viet Nam continued to develop the legal and regulatory frameworks that are needed for the functioning of the private sector and of a market economy, such reforms can be further accelerated. Further liberalization, transparency, accountability, and streamlining of procedures will be needed to attract foreign investment. Restructuring of the banking subsector and greater financial discipline of SOEs will be necessary to avoid instability in the financial sector. Stronger momentum in the process of equitization and divestiture of SOEs will help improve productivity levels required to emerge from the current economic slowdown in an increasingly competitive international environment.

Viet Nam: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Transport and Communications	7[a]	506.2	30.6
Agriculture and Natural Resources	13	484.6	29.3
Social Infrastructure	8	351.6	21.2
Energy	3	186.3	11.2
Financial	2	97.0	5.9
Industry and Nonfuel Minerals	1	30.0	1.8
Total	**34**	**1,655.7**	**100.0**

a Includes Viet Nam loan component of the Greater Mekong Subregion: Phnom Penh-Ho Chi Minh City Highway Project.

Viet Nam: Lending and Disbursements



Bank operations

Operational strategy: The principal objective of the Bank's operational strategy in Viet Nam is to promote efficient economic growth and reduce poverty. The strategy is designed to facilitate the transition to a market economy, while promoting balanced and sustainable development. The Bank's support to Viet Nam in the medium term addresses critical constraints in the following areas: (i) policy reform and institutional development, (ii) infrastructure development, (iii) rural development, (iv) human development, and (v) environmental and natural resource management.

Policy dialogue: A vital component of the Bank's operations in Viet Nam is to encourage policy and structural reforms to improve public sector efficiency and develop the private sector. The Bank's first policy-based loan to support the Government's Agriculture Sector Program has been concluded successfully. The major achievement of this program is the enhancement of market orientation and economic efficiency through trade liberalization in input and output markets. Another policy-based loan in the financial sector is under implementation, and aims at facilitating policy reforms to increase the efficiency of the banking subsector. In addition to program lending, policy dialogue is an important feature in all loan projects. Dialogue includes support for increased efficiency through tariff reform and other measures to increase cost recovery and strengthen financial management, policy analysis, and planning within state-owned utilities. Policy dialogue also plays an important role in promoting good governance and for improving natural resource management and environmental protection.

Loans and technical assistance: The Bank approved three loans totaling $284 million for the transport sector ($230 million for two loans), including the $100 million loan component of the GMS: Phnom Penh to Ho Chi Minh City Highway Project and social infrastructure sector ($54 million). Eleven technical assistance grants totaling $5.9 million were also approved, four of which were for project preparation.

Project implementation: Since becoming a member in 1966, Viet Nam has received a total of 34 loans, of which 12 had been closed and 22 were still active at the end of 1998. Contracts worth $212.2 million were awarded during the year, bringing the cumulative total of contracts to $566 million. The contract award ratio for 1998 was 18.4 percent. Disbursements for the year totaled $127.8 million, bringing cumulative disbursements to $382.5 million. The disbursement ratio for 1998 was 14.2 percent.

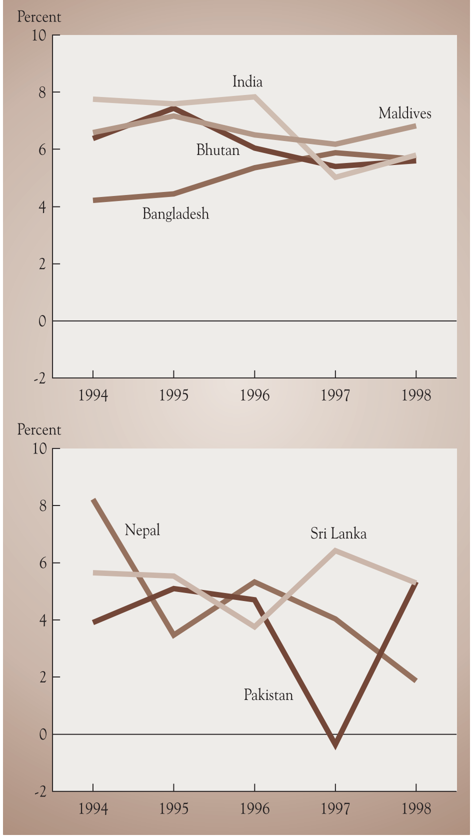
Since 1996, project implementation has improved significantly in Viet Nam. The overall disbursement ratio for ongoing loans in Viet Nam has almost tripled, from less than 5 percent in 1996 to 14.2 percent in 1998. In 1997, the Government took steps to improve the efficiency of its internal procedures. The Government synchronized the loan processing cycle with the Bank, decentralized the decision-making authority to some extent, and issued interministerial circulars to further improve the management and resettlement of official development assistance (ODA). The new circulars, in particular, resolved some of the critical issues raised by the Bank, which include allowing project management units to have direct access to impress accounts and guaranteeing sufficient counterpart funds for ODA-financed projects. It is expected that there would be a greater emphasis on cooperation with neighboring countries in the GMS with the approval of the two Phnom Penh to Ho Chi Minh City highway loans.

South Asia[1]

South Asia managed to evade the main impact of the Asian financial crisis and achieved an average growth of 5.7 percent in 1998, up from 4.5 percent in 1997. Damaged by the effects of massive flooding on agriculture and manufacturing sector output, Bangladesh's 5.7 percent GDP growth in FY1997/98 (ending 30 June) was slightly lower than that expected for the year. Bhutan's GDP growth rate was 5.6 percent in FY1997/98 (ending 30 June). The Indian economy grew at 5.8 percent in FY1998/99 (ending 31 March). The Maldives registered an economic growth of 6.8 percent in 1998, compared with 6.2 percent in 1997. In Nepal, growth slowed to 1.9 percent in FY1997/98 (ending 15 July), from 4 percent in the previous year. Pakistan's economic growth picked up by 5.3 percent in FY1997/98 (ending 30 June). Sri Lanka managed a fairly robust 5.3 percent growth rate in 1998.

Inflation in South Asia was moderate in 1998. Inflation in Bangladesh was 7 percent. Inflation in India rose in FY1998/99, driven by shortages of some agriculture sector goods. The decline in Pakistani reserves, resulting from sanctions imposed by major donors, prompted a 20 percent depreciation of the Pakistani rupee. This contributed to a price rise of 7.8 percent,

Selected South Asian Economies
GDP Growth Rates



1 South Asia includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. The Bank has not had operations in Afghanistan since 1980.

despite the overall slowdown in economic activity. In Sri Lanka, the rupee depreciated by over 9 percent, leading to inflation of 9.4 percent.

Restrictions on trade finance reduced the amount of capital available to fund current account deficits in South Asia. Bangladesh—relatively unaffected by either the Asian financial crisis or the impact of nuclear test sanctions—reduced the current account deficit from 1.7 percent of GDP in the previous year to about 1.1 percent of GDP in FY1997/98. In the case of India, export growth slowed but imports grew very little as the fall in world oil prices reduced the import bill for that commodity by 25 percent. The country's current account deficit contracted to about 1 percent of GDP. Difficulties in accessing global capital markets compelled Pakistan to reduce its current account deficit by more than half to about 3 percent of GDP. Sri Lanka's current account deficit deteriorated slightly to 3 percent of GDP in 1998 because of increased imports.

Bangladesh

Economic performance

Economic growth: GDP growth for FY1997/98 (ending 30 June) was 5.7 percent, slightly lower than the 5.9 percent achieved in FY1996/97. Despite a decline in food crop production because of bad weather conditions, industry sector growth made a strong recovery from the disappointing performance in the previous year. On the fiscal front, revenue collection increased by about 11 percent. Implementation of projects under the annual development plan was behind target, which also resulted in lower-than-expected aid disbursement. The growth prospects of the Bangladesh economy in FY1998/99 were interrupted by the devastating floods in July-September 1998, which covered 68 percent of the country. Flood-induced expenditures—including additional food grain imports and postflood rehabilitation spending—and the shortfalls in current revenue collection because of disruption in economic activities are expected to increase the budget deficit by about 1 percent of GDP.

Bank-assisted infrastructure projects help create jobs.

Inflation: The inflation rate rose to 7 percent in FY1997/98 from 2.6 percent in the previous year, because of poor food crop production and the impact of salary increases of government employees.

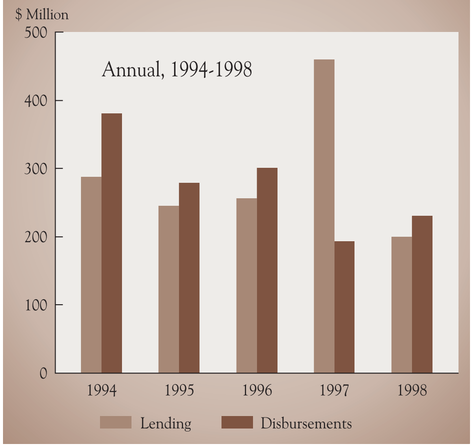
External sector: The impact of the turbulence in the Asian financial markets on the Bangladesh economy has been limited so far. Export performance improved noticeably, with the growth rate reaching 16.8 percent in FY1997/98. The garment and knitwear subsectors accounted for almost the entire increase in exports. Imports, on the other hand, grew slightly by 5.3 percent. The current account deficit narrowed to 1.1 percent of GDP, the lowest level in the 1990s. There are some concerns about the low level of foreign exchange reserves, which by the end of FY1997/98 had declined to $1.75 billion or equivalent to less than three months of imports.

Domestic policies: In 1998, some progress was made in addressing the structural problems of the economy. Several initiatives were taken in the past year to address the difficulties of the banking system. Strong measures were used by the Bangladesh central bank to address the problem of huge outstanding nonperforming loans. The Financial Loan Court Act was amended to empower loan courts in enforcing the recovery of debts. Restrictions were imposed on the rescheduling of overdue loans. Furthermore, efforts have been made to develop a fair, transparent, and efficient capital market. A series of reforms, including strengthening of the Securities and Exchange Commission and stock exchange automation, was implemented. The Government adjusted several administered prices such as fertilizer, petroleum, and electricity for reducing the budget deficit. Some progress was made in opening up the physical infrastructure and energy sectors for private investment. But the pace of economic reforms in banking subsector restructuring, public enterprise management, and trade—all critical for stimulating growth and building investor confidence—remains slow.

Bangladesh: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	60	2,051.5	36.7
Energy	18	1,069.8	19.2
Transport and Communications	16	981.8	17.6
Social Infrastructure	22	896.4	16.0
Industry and Nonfuel Minerals	8	262.5	4.7
Financial	8	217.6	3.9
Multisector	1	104.0	1.9
Total	**133**	**5,583.6**	**100.0**

Bangladesh: Lending and Disbursements



Bank operations

Operational strategy: The Bank's operational strategy for Bangladesh focuses on poverty reduction. Ways to create economic opportunities for the poor and improve their access to basic social services through equitable and sustainable growth are being emphasized. A significant component of the Bank's operations in the country is human development, particularly of women, through education and the provision of employment and income opportunities. The Bank pays attention to protecting and improving the environment, promoting broad-based and equitable economic growth through greater market orientation and support, and enhancing private sector participation.

Policy dialogue: In 1998, policy dialogue focused on (i) improving the management of environment and forests, (ii) strengthening microcredit systems, (iii) intensifying the structural reform of the energy sector, and (iv) improving the management of the port system. The Sundarbans Biodiversity Conservation Project (cofinanced with the Global Environment Facility) will provide an integrated and sustainable approach to preserve the world's largest mangrove forest. In the microcredit subsector, the Rural Livelihood Project will support a pilot effort to make microcredit self-sustaining by mobilizing saving through a bank for the landless poor. Energy sector reform continues to focus on unbundling sector institutions, increasing commercialization, and creating an enduring environment for greater private sector investment. Recent discoveries of significant natural gas reserves have highlighted the need for reform and institutional strengthening. The port subsector is the commercial lifeline of Bangladesh, and policy dialogue is directed toward its more efficient commercial management.

Loans and technical assistance: In 1998, the Bank provided four loans amounting to $200.3 million, including a multisector loan ($104 million) for flood damage rehabilitation, two in the agriculture and natural resource sector ($79.6 million), and a private sector loan without government guarantee in the telecommunications subsector ($16.7 million). The Bank also approved 13 technical assistance grants totaling $17 million.

Project implementation: Since becoming a member in 1973, Bangladesh has received a total of 133 loans, of which 92 had been closed and 41 were still active at the end of 1998.

Contracts worth $282.7 million were awarded during the year, bringing the cumulative total of contracts to $3.9 billion. The contract award ratio for 1998 was 25.1 percent. Disbursements for the year totaled $230.5 million, bringing cumulative disbursements also to $3.9 billion. The disbursement ratio for 1998 was 19.1 percent.

Persistent delays in the recruitment of consultants continued to affect project implementation. A special arrangement was agreed upon, under which the Bank will directly assist the Government, on a trial basis, in recruiting consultants financed from loans approved in 1998. Bank assistance will be limited to undertaking the selection of consultants, including evaluation and ranking technical proposals. Contract award and disbursement performance were adversely affected because of dislocations caused by the floods. A project implementation and administration seminar was conducted by the Bank to train executing agency staff on Bank policies, procedures, and guidelines for procurement of civil works, goods and services, and disbursements. In addition, the Bangladesh Resident Mission held workshops and seminars to train counterpart staff in planning, monitoring, and implementing projects.

Agriculture sector productivity suffered in many parts of the region because of extreme weather patterns attributed to the El Niño and La Niña phenomenon. The Bank's overall strategy in the agriculture sector is aimed at increasing farm incomes and improving productivity through policy reforms and institution building of government agencies concerned.

Bhutan

Economic performance

Economic growth: Bhutan continued to experience strong growth in output in FY1996/97 (ending 30 June), with real GDP growth reaching 5.4 percent. Growth in FY1997/98 was 5.6 percent, even without the major industrial projects—the commissioning of the ferro-alloy plant and the expansion of power and concrete production. However, GNP per capita reached only $430 in 1997.

Inflation: Inflation increased slightly in FY1997/98 to 9 percent from 7 percent in the previous year. Money supply growth of 42 percent—a large increase from the 30 percent growth rate in the last three fiscal years—was because of the rising levels of net foreign assets from inflows of foreign aid. Domestic credit to the Government was cut to counteract the inflationary impact of aid flows. While the continued monetization of the economy has been sufficient to absorb current monetary growth, future money supply growth at the current rates may prove inflationary.

External sector: The dollar value of exports grew by 12 percent in FY1997/98, much higher than the previous year's rate of 2 percent. In addition, slower import growth resulted in a decline in both the trade deficit from 9 percent of GDP to 7 percent, and the current account deficit from 16 percent of GDP to 12 percent. Bhutan maintained a slight trade surplus with India, the country's main trading partner; but bilateral trade in services resulted in a current account deficit. Capital flows, mostly in the form of aid for infrastructure investments, were more than sufficient to cover the current account deficit, resulting in an overall balance-of-payments surplus of more than 12 percent of GDP. This boost in reserves gave Bhutan enough foreign currency at the end of the fiscal year to cover almost 19 months of imports. External debt, mainly from multilateral development agencies, continues to be small. At the end of FY1997/98, total public external debt was 34 percent of GDP. However, this is because of a decline in nonconvertible currency debt, as convertible currency debt has been rising over time. Debt service in FY1997/98 was about 11 percent of merchandise export earnings.

Domestic policies: The Government continues to conduct a prudent fiscal policy, with current revenues exceeding current expenditures in FY1997/98. Inflows of foreign grants in excess of development expenditures led to an overall budget surplus of 3.3 percent of GDP, compared with a 2.4 percent deficit in the previous year. However, this apparent improvement in the country's fiscal stance was due mainly to a decline in capital expenditures The process of decentralizing public administration reached an important milestone this year when the King withdrew as chairperson of the Council of Ministers in July. The National Assembly elected new cabinet members, who will chair the Council on a rotating basis. At the same time, the National Assembly has been empowered to dismiss the King, with a vote of no confidence. Before these political reforms, the King was the absolute ruler of Bhutan, although he ruled the country in a consultative manner.

Bank operations

Operational strategy: In Bhutan, the Bank will continue to play the role of lender of last resort and as catalyst for mobilizing external resources, on a grant basis whenever possible, to soften the terms of lending. The operational strategy for Bhutan is aimed at (i) diversifying the economy, with an emphasis on strengthening the capacity of economic management and development administration; (ii) improving physical and social infrastructure; (iii) promoting private sector development; and (iv) protecting the environment. The Bank has limited its loan assistance to relatively small magnitudes to avoid unduly straining Bhutan's administrative and debt service capacity. As such, the Bank will limit its lending to a relatively narrow range and focus mainly on physical and social, including urban, infrastructure. Technical assistance grants will continue to focus on capacity building and institutional strengthening, as well as on preparation of priority development projects. The Bank will also assist the Government in promoting privatization and private sector participation in infrastructure projects. The Bank's strategy also recognizes Bhutan's strong commitment to preserve its environment and all Bank assistance is compatible with this objective.

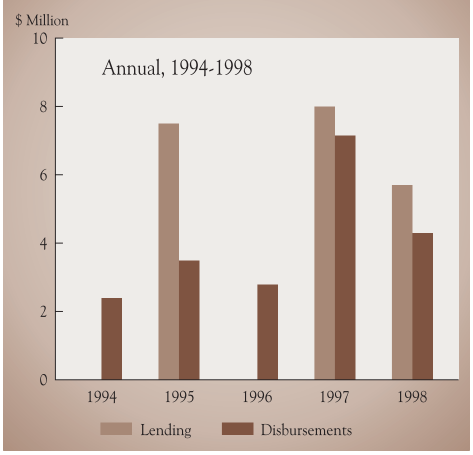
Policy dialogue: The promotion of private sector activities is the key policy objective associated with the Bank's operational strategy in Bhutan, which is to support economic diversification. The objective is consistent with a key challenge envisaged in the Government's Eighth Plan, which emphasizes the promotion of private sector development by removing policy-related impediments and providing technical support. The Bank will continue to support the country's efforts to provide an enabling policy environment for private sector growth through liberalization of external trade, regulation of foreign exchange and foreign investment, rationalization of the financial sector, preparation of more transparent legislation that would govern business practices, and tariff reform. The Bank will also assist the Government in promoting privatization and private sector participation in physical infrastructure projects.

Loans and technical assistance: The Bank provided a loan for urban infrastructure improvement in the two main cities of Thimphu and Phuentsholing, amounting to $5.7 million. Four technical assistance grants amounting to $2.2 million were also approved.

Bhutan:
Cumulative Bank Lending
(as of 31 December 1998)

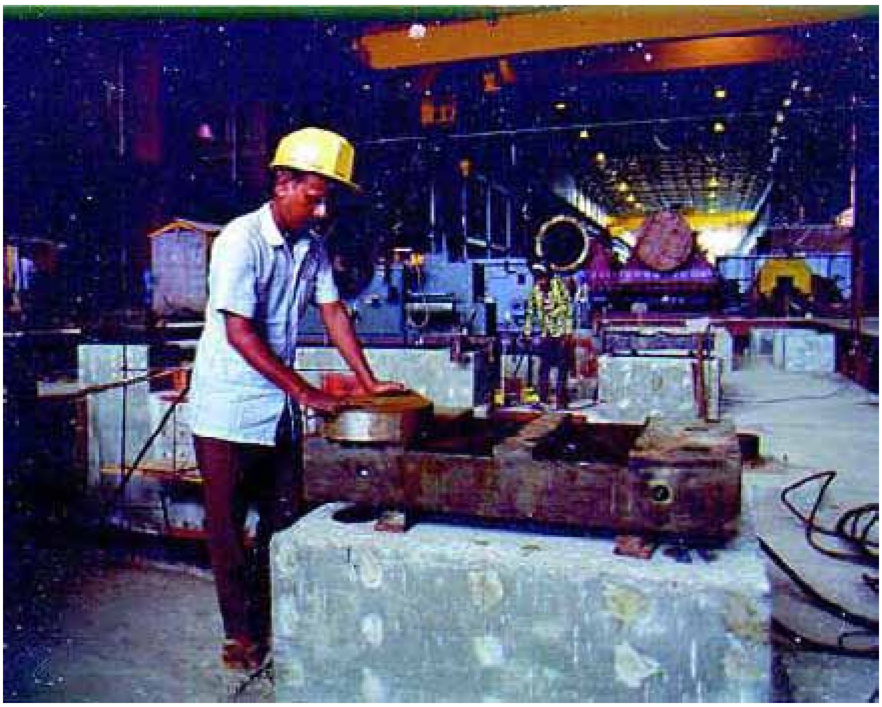
Sector	No. of Loans	$ Million	%
Social Infrastructure	3	16.1	24.7
Multisector	2	12.4	19.0
Financial	3	10.5	16.1
Transport and Communications	2	9.7	14.9
Agriculture and Natural Resources	2	7.8	12.0
Energy	1	7.5	11.5
Industry and Nonfuel Minerals	1	1.2	1.8
Total	**14**	**65.2**	**100.0**

Bhutan:
Lending and Disbursements



Project implementation: Since becoming a member in 1982, Bhutan has received a total of 14 loans, of which 9 had been closed and 5 were still active at the end of 1998. Contracts worth $3.2 million were awarded during the year, bringing the cumulative total of contracts to $45.9 million. The contract award ratio for 1998 was 20.8 percent. Disbursements for the year totaled $4.3 million, bringing cumulative disbursements to $45.2 million. The disbursement ratio for 1998 was 33.1 percent.

A number of issues that continued to impede portfolio performance in Bhutan were discussed with the Government in November 1998 during the country portfolio review and a time-bound action plan was agreed to resolve them. Although the implementation of ongoing projects has improved, there are still some common implementation issues impeding timely project implementation. These issues include human development constraints, inadequate staff numbers and skills, and weak procurement and contracting regulations. To upgrade project implementation in Bhutan, the Bank provided assistance to improve the regulatory framework for the procurement and contracting industry. This has been successfully completed and the new regulations have been put into practice since 1 July 1998. The Bank will provide further assistance to enhance the institutional capacity of the Construction Development Board to administer procurement and contracting procedures more efficiently. A computerized management information system will be created under this assistance to improve the administration of contracting and procurement regulations in Bhutan. This will help the Government increase its capacity to enforce accountability among contractors.



Strengthening the productivity capacity of enterprises, including skills upgrading, is among the vital operating objectives of the Bank.

India

Economic performance

Economic growth: The Indian economy grew at 5.8 percent in FY1998/99. While this was better than the performance in FY1997/98, it was lower than the average GDP growth rate of 7.7 percent during FY1994/95–FY1996/97. Food grain production for FY1998/99 is estimated to be about 195 million tons. Indications are that the growth rate in the agriculture sector would be about 5.3 percent. In FY1998/99, the industry sector was adversely affected by low consumer demand, subdued export demand, and persistent infrastructure constraints. On the basis of preliminary data for the first nine months of FY1998/99, it is unlikely that the industry sector will reach the previous year's growth rate of 5.9 percent for the whole year. In the private sector, business confidence—both domestic and foreign—has been less buoyant during FY1998/99, compared with FY1997/98. In the public sector, government revenue continued to fall short of the budgeted target as a result of the slowing economy. Fiscal deficit in FY1998/99 increased to 6.5 percent of GDP because of the shortfall in tax revenue and higher transfers to states because of small savings schemes.

Inflation: The rate of inflation for FY1998/99, measured by the average wholesale price index (WPI), is expected to be around 7 percent, compared with 4.8 percent in FY1997/98. The sharp rise in inflation was because of an exceptional spurt in prices of agricultural commodities arising from shortfalls in production. However, the underlying inflation rate has remained modest as indicated by the subdued trends in wholesale prices of manufactures, which account for 57 percent weight in the WPI. In terms of the CPI for industrial workers, prices also increased on a year-on-year basis to 14.4 percent in FY1998/99 from 6.9 percent recorded in FY1997/98.

External sector: During the first three quarters of FY1998/99, exports contracted by almost 3 percent, compared with the corresponding period in FY1997/98, reflecting lower external demand, a worsening of India's export competitiveness, and emerging infrastructure bottlenecks. Preliminary data indicate that imports have grown by 7.1 percent on a year-on-year basis during the first three quarters of FY1998/99. The growth in imports was partly because of increased imports of non-oil commodities, mainly gold. The current account deficit in FY1997/98 widened to 1.6 percent of GDP. In FY1998/99, it is likely to be even higher than the FY1997/98 level. FDI, which increased by 18.6 percent in FY1997/98, has fallen by 38 percent in the first three quarters of FY1998/99. There was a net outflow of about $700 million of foreign portfolio capital from April to December 1998, compared with $1.8 billion net inflow in FY1997/98, partly as a result of contagion from the financial crisis that affected all emerging markets in Asia. Yet India's more positive external position and conservative monetary policy helped the country increase reserves to the relatively comfortable level of $30.4 billion by the end of January 1999, sufficient to finance seven months of imports. India's external debt at end-September 1998 stood at $95.2 billion, of which short-term debt is 3.7 percent.

Domestic policies: Following earlier progress in gradually reducing the fiscal deficit, the Government's efforts at fiscal consolidation have been less effective than expected in recent years because of lower-than-expected revenue collections, slow progress in reducing subsidies, and delayed implementation of the Government's plan for disinvestment of SOEs. Nonetheless, there has been a number of reforms undertaken in the past few months. In October 1998, India's Prime Minister announced that the insurance subsector would be opened, for the first time, to the private sector. The Insurance Regulatory Authority bill was submitted to the Parliament in December 1998 for approval. In another effort to boost capital market development, the Government approved amendments to the Companies Act of 1956, which allow companies to buy back their own shares up to 25 percent of paid-up capital and reserves. An ordinance in this regard was promulgated on 31 October 1998. In a significant move to rationalize utility tariffs and provide transparent procedures for tariff reform, the Parliament approved the Electricity Laws (Amendment) Bill in July 1998, aiming to provide an enabling environment for the establishment of a Central Electricity Regulatory Commission and State Electricity Regulatory Commissions. In another significant development, the Government introduced an ordinance in January 1999 repealing the Urban Land (Ceiling and Regulation) Act. Assuming this is subsequently endorsed by Parliament, this could have a very significant impact on urban development. In an effort to slow money supply expansion while giving a strong push to economic growth, the Reserve Bank of India (RBI) targeted the growth of money supply at 15–15.5 percent for FY1998/99. RBI continued with reform measures to provide greater flexibility to banks and deepen financial sector reforms.

Bank operations

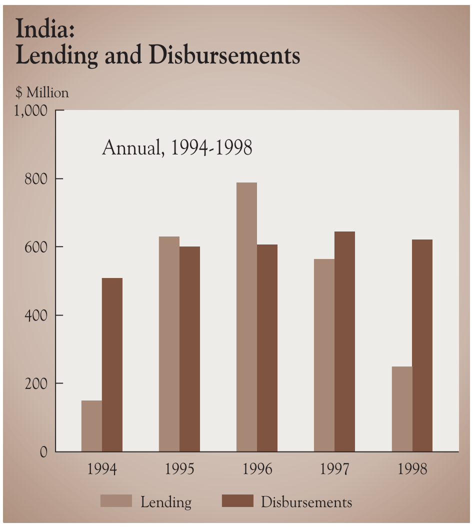
Operational strategy: The Bank's operational strategy for India is designed to help the Government promote employment and reduce poverty through support for improved efficiency and higher sustainable economic growth. These objectives are to be accomplished by (i) improving the supply-side efficiency of the economy; (ii) developing and improving the policy, institutional, and regulatory frameworks to enhance the efficiency of public sector operations; (iii) encouraging private sector investment through an improved incentive framework; and (iv) supporting improved public resource mobilization and management at the state level. While support for financial and capital market reforms continues to be an important area of Bank activities, the Bank is also providing critical support in the infrastructure sector. Consistent with its overall strategy, the Bank's operational program is guided by the principle of selectivity in both sectoral and geographical aspects. At the sector level, assistance has focused on energy (power and hydrocarbons), transport (ports, railways, and roads), urban development, and housing finance. Geographically, state-level operations are under way in two states (Gujarat and Madhya Pradesh). State-level operations will account for about 50 percent of annual lending in the next few years.

Policy dialogue: Policy dialogue with the Government continued during the year on infrastructure development, and urban environment improvement and development. Policy dialogue with the State of Gujarat also continued with regard to the restructuring of public finance, public sector enterprise, and the power subsector, including tariff adjustment, legislative reform, and unbundling of the State Electricity Board. In preparation for the Madhya Pradesh Public Resource Management Program loan, intensive policy dialogue was undertaken with the State of Madhya Pradesh, the second state selected for state-level operations. The program loan will support structural reform in Madhya Pradesh and will focus on improving efficiency in the public sector, including SOEs, and on strengthening social sector expenditure. It will also seek to promote greater participation of the private sector in infrastructure development. The Bank has also played an active role in promoting increased commercialization in the energy, transport, financial, and social infrastructure sectors to improve efficiency and encourage increased private sector participation. Policy dialogue was undertaken in close consultation with the IMF, World Bank Group, and Overseas Economic Cooperation Fund.

Loans and technical assistance: International sanctions imposed against new lending by multilateral finance institutions in the wake of nuclear tests conducted by India in May 1998, affected the Bank's operations in 1998. As a result, only one loan amounting to $250 million for the Rajasthan Urban

India:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Energy	16	2,816.8	38.8
Transport and Communications	12	1,975.6	27.3
Financial	11	1,330.0	18.4
Social Infrastructure	6	655.0	9.0
Multisector	3	300.0	4.1
Industry and Nonfuel Minerals	4	175.9	2.4
Total	**52**	**7,253.3**	**100.0**



Infrastructure Development Project was approved. In addition, the Bank provided five technical assistance grants totaling $4.5 million.

Project implementation: Since becoming a member in 1966, India has received a total of 52 loans, of which 20 had been closed and 32 were still active at the end of 1998. Contracts worth $487.7 million were awarded during the year, bringing the cumulative total of contracts to $4.7 billion. The contract award ratio for 1998 was 12.8 percent. Disbursements for the year totaled $620.4 million, bringing cumulative disbursements to $4.4 billion. The disbursement ratio for 1998 was 32.9 percent.

Despite the improved loan portfolio in 1998, some projects continued to suffer from project implementation delays. These included delays in the award of procurement contracts and recruitment of consultants, slow release of funds, and late submission of audited accounts. The Bank continued its assistance by holding regular dialogue with the Government and executing agencies, training of executing agency staff by the India Resident Mission, and conducting seminars on project implementation management. A seminar on project implementation and administration was conducted during the year. A country portfolio review was undertaken to identify implementation constraints and to agree on suitable actions for their resolution through the implementation of an action plan.

Maldives

Economic performance

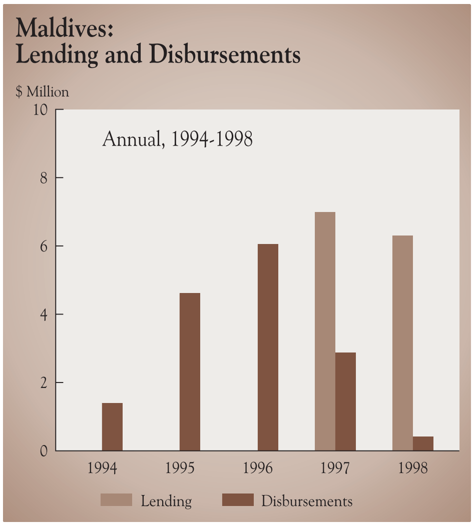
Economic growth: The growth rate in 1997 was 6.2 percent, accompanied by 7.6 percent inflation, and the growth rate for 1998 is estimated at around 6.8 percent, buoyed mostly by the continued increase in tourist arrivals and higher international fish prices. The budget deficit, excluding grants, has been reduced from 24 percent of GDP to around 7 percent during the period 1993–1998. Fiscal revenues, of which over 90 percent come from import duties and tourism taxes, remain vulnerable to external developments.

Inflation: The Government's continued prudent fiscal and monetary policies helped reduce the inflation rate from 7.6 percent in 1997 to about negative 2.2 percent in 1998. The increased volumes of imports, particularly those of consumer goods at the fixed dollar/rufiyaa (Rf) exchange rate, and increased fish production (the principal food item in the CPI) also helped in bringing down the inflation rate.

External sector: The Maldives has not been significantly affected by the Asian financial crisis. There have been no signs of instability in the financial sector, and the exchange rate has remained pegged at Rf11.8 to the US dollar for the fourth consecutive year. The current account deficit further deteriorated in 1998, after registering a small deficit in 1997. This is because of the surge in imports, associated with development investment in the tourism subsector. The rising current account deficit is, however, offset by stronger capital account inflows; this has led to an overall balance-of-payments surplus. The external position remains satisfactory, with reserves estimated at $128 million, equivalent to more than four months of imports at end-1998. External debt is estimated at $189 million at end-1998.

Maldives:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Energy	3	22.3	47.2
Transport and Communications	3	16.2	34.3
Social Infrastructure	1	6.3	13.4
Multisector	1	2.4	5.1
Total	**8**	**47.2**	**100.0**



Domestic policies: In recent years, tariff reform and partial liberalization of domestic interest rates were introduced. To streamline tax collection, the Government established the Department of Inland Revenue in 1996 and the Revenue Board in 1997, and is working toward the introduction in the coming years of a business profit tax and a property rental value tax to broaden the current tax base.

Bank operations

Operational strategy: The operational strategy for the Maldives aims to promote (i) regional development to help achieve a more equitable and cost-effective distribution of basic economic and social services, and to help ease the substantial population pressures being placed on the central region of the country; (ii) human development to address the critical shortage of skilled labor; and (iii) improvement of public sector management to achieve higher levels of efficiency and effectiveness, particularly in the area of financial management. Environmental issues are also being addressed essentially through mainstreaming in Bank-assisted projects.

Policy dialogue: Policy and institutional matters concerning the long-term development of postsecondary education were the main focus of the Bank's dialogue with the Government in 1998. However, important discussions were also continued in the areas of audit, legal development, regional planning, and private sector participation in the operation of Malé Port.

Loans and technical assistance: One loan amounting to $6.3 million was approved during 1998 for postsecondary education development. The Bank also approved three technical assistance grants amounting to $1.5 million. Technical assistance was provided to the Government to further strengthen the country's capacity to prepare national accounts and to provide advisory assistance in the areas of postsecondary education planning and management, and the identification of the scope for private sector participation in the ports subsector. A country program review was conducted jointly with the Government.

Project implementation: Since becoming a member of the Bank in 1978, the Maldives has received a total of eight loans, of which six had been closed and two were still active at the end of 1998. Contracts worth $950,000 were awarded during the year, bringing the cumulative total to $34.9 million. The contract award ratio for 1998 was 7.7 percent. Disbursements amounted to $404,000 in 1998, with cumulative disbursements reaching $34.2 million. The disbursement ratio for 1998 was 5.7 percent. The contract award and disbursement ratios are indicative of the intermittent and relatively low level of lending to the country.

Nepal

Economic performance

Economic growth: The overall economic performance in FY1997/98 (ending 15 July) further deteriorated because of an erosion in the export base and weaknesses in resource mobilization. Political instability since 1994 has resulted in six changes of government leadership. The frequent changes in government leadership have hampered the implementation of development activities, thereby adversely affecting the growth potential of the economy. Real GDP growth in FY1997/98 slowed to 1.9 percent, compared with 4 percent in FY1996/97 and 5.3 percent in FY1995/96. The slowdown is particularly evident in the agriculture and industry sectors. Agriculture sector growth has been traditionally determined by the monsoon patterns, and the low growth rate of 1.1 percent in FY1997/98 was mainly because of untimely rainfall. Decline in industry sector growth to 0.2 percent was observed across all subsectors, with construction and utilities experiencing contraction of activities over the past year. The services sector grew by 4.6 percent, up from 4 percent in FY1996/97, mainly because of modest recovery in community and social services, and of finance and real estate.

Inflation: Consumer price inflation declined further to 4 percent in FY1997/98 from 7.8 percent in the previous year, mainly reflecting the stable prices in food and beverages as well as price developments in India. Because of open-border trading with India, price developments and exchange rate movements in Nepal often reflect closely those in India. Therefore, the Nepali rupee's exchange rate depreciated in line with the Indian rupee by almost 9 percent against the US dollar during FY1997/98. The exchange rate was directly affected by the depreciation of the Indian rupee because of their close linkage. The Nepali rupee depreciated by almost 9 percent against the US dollar during FY1997/98 and exerted inflationary pressure on the economy.

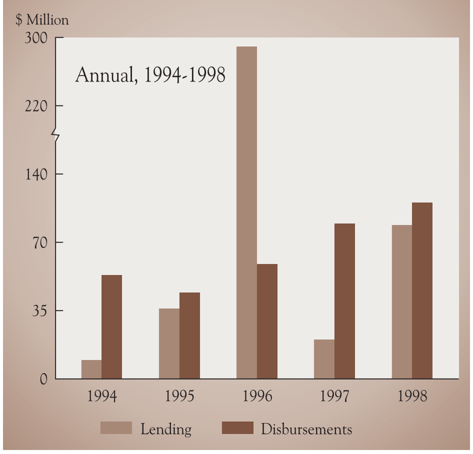
External sector: Total export growth continued to recover in FY1997/98 with a 12 percent increase, compared with sluggish growth during the past three years. Imports, however, declined by 13 percent, following a recovery of 22 percent growth in FY1996/97. The trade deficit in FY1997/98 decreased further to 21 percent of GDP because of the continued recovery in export growth and the decline in imports. A substantial decline of remittances during FY1997/98, after the surge in FY1996/97, contributed to the deterioration in the services account. Nevertheless, the current account deficit was further reduced by 9 percent to $419 million, or 8.8 percent of GDP in FY1997/98. Inflows of official grants and concessional aid continued to finance a substantial portion of the current account deficit in FY1997/98. The capital account balance was sufficient to cover the current account deficit, leaving a balance-of-payments surplus of $103 million for FY1997/98. Foreign exchange reserves grew to $712 million by the end of FY1997/98, equivalent to about six months of imports of goods and services. The debt service ratio was contained below 8 percent of exports; however, the outstanding external debt remained high at more than 50 percent of GDP, while the debt service ratio reached 9 percent of exports of goods and nonfactor services.

Domestic policies: Despite substantial development efforts and generous financial support by external agencies, Nepal's economy has not yet achieved the growth momentum required for a sustained increase in per capita income in light of the high rates of population growth. As a result, Nepal continues to be plagued with high poverty incidence and low social indicators. High population growth, poverty, and slow economic growth have put increasing pressure on the country's natural resource base, aggravating the country's environmental problems. Recognizing the crucial importance of proper environmental management and of effective implementation of the existing environmental policy and legal frameworks, the Government has in recent years adopted a more systematic approach for environmental protection. While the resource requirements have been emphasized in the Ninth Five-Year Development Plan and the Agricultural Perspective Plan (APP), there is a lack of policy and reform measures to support the effective delivery of necessary services, including the financial sector and institutional development. Nepal's structural reform program has been seriously delayed because of frequent changes in government leadership during the past four years. There is an urgent need to align and implement the reform agenda for realizing the targets and objectives under the Ninth Plan, including the APP. The Government's efforts to pursue a consensus to reinvigorate the reform process and reinstill fiscal discipline and investor confidence will be the immediate priorities.

Nepal:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	50	777.5	47.6
Energy	13	382.4	23.4
Transport and Communications	12	224.7	13.8
Social Infrastructure	11	137.1	8.4
Industry and Nonfuel Minerals	5	75.1	4.6
Others	3	35.6	2.2
Total	**94**	**1,632.4**	**100.0**

Nepal:
Lending and Disbursements



Bank operations

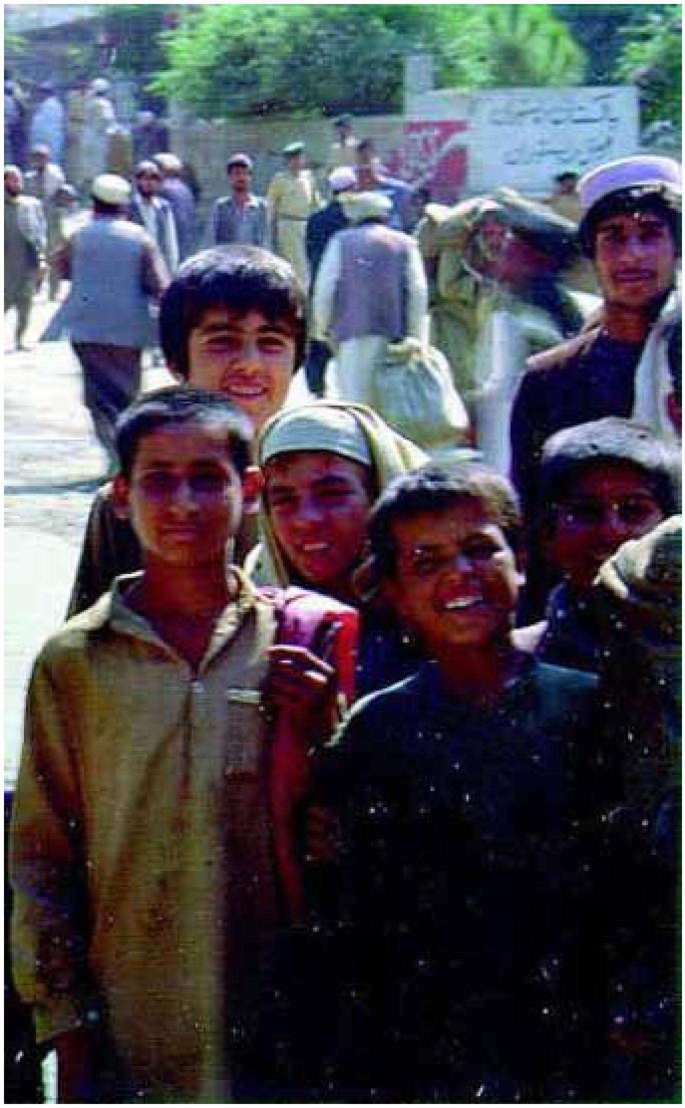
Operational strategy: The overall objective of the Bank's operational strategy in Nepal is poverty reduction by promoting broad-based, labor-absorbing economic growth. This objective will be pursued by (i) concentrating on high growth-inducing projects in agriculture, tourism, physical infrastructure, and power; (ii) supporting structural reforms aimed at enhancing the policy framework for private sector development and strengthening macroeconomic management; (iii) augmenting basic social services for the poor through better targeting, selective support for human development, and enhanced coordination among donors; and (iv) improving and protecting the environment. The operational strategy is being revised to reflect (i) the changing macroeconomic and political environments; (ii) the comparative advantage of the Bank's assistance among other donors in the country; and (iii) the development impact of the Bank's assistance. The revision exercise includes a thorough review and assessment of the Bank's past development experience in Nepal. The revised operational strategy is expected to address the issue of absorptive capacity in terms of institutional and fiscal concerns. The current trend of declining revenue mobilization has serious implications on the country's capabilities to provide counterpart funds and sustain development activities after project completion. The persistent high incidence of poverty and low social and human development indicators, despite generous donor support, require a clear vision and strategy for future Bank assistance.

Policy dialogue: The impact of the Asian financial crisis depends on the insulation capabilities of the Indian economy, which will be translated immediately to Nepal because of their pegged currencies. It is, therefore, most important to focus on consolidating resources and improving effectiveness and efficiency of existing investments, rather than on formulating new commitments which will further weaken the limited capacities of development administration, and the physical and social infrastructure. Measures are urgently needed to address the structural weaknesses of the economy, particularly in the financial sector, and utilization of external assistance. Sustained improvement of the trade deficit in the medium term will require substantial efforts to improve the institutional and policy environment, enabling further development of export items and destinations. Successful implementation of the value added tax will provide a prospect for improving resource mobilization. Nepal needs to safeguard its macroeconomic stability, particularly in the fiscal and external positions, to protect its foreign exchange commitments and obligations. More important, urgent efforts are needed to tackle the roots of investment inefficiency, including (i) separation of politics and bureaucracy; (ii) performance-based civil service; (iii) privatization of SOEs; (iv) enhancement of accountability and ownership; and (v) institutional development focusing on credibility, including the private sector and development administration. These elements need to be fully in place to ensure effective and efficient delivery of development and private sector activities.

Loans and technical assistance: The Bank approved in 1998 four loans to Nepal totaling $105 million, including three loans for agriculture and natural resources ($100 million) and one for the social infrastructure sector ($5 million). Nine technical assistance grants totaling $4.4 million were approved.

The Bank promotes policy reforms that will have a lasting impact on future generations.

Project implementation: Since becoming a member in 1966, Nepal has received a total of 94 loans, of which 68 had been closed and 26 were still active at the end of 1998. Contracts worth $75.3 million were awarded during the year, bringing the cumulative total of contracts to $1.1 billion. The contract award ratio for 1998 was 29.9 percent. Disbursements for the year totaled $120.3 million, bringing cumulative disbursements to $1.1 billion. The disbursement ratio for 1998 was 28 percent.



Project implementation continued to encounter delays because of inadequate institutional capacity. Bank initiatives in 1998 included the provision of technical assistance and training programs to improve implementation capacity of executing agencies. Two workshops, with participants from the Government and executing agencies, were conducted under a technical assistance to improve project implementation. The Nepal Resident Mission continued to assist by holding monthly meetings with project directors/managers. Delays in recruitment of consultants and high turnover of project managers were identified as the main causes of implementation delays. An action plan agreed between the Government and the Bank will be undertaken to improve implementation performance.

Pakistan

Economic performance

Economic growth: Before the nuclear testing in May 1998, which resulted in international sanctions imposed by major donors, macroeconomic performance was generally encouraging. Real GDP had grown by 5.3 percent in FY1997/98 (ending 30 June), compared with negative 0.4 percent in the previous fiscal year, largely because of good crop output and a significant revival of manufacturing. Economic performance in FY1997/98 was stronger than in recent years—investment had increased, gross national savings had picked up, and the trade gap had narrowed substantially. The agriculture sector—contributing 25 percent of GDP and 47 percent of employment—was estimated to have grown by 5.9 percent, compared with the growth rate of 0.1 percent in the previous fiscal year. The situation gradually changed during the first half of the current fiscal year, with historically low foreign currency reserves, drastically declining remittances from overseas workers, and a significant reduction in foreign debt service capacity. By mid-December, sovereign debt had been further downgraded with a negative outlook by rating agencies; and default on major loans had become a real possibility. To address these difficulties, IMF approved a financial package for Pakistan in mid-January 1999, which includes debt rescheduling and new assistance by external donors. The Paris Club (official debt) met in January 1999 and reached an agreement to reschedule $3.3 billion in official bilateral debt. The London Club (commercial debt) is expected to meet soon to similarly consider rescheduling private sector debt.

Inflation: In FY1997/98, the increase in CPI was 7.8 percent, compared with 11.8 percent in FY1996/97. Several factors contributed to this deceleration: reduction in tariff rates and the decrease in international petroleum prices and government-administered prices for some essential commodities, together with tight monetary and fiscal policies. A decline in international prices of imports and an increased supply of essential items were also contributory factors, resulting in the first single-digit inflation in the past five years.

External sector: Export earnings for FY1997/98 were $8.4 billion, an increase of 4 percent over the year before, but well below the annual export growth target of 15 percent. The slow growth of exports was mainly attributed to a decline in the exports of cotton yarn, affected by recession in major Asian markets. Imports declined by 8.2 percent, resulting in an improvement in the current account deficit from 5.8 percent of GDP in FY1996/97 to 3.0 percent of GDP in FY1997/98.

The massive devaluation in exchange rates in the countries affected by the Asian financial crisis undermined Pakistan's competitiveness during FY1997/98. On top of this, the chronic high concentration of exports of a few items (cotton, leather products, rice, synthetic textiles, and sport goods), low technology and the resultant low quality of products, shortage of financial resources, and aging production facilities resulted in a slow increase in exports during the year. The imposition of restrictions by major donors aggravated the foreign exchange position by adversely affecting capital inflows and workers' remittances. Official foreign exchange reserves fell to as low as $400 million, equivalent to less than two weeks of imports by December 1998. However, reserves subsequently recovered to $1.5 billion as a result of a resumption of assistance by IMF and other donors.

Domestic policies: Pakistan's economy has deteriorated rapidly since the nuclear tests and the subsequent worsening of the international situation, which adversely affected foreign investments in Pakistan. Although the IMF approved a financial package for Pakistan in January 1999, the underlying socioeconomic difficulties confronting the country are not likely to be resolved rapidly, considering that the problems are rooted in structural bottlenecks and restrictions imposed by major donors.

Government policies are focused on (i) macroeconomic stability through tight fiscal and monetary policies; (ii) increase in agriculture sector production; (iii) export promotion; (iv) enhancement of economic efficiency through better governance and restructuring of the power, financial, and public sectors; and (v) social protection of the poor.

Bank operations

Operational strategy: The Bank's operational strategy for Pakistan focuses on (i) human development, including education, health, population welfare, and water supply and sanitation, and (ii) environmental concerns. Issues concerning women as beneficiaries are being addressed in social sector projects, as is a strong participatory approach in all feasible areas of Bank projects. Economic growth is supported as a complementary strategic objective to generate employment for a rapidly growing labor force and the financial resources required for investment in human and physical capital by both public and private sectors. Critical bottlenecks in physical infrastructure in the agriculture, transport, and energy sectors are also being addressed; the potential of the private sector is being harnessed whenever possible. Resource mobilization reform, financial market development, governance and public sector reforms, and an improved policy environment for private sector industry and export-led growth are also key elements of the strategy.

Policy dialogue: Key policy implications of Bank operations in Pakistan include resource mobilization and utilization, public sector management and policy making, governance, devolution, and decentralization. These issues are intertwined and cut across all aspects of the Bank's program in Pakistan, involving ongoing dialogue in all sectors of Bank intervention. Extensive dialogue continued with respect to the 1998 financial crisis and the Bank's support for the Government's macroeconomic and financial reforms program.

Loans and technical assistance: Following the international sanction after the nuclear tests and Pakistan's arrears on loan service payments to the Bank, no loans were approved in 1998. Eight technical assistance grants amounting to $3.9 million were approved during the year.

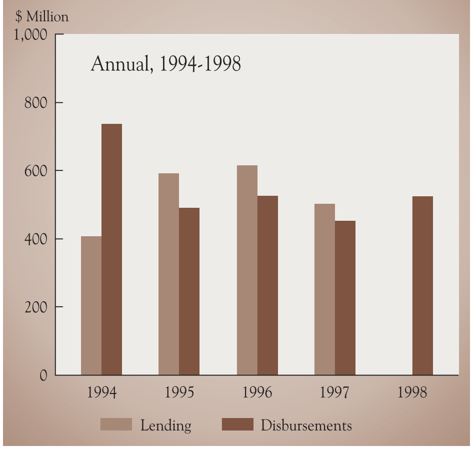
Project implementation: Since becoming a member in 1966, Pakistan has received a total of 179 loans, of which 113 had been closed and 66 were still active at the end of 1998. Contract awards during the year amounted to $315.9 million, bringing the cumulative figure to $6.7 billion. The contract award ratio for 1998 was 20.5 percent. Disbursements for the year totaled $523 million, with cumulative disbursements reaching $6.9 billion. The disbursement ratio for 1998 was 24.7 percent. The Bank undertook a country portfolio review during the year to assist the Government in identifying and resolving project implementation constraints. Timely implementation of Bank projects has been hampered by a number of project management, financial, and procurement constraints, some related to the effects of the sanctions.

Generic factors that affected project implementation across the portfolio include long delays in the preparation and approval of projects, recruitment of consultants, prequalification of contractors, and award of contracts. Staff at Bank headquarters and the Pakistan Resident Mission continued to assist the Government and executing agencies through dialogues and seminars. A project implementation and administration seminar was held to train

Pakistan:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	53	2,783.8	29.4
Energy	43	2,707.0	28.6
Financial	33	1,427.0	15.1
Social Infrastructure	24	1,101.2	11.6
Transport and Communications	11	767.0	8.1
Multisector	3	344.0	3.6
Industry and Nonfuel Minerals	12	341.4	3.6
Total	**179**	**9,471.4**	**100.0**

Pakistan:
Lending and Disbursements



executing agency staff. The Country Portfolio Review Mission was conducted to resolve generic issues. Portfolio restructuring was undertaken, resulting in loan cancellation of surplus loan proceeds of $243.1 million. Pakistan's economic difficulties imposed high fiscal constraints, which severely limited the availability of counterpart funds for timely implementation of projects. A serious concern for the Bank was delayed or nonsubmission of audited project accounts. The Bank introduced measures to improve the level of submission of audited accounts.

Sri Lanka

Economic performance

Economic growth: The Sri Lankan economy has grown at an annual average of about 5.4 percent during the 1990s, despite the constraints imposed by periodic drought, the ongoing civil conflict, and an often difficult regional environment resulting from the international sanctions on India and Pakistan. In 1998, Sri Lanka achieved a real increase in GDP of 5.3 percent. This is a creditable outcome, despite being below the 6.4 percent growth achieved in 1997. So far, the Sri Lankan economy has not felt any major impact from the Asian crisis, with the exception of net foreign divestment from the stock market and a slowdown in direct capital inflows from regional countries. The depreciation of the rupee in 1997 and 1998 was in line with domestic inflation. Despite a modest increase in private investments in infrastructure projects and the flow of private capital from continued privatization, private sector investors' confidence was adversely affected by the regional instability following the international sanctions on India and Pakistan for nuclear tests. This reduced private investors' confidence is reflected in the drastic changes in the performance of the Colombo stock exchange. Followed by an 11 percent increase in the first four months of 1998 over the 1997 performance, the all-share price index started falling in May as the aftershocks of international sanctions on India and Pakistan and the resulting regional instability contributed to driving foreign investors away.

The Bank supports both physical and social infrastructure projects. In its public sector lending, at least 50 percent of projects have social or environmental components either as primary or secondary objectives; the remaining support projects with economic growth as the primary objective.

Inflation: In 1998, the inflation rate was about 9.4 percent, which was slightly lower than the 9.6 percent recorded in 1997. Increased output of the agriculture sector, the easing of international oil prices, and prudent monetary control helped contain inflationary pressures.

External sector: In 1998, both exports and imports grew by about 7 percent. Textiles, garments, and leather goods spurred industrial export growth, while tea contributed to the growth in agricultural exports. The current account deficit slightly deteriorated to 3 percent of GDP in 1998 because of increased imports associated with development investments in infrastructure projects. Strong capital inflows, however, reflecting increased foreign borrowings, led to an overall balance-of-payments surplus of about $81 million, raising official foreign exchange reserves to almost $2 billion, equivalent to four months' import cover. Total outstanding external debt at the end of 1998 was estimated to be $6.5 billion.

Domestic policies: In 1998, there was further consolidation of the economic fundamentals of the country. Prudent fiscal management and a commitment to economic liberalization have established a basis for sustained economic growth. A goods and services tax was introduced in early 1998 to broaden the tax base. There was also continued progress in the implementation of the Government's privatization program, including the partial privatization of Air Lanka and Regional Plantation Companies, and the award of a build-operate-transfer contract to the private sector for the development of the Queen Elizabeth Quay in Colombo Port. During the year, the Government also entered into performance agreements with two major state banks; over the medium term, this may lead to improvements in the efficiency of the financial sector.

Bank operations

Operational strategy: A new operational strategy was recently prepared for Sri Lanka. The key elements of the new strategy are (i) policy and institutional reforms, aimed at private sector development, public sector modernization, and improvement in the productivity and technological level of agriculture; (ii) human development in the areas of vocational and technical training and higher education to address the gap in marketable skills and to improve employment and earning opportunities; (iii) enhancement of infrastructure, with emphasis on the promotion of private sector involvement and the development of secondary towns outside Colombo and of their road transport links; and (iv) preservation of the natural resource base to ensure long-term environmental sustainability.

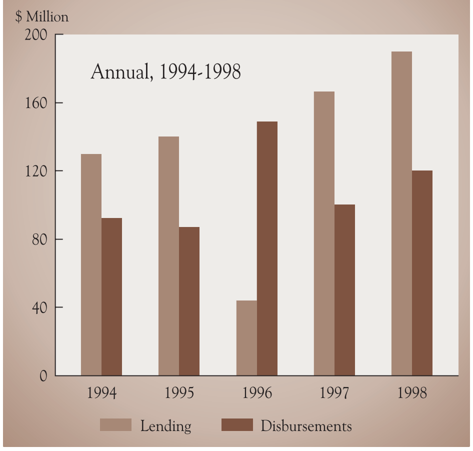
Policy dialogue: Throughout 1998, the Bank continued to place strong emphasis on policy dialogue in the sectors where it is an important development partner, including road, energy, tea industry, urban development, and low-income housing. In the road subsector, agreement was reached on improved operation and maintenance funding for the primary road network, and for the promotion of private sector participation in road construction and maintenance. The Bank approved technical assistance to review the capacities and performance of the road sector institutions; the findings will form the basis for future sector dialogue. In 1998, the Bank completed an energy sector strategy study. The study concluded that future development of the sector would be inhibited if substantial restructuring was not undertaken. Following consultation with the sector stakeholders, the Government sought the Bank's assistance to plan and implement the proposed sector reforms. Significant policy and institutional reform measures for the tea industry were also agreed with the Government in 1998. These reforms centered on providing the industry participants with a greater voice in the allocation of funds raised through a levy on the tea industry and the management of key sector institutions. The adoption of these reforms is expected to have a positive impact on the future viability of the industry. The Bank's dialogue in the urban subsector focused on the need for enhanced management capacity of local authorities to plan and implement key urban infrastructure and services. It was agreed that subprojects would be undertaken only in urban centers where the local authorities demonstrated adequate management capacity and commitment.

Loans and technical assistance: Four loans amounting to $190 million were approved during the year in the transport ($80 million), social

Sri Lanka: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	38	816.6	37.5
Social Infrastructure	14	428.5	19.6
Financial	13	346.0	15.9
Transport and Communications	11	302.3	13.9
Energy	9	265.8	12.2
Multisector	1	14.7	0.7
Industry and Nonfuel Minerals	2	5.1	0.2
Total	**88**	**2,179.0**	**100.0**

Sri Lanka: Lending and Disbursements

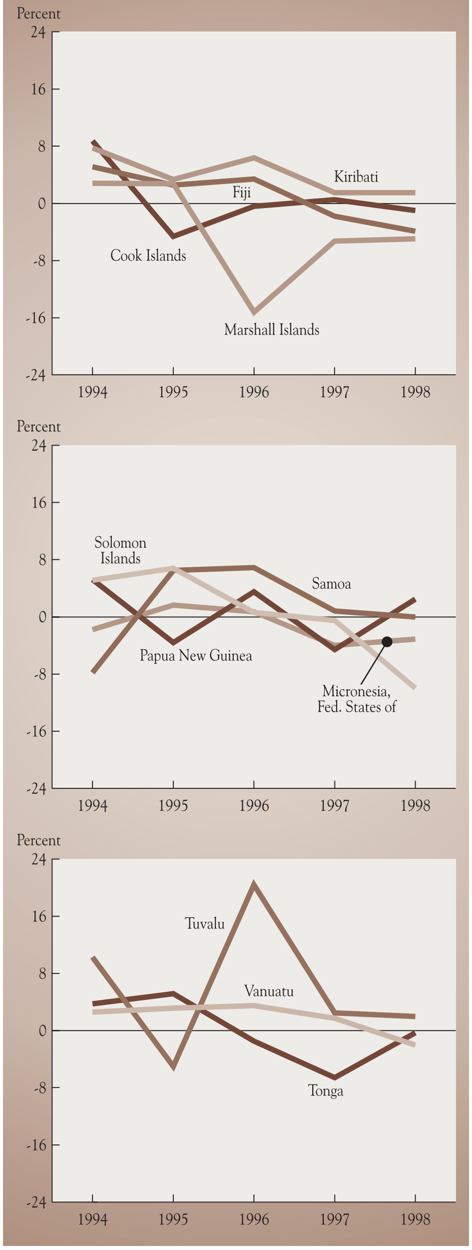


infrastructure ($70 million), agriculture and natural resources ($35 million), and financial ($5 million) sectors. The Bank also approved nine technical assistance grants amounting to about $7.2 million.

Project implementation: Since becoming a member in 1966, Sri Lanka has received a total of 88 loans, of which 27 were still active at the end of 1998. Contract awards during the year amounted to $105.1 million, bringing the cumulative total to $1.6 billion. The contract award ratio for 1998 was 14 percent. Disbursements during the year amounted to $120.1 million, with cumulative disbursements reaching $1.5 billion. The disbursement ratio for 1998 was 25 percent.

In 1997, the Bank provided technical assistance to identify the key impediments to the smooth implementation of the Bank's loan portfolio. Subsequently, an action plan was agreed with the Government to progressively remove the identified impediments. In 1998, a review of the action plan was undertaken, revealing that 37 of the 51 activities included in the action plan had been addressed and appropriate follow-up was being taken on remaining matters. A project implementation and administration seminar was also held in Colombo for staff of executing agencies to enhance their knowledge of the Bank's loan administration procedures and requirements. To improve portfolio performance, the Bank also provided technical assistance to improve procurement procedures, resulting in the establishment of the Sri Lanka Procurement Support Bureau. During the year, the Sri Lanka Resident Mission held quarterly meetings with government authorities to discuss the status of implementing the Bank's loan portfolio; and in October, the Mission conducted a country portfolio review.

Selected Pacific Economies
GDP Growth Rates



The Pacific

The Pacific DMCs of the Bank include Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea (PNG), Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. They are relatively small and isolated economies, remote from developed country markets, and environmentally vulnerable, and therefore have limited economic options.

Nineteen ninety-eight was another difficult year for the Pacific DMCs. Real GDP declined in 9 of the 12 countries, particularly in Solomon Islands, which was the hardest hit by the Asian financial crisis. For seven of the nine—Cook Islands, Fiji, Marshall Islands, Federated States of Micronesia, Nauru, Solomon Islands, and Tonga—it was the second successive year of decline. For the three countries in which real GDP rose—Kiribati, PNG, and Tuvalu—the increases ranged from 1.5 to 2.5 percent. In line with the recessionary conditions, inflation rates were below 4 percent, except in the cases of Fiji, PNG, Samoa, and Solomon Islands, where substantial currency devaluations occurred and inflation rose to between 5 and 12 percent. In the three countries issuing their own currencies, the external situation varied: in Samoa, increased remittance flows were a major reason for an improved current account balance; in Tonga, a crisis of confidence in the currency was forestalled by monetary tightening; and in Vanuatu, a balance-of-payments crisis was averted by monetary tightening and imposition of capital controls. In the six countries using the Australian, New Zealand, or US dollar—Cook Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, and Tuvalu—merchandise trade deficits continued to be covered largely by varied combinations of official transfers, overseas investment income, and workers' remittances.

In 1998, Bank-supported reform programs were ongoing in Cook Islands, Marshall Islands, Federated States of Micronesia, Nauru, Samoa, Solomon Islands, and Vanuatu. The focus on policy reform is reflected in the share of program lending to the Pacific DMCs in 1998. Out of a total of eight loans to the Pacific DMCs amounting to $82.8 million, four loans totaling $57.5 million were policy-based program loans. As springboards for policy dialogue, three economic reviews—for Kiribati, Solomon Islands, and Tuvalu—were prepared. In addition, two special reports on policy reform strategies and development priorities were completed—*A Different Kind of Voyage* and *Improving Growth Prospects in the Pacific.*

Cook Islands

Economic performance (growth, inflation, and external sector)

Economic activity in the Cook Islands declined in 1998. Real GDP fell by 1 percent, as tourism contracted and the adverse effects of emigration were felt. The number of visitors in the first three quarters of 1998 was 8 percent below the level of the comparable period in 1997, which in turn was 13 percent down from the peak level of 1994. The resident population has dropped to 16,600, compared with the 1996 level of 19,100, as Cook Islanders took advantage of their New Zealand citizenship to access the Australian and New Zealand labor markets and health, education, and social security systems. The inflation rate edged up toward 1 percent. The merchandise trade deficit remained large and was financed by private remittances and official transfers.

Domestic policies: The principal policy issue for the Cook Islands is the continuing fiscal crisis. Despite major staff cuts and the successful restructuring of official debt, the Government continues to rely on nonrecurrent revenues to finance recurrent expenditure. The public service is still large by regional standards, and the Government is contemplating further adjustments.

Bank operations

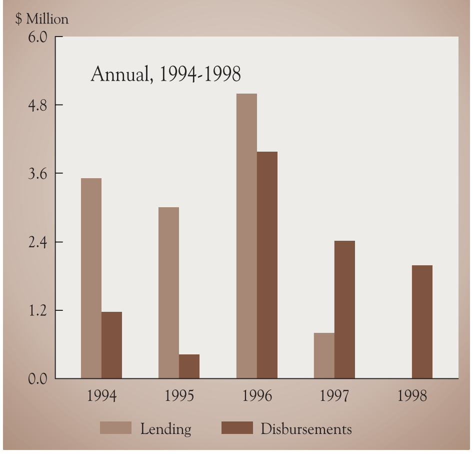
Operational strategy: The Bank's strategy for the Cook Islands supports the implementation of the Economic Restructuring Program (ERP). In particular, the ERP seeks to (i) achieve and maintain macroeconomic stability, with focus on fiscal and external sector balance; (ii) ensure structural reforms, with policies to rationalize and redefine the role of government and promote private sector-led economic recovery, particularly in the agriculture, tourism, and marine resource sectors; and (iii) enhance equity and community participation. The Bank will continue to support the ERP through its technical assistance grants.

Policy dialogue: The Cook Islands' ERP was implemented with Bank assistance. The Bank's ongoing policy dialogue has been within the framework of the ERP, focusing in particular on fiscal stabilization, including the introduction of institutional and legislative measures to ensure greater

Cook Islands: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Financial	3	6.0	24.5
Transport and Communications	2	5.4	22.0
Others	1	5.0	20.4
Multisector	3	4.6	18.8
Social Infrastructure	1	2.7	11.0
Agriculture and Natural Resources	1	0.8	3.3
Total	**11**	**24.5**	**100.0**

Cook Islands: Lending and Disbursements



transparency and accountability in the management of the Government's financial functions. Bank technical support was also extended to facilitate a multilateral process for restructuring the country's official external debt.

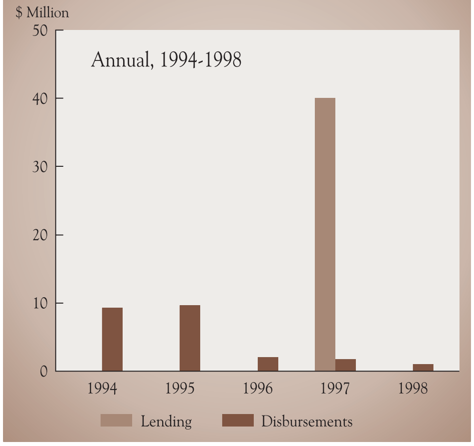
Loans and technical assistance: No loan was approved in 1998 for the Cook Islands. One technical assistance grant of $750,000 was approved to prepare a new project on urban infrastructure improvement.

Project implementation: Since becoming a member in 1976, the Cook Islands has received a total of 11 loans, of which 4 were still active at the end of 1998. Contract awards for the year amounted to about $1.8 million, bringing the cumulative total to $22.6 million. The contract award ratio for 1998 was 21 percent. Disbursements amounted to about $2 million for the year, with cumulative disbursements standing at $20.9 million. The disbursement ratio for 1998 was 43.2 percent. Project implementation was affected by a lack of qualified staff and weaknesses in management and accounting systems. Project implementation personnel attended the Bank's regional project implementation and administration seminar held in Fiji in May 1998. The Bank served as an "honest broker" in a debt-restructuring exercise, which resulted in more favorable lending arrangements with three official bilateral creditors.

Fiji:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Transport and Communications	4	78.0	48.4
Energy	3	36.9	22.9
Agriculture and Natural Resources	3	27.6	17.1
Social Infrastructure	1	9.6	6.0
Financial	2	9.0	5.6
Total	**13**	**161.1**	**100.0**

Fiji:
Lending and Disbursements



Fiji

Economic performance

Economic growth: The Fiji economy contracted for the second year in succession. Real GDP fell by 4 percent, largely because drought-affected sugar output dropped by half from the 1997 level; and gold production fell 20 percent.

Inflation: The average annual inflation rate increased to 5.7 percent from 3.4 percent in 1997, reflecting the 20 percent devaluation of the Fiji dollar in January and the consequent upward pressure on prices and wages.

External sector: The current account moved into a deficit of 4.1 percent of GDP as export revenue from all major sources, except tourism, fell. However, the overall balance of payments moved into surplus in 1998 because of a turnaround in the capital account. The external position remained sound, with foreign reserves covering five months of imports, and external debt equivalent to 9 percent of GDP. At the end of 1998, the real exchange rate was 13 percent below its predevaluation level.

Domestic policies: Despite tight monetary policies and an increase in the underlying fiscal deficit to around 4 percent of GDP, interest rates remained low and negative in real terms. The low rates had no discernible effect on private investment, which remained depressed because of uncertainty over the economic policy framework. The renewal of expiring agricultural land leases was the most pressing issue, but there was also a recognized need for greater transparency and predictability in macroeconomic policy in general, and for continued efforts for improving the fiscal position.

Bank operations

Operational strategy: The Bank's operational strategy for Fiji focuses on assisting the Government in its ongoing efforts to stimulate growth through encouraging private investment and export-oriented activities. Key policy issues include the need to (i) expand and diversify the economy to provide jobs and decrease its vulnerability to volatile export markets; (ii) enhance the pace of the reforms, particularly in the public sector; (iii) restore confidence in the long-term commitment of the Government to promote private sector-led growth, especially through corporatization and commercialization, capital market development, and targeted public sector investment; and (iv) address environmental and natural resource management concerns.

Policy dialogue: Discussions during the year focused on public sector restructuring, commercialization in agriculture, capital market development, cost recovery in the road subsector, and environmental legislation. Given Fiji's difficult economic situation and its uncertain outlook, the economic and sector work was expanded to include the preparation of an economic review identifying medium-term prospects and challenges, and an urban sector strategy study.

Loans and technical assistance: No loans were approved in 1998. One technical assistance grant of $800,000 was approved to prepare a water supply and sewerage project in the Suva-Nausori area.

Project implementation: Since becoming a member in 1970, Fiji has received a total of 13 loans, of which 2 were still active at the end of 1998. Contract awards for the year amounted to about $230,000, bringing the cumulative total to $109.2 million. The contract award ratio for 1998 was 0.6 percent. Disbursements for the year totaled $994,000, with cumulative disbursements standing at $112.9 million. The disbursement ratio for 1998 was 2.4 percent. Project implementation progress was slow, experiencing delays because of staffing and budgetary constraints. Institutions with limited implementation capacity were supported by the capacity-building process. Under Bank financing and project implementation, personnel of executing agencies attended the Bank's regional project implementation and administration seminar, held in Fiji in May 1998, to familiarize themselves with Bank procedures.

Kiribati

Economic performance (*growth, inflation, and external sector*)

The economic growth rate in Kiribati in 1998 was similar to the rate achieved in 1997, with real GDP rising by an estimated 1.5 percent. This outcome largely reflected activity in the public sector, which accounted for about three quarters of GDP. The retail price index for urban Tarawa rose by an estimated 2 percent in 1998. The external position remained fundamentally sound. The large merchandise trade deficit was financed by revenue from seamen's remittances, interest income on overseas investments, fishing license fees, and official transfers. Gross official reserves were sufficient for almost nine years of imports, reflecting the substantial balance in the Revenue Equalization Fund (a trust fund initially established with revenue from phosphate mining).

Domestic policies: The Medium-Term Strategy, adopted in late 1997, identified three key macroeconomic issues confronting the Government.

Kiribati:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Social Infrastructure	1	10.2	67.6
Transport and Communications	2	2.3	15.2
Energy	2	1.6	10.6
Financial	1	1.0	6.6
Total	**6**	**15.1**	**100.0**

First is the near-static GDP per capita since independence in 1979. Second is finding employment as the workforce is expected to increase by 60 percent in the next 15 years. Third is the Government's ability to sustain the growth in public services. Proposed strategies for addressing these issues included a reduction in the size of core government, public enterprise reform, facilitation of private sector development, and encouragement of foreign investment.

Bank operations

Operational strategy: The Bank's operational strategy for Kiribati seeks to promote sustainable growth and improvements in the living standards of the people of Kiribati. The focus of Bank operations are on three main areas: (i) strengthening policy and public sector reforms, with emphasis on improving government resource efficiency and on restructuring/reforming public enterprises; (ii) developing social infrastructure; and (iii) promoting private sector activities, including outer island development.

Policy dialogue: With Bank assistance, a comprehensive program has been prepared for infrastructure improvement in water supply, sewerage, and solid waste management. Institutional reforms, designed to enhance the effectiveness and efficiency in the operation and maintenance of public utilities, have also been identified. The Bank's policy dialogue with the Government during the year included restructuring of the Public Utilities Board (PUB); sustainability of operations in the utilities subsector, including cost recovery, and operation and maintenance; and water and environment conservation. The Bank convened the first Consultative Group (CG) meeting in Tokyo in January 1998. Kiribati looked to the CG process to help implement its development strategy more proactively.

Loans and technical assistance: A $10.2 million loan was approved in 1998 for sanitation, public health, and environment improvement. In addition, the Bank approved three advisory technical assistance grants for $1.9 million for management and financial advisory services for the restructuring of the PUB and for community development and participation initiatives, and $380,000 supplementary financing for strengthening institutional capacity and economic management.

Project implementation: Since becoming a member in 1974, Kiribati has received a total of six loans, of which one was not yet effective at the end of 1998. Cumulative contract awards and cumulative disbursements to Kiribati amounted to $4.6 million and $3.8 million, respectively. There were no contracts awarded or disbursements made in 1998. Key government officials participated in a number of Bank-sponsored programs and workshops designed to improve familiarity with Bank procedures and policies, as well as project management capacity.

Marshall Islands

Economic performance (growth, inflation, and external sector)

The level of economic activity in the Marshall Islands declined for the third successive year in 1998, as a result of ongoing public service downsizing under the Policy Reform Program and poor performances in agriculture and fisheries. Real GDP dropped by an estimated 5 percent, resulting in a 17 percent drop in real per capita GDP over the three-year period. Inflation declined to 4 percent from 5 percent in the previous year. Merchandise imports fell more than exports, thereby improving the current account, inclusive of declining official transfers. The capital account was in deficit as the Government repaid loans to bring the external debt to a manageable level. Government holdings of US dollar reserves were equivalent to just three weeks of merchandise import cover.

Domestic policies: The key policy issue was still the effective implementation of reforms required to put the economy on the path to fiscal and external balance. The reforms included further public service downsizing, introduction of revenue-raising measures, public enterprise reform, and actions to create an enabling environment for the private sector.

Bank operations

Operational strategy: The Bank's operational strategy for the Marshall Islands was to provide policy advice, and support implementation of the public sector reform program. The purpose was to help the Government achieve a more self-reliant economy. The technical assistance program was to focus on improving macro and sector policies and strengthening institutional capability.

Policy dialogue: The principal areas of the Bank's policy dialogue with the Government remained concentrated on issues to enhance economic and financial management of the country. Specifically, it focused on the elimination of macroeconomic constraints and was in support of the Government's private sector development initiatives. In addition, Bank assistance included further institutional strengthening, establishment of a private sector unit, fisheries management, and a coconut sector development study. In January 1998, the Bank convened the Third Consultative Group meeting of the country's donors in Tokyo, Japan. The meeting provided the opportunity to monitor the reform progress and learn about the Government's experience in implementing the reforms.

Loans and technical assistance: No loans were approved during the year. The second tranche of the Bank-financed Public Sector Reform Program loan was released in September 1998. One advisory technical assistance grant amounting to $130,000 was approved for the Coconut Sector Development Study.

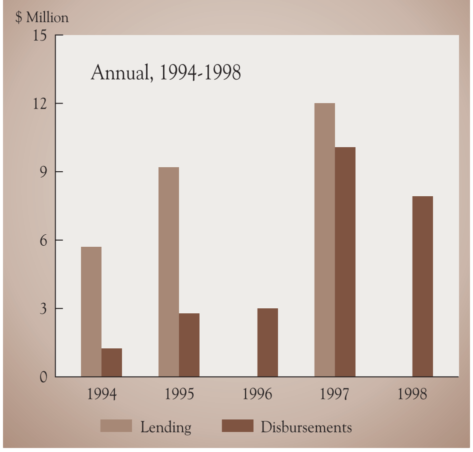
Project implementation: Since becoming a member in 1990, the Marshall Islands has received a total of seven loans, of which four were still active at the end of 1998. Contract awards for the year amounted to $6.4 million, bringing the cumulative total to $29.3 million. The contract award ratio for 1998 was 45.3 percent. Disbursements totaled $7.9 million for the year, with cumulative disbursements standing at $26.2 million. The disbursement ratio for 1998 was 40.9 percent. Several project review missions were carried out to speed up project implementation.

Overall, implementation progress was generally satisfactory, except for one project for education development, which was significantly behind schedule because of frequent staff changes and other implementation difficulties.

Marshall Islands: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Social Infrastructure	4	23.6	54.8
Financial	1	12.0	27.9
Agriculture and Natural Resources	1	7.0	16.1
Multisector	1	0.5	1.2
Total	**7**	**43.1**	**100.0**

Marshall Islands: Lending and Disbursements



Federated States of Micronesia

Economic performance (growth, inflation, and external sector)

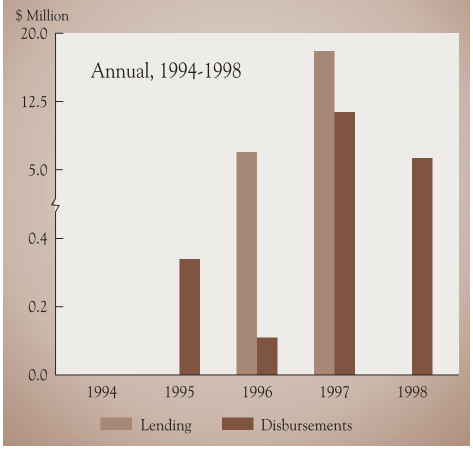
The real GDP of the Federated States of Micronesia fell by an estimated 3.1 percent in FY1997/98 (ending 30 September), following a 4 percent fall in FY1996/97. Public administration contracted, and drought had a negative effect on agriculture sector output. The inflation rate remained stable at 3 percent. Merchandise exports fell slightly from the 1997 level, but the current account deficit—exclusive of official transfers—declined to 16.7 percent of GDP from 17.7 percent in 1997. The Government's financial holdings were equivalent to almost six months of import cover.

Domestic policies: Implementation of the Public Sector Reform Program, adopted in 1997, continued in 1998, with a focus on reducing government involvement in the economy and promoting private activity in agriculture, fisheries, and tourism. To ensure a sustainable reduction in government expenditure, major measures were adopted such as a freeze in public service hiring and wages, retrenchments, restructuring of ministries and government agencies, and contracting out of state services. On the revenue side, import duty collection was shifted from a free-on-board to a cost-insurance-freight basis; exemptions were removed; and enforcement was intensified.

Federated States of Micronesia: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Financial	1	18.0	51.3
Social Infrastructure	1	10.6	30.2
Agriculture and Natural Resources	1	6.5	18.5
Total	**3**	**35.1**	**100.0**

Federated States of Micronesia: Lending and Disbursements



Bank operations

Operational strategy: The Bank's operational strategy for the Federated States of Micronesia focuses on the need to shift the economy from one that is overly controlled by the public sector, to an economy that is increasingly sustained by an open and competitive private sector. Reforms are needed in light of the declining US Compact of Free Association assistance after 2001.

Policy dialogue: Policy reform and dialogue continue to be the major focus of the Bank's program of assistance to the Federated States of Micronesia. The core of this dialogue is moving from an emphasis on fiscal and macroeconomic stability and management to the stimulation of private sector investment, and improved performance and prioritization of the public sector. The Bank is helping the Federated States of Micronesia examine and discuss land and capital resource market policies, in addition to sector policies—this is likely to be an increasingly important component of future overall development policy. The Bank convened the third Consultative Group meeting of the country's donors in Tokyo in January 1998 to discuss the progress of reform implementation and future economic strategy.

Loans and technical assistance: No loans were approved during the year. Two advisory technical assistance grants amounting to $4.9 million were approved to improve performance-based public resource management, and to continue economic policy reform and management.

Project implementation: Since becoming a member in 1990, the Federated States of Micronesia has received three loans, all of which were under administration during the year. Contract awards for the year amounted to $6.9 million, bringing the cumulative total to $18.9 million. The contract award ratio for 1998 was 34.3 percent. Disbursements totaled $6.2 million for the year, with cumulative disbursements standing at about $18 million.

The disbursement ratio for 1998 was 28.6 percent. The Bank has curtailed the procurement of the remaining fishing vessels under the Fisheries Development Project in view of unfavorable returns on investment.

Of the three loans under administration, two projects progressed slowly, while the program loan progressed satisfactorily. Project implementation delays were related to issues concerning internal financing agreements and staff changes in one project, and delayed start-up requiring extension of the loan closing date in the other.

Nauru

Economic performance (growth, inflation, and external sector)

Phosphate export revenue in 1990–1997 reached only 60 percent of the 1980s average, and fell again in 1998. As a result of the export slump, the level of economic activity has declined; and there has been a direct and major impact on government finances. Real GDP is estimated to have fallen by about 14 percent between FY1991/92 (ending 30 June) and FY1995/96, and by a further 20 percent in the subsequent two years. In FY1997/98, GDP per capita in current prices was about Australian dollar (A$)4,600. Moreover, net income receivable from the Nauru Phosphate Royalty Trust has been declining. The inflation rate was 4 percent. The merchandise trade deficit declined as the budget deficit fell.

Domestic policies: In 1998, the Government had to develop policies to address the fiscal and financial crises that had resulted from years of financial and economic mismanagement. Public sector reforms were contemplated, including cuts in public expenditure and increased taxes on imports. Plans were developed to revive the banking subsector. There was also a need to establish the true value of the assets of the Nauru Phosphate Royalty Trust.

Bank operations

Operational strategy: The Bank's operational strategy is for Nauru to achieve long-term economic and financial sustainability through a reform program that includes (i) improved fiscal management, (ii) better public debt and trust fund management, (iii) public sector reforms, and (iv) restructuring of the economy. The economy needs to reduce its dependence on phosphate mining and move toward a more balanced real economy. The strategy should ensure future stability of income and living standards at levels sustainable by the economy, without distortion through government subsidies.

Policy dialogue: In terms of economic and financial management, the major effort supported by a program loan will be to achieve all-round economic and fiscal discipline. To avoid economic collapse, a comprehensive reform program with agreed performance benchmarks was developed in consultation with the Government.

Loans and technical assistance: The Bank's first loan to Nauru, amounting to $5 million, was approved in 1998 for fiscal and financial reform. The Bank also approved an advisory technical assistance grant of $600,000.

Project implementation: One loan approved during the year was not yet effective.

Papua New Guinea

Economic performance (growth, inflation, and external sector)

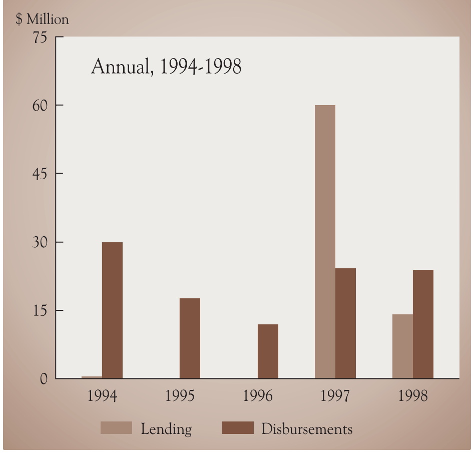
Following the 1997 recession, the Papua New Guinea economy recovered in 1998 to record an estimated real GDP growth rate of 2.5 percent. This reflected a growth in minerals output that outweighed a decline in output from the nonmineral subsector. The lingering effects of the 1997 drought were compounded by the impact of the Asian financial crisis on commodity exports, which fell substantially from the 1997 level, placing considerable pressure on the balance of payments. Central bank intervention, the revival of private flows, and an advance Australian aid payment permitted the currency to stabilize.

Domestic policies: The fiscal policy stance in 1998 was conservative, with an overall budget deficit of 1.2 percent of projected GDP. The actual outcome was a deficit of 1.6 percent of GDP. In November, the Government presented the 1999 budget to the Parliament that affirmed a commitment to macroeconomic discipline and to continued implementation of the medium-term structural reform agenda established in 1994. Reform measures included the introduction of a value-added tax, tariff reform, a 10 percent downsizing of the public sector, and a major shift from recurrent to development expenditure. The Government has had to confront considerable political pressure to proceed with reforms.

Papua New Guinea: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Social Infrastructure	14	180.1	29.1
Agriculture and Natural Resources	11	178.7	28.8
Transport and Communications	10	171.1	27.6
Energy	5	43.0	6.9
Financial	3	22.5	3.6
Multisector	3	16.0	2.6
Industry and Nonfuel Minerals	1	8.4	1.4
Total	**47**	**619.8**	**100.0**

Papua New Guinea: Lending and Disbursements



Bank operations

Operational strategy: The Bank's operational strategy for Papua New Guinea is to focus on strengthening governance reforms and public sector management. The Bank supports the Government in reforming public sector management to focus on outputs and on strengthening financial management. The generation of long-term, income-earning opportunities is another key concern, to be addressed through private sector development. The Bank will help by improving sector policy and institutional frameworks, and by selective infrastructure investments, especially in the transport sector. The third broad strategic concern is the critical need to improve the dismal social indicators; the emphasis is on rural areas, especially on improving the status of women.

Policy dialogue: The focus of policy dialogue has been on the underlying development management weaknesses that hamper effective planning and management throughout the economy. The Bank is concentrating on helping the Government reform the public sector financial management systems. Improving the efficiency of service delivery, by contracting out services, has been the core of dialogue in agriculture; institutional strengthening and a focus on sustainability have dominated discussions on commercial fisheries. The need for rational, evidence-based decision making has underlined dialogue in the transport sector.

Loans and technical assistance: In 1998, the Bank approved two loans amounting to $14.1 million for fisheries development ($6.5 million) and smallholder support services pilot ($7.6 million) projects. In addition, seven technical assistance grants totaling $2.6 million were approved, of which three were advisory in nature. The remaining four were for project preparation, including one supplementary financing to an earlier project.

Project implementation: Since becoming a member in 1971, Papua New Guinea has received a total of 47 loans, of which 11 were still active at the end of 1998. Contract awards for the year amounted to $15.9 million, bringing the cumulative total to $467.4 million. The contract award ratio for 1998 was 17.6 percent. Disbursements totaled about $24 million for the year, with cumulative disbursements standing at $472.7 million. The disbursement ratio for 1998 was 25.3 percent. Spring-cleaning has been done by review missions, resulting in a scaling down in project scope to match budget appropriations, which led to cancellations of surplus loan proceeds of $31.3 million during the year.

Project implementation was hampered by weak institutional capacities of executing agencies and limited government budgetary appropriations. Significant delays were experienced, requiring extension of the loan closing dates to coincide with project completion.

Samoa

Economic performance (growth, inflation, and external sector)

Samoa's economic growth has slowed in the past two years. Real GDP increased by 0.8 percent in 1997, and in the first half of 1998 GDP contracted by 0.4 percent. However, nominal gross remittance flows increased by 19 percent in 1997 to a level equivalent to 20 percent of GDP; and in the first half of 1998, they were up 20 percent on the comparable period the year before. These represented substantial real increases, given an inflation rate of around 6 percent; and they—along with a fall in imports, increased tourism receipts, and some commodity export growth—contributed to a reduction in the current account deficit. The overall balance of payments was positive as a result of official borrowing on concessional terms, with foreign reserves covering eight months of merchandise imports.

Domestic policies: The Government's commitment to economic reform, enunciated in *A New Partnership: A Statement of Economic Strategy, 1996–1997*, was reaffirmed in the 1998–1999 strategy statement *Strengthening the Partnership*. The budgetary situation has improved since the unavoidable deficits arising from the external shocks of the early 1990s, with surpluses being registered in the last three fiscal years. A major financial sector reform program

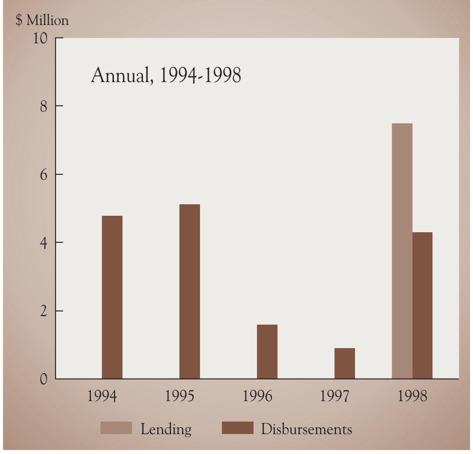
In the Pacific, the Bank seeks to expand and diversify the economies to provide jobs, and to decrease the countries' vulnerability to volatile export markets.

is in progress—the Government is removing all interest rate controls, changing its reserve requirement policy for banks, commencing auction of the Central Bank of Samoa securities, and undertaking a number of other activities targeted at improving the competitiveness of the financial sector. In addition, tax and tariff reforms have been implemented; and plans are being developed for further public sector reform, particularly in regard to public enterprise commercialization, corporatization, and privatization.

Samoa:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	9	41.5	42.6
Financial	6	23.5	24.1
Energy	6	15.0	15.4
Transport and Communications	4	13.0	13.4
Multisector	1	4.4	4.5
Total	**26**	**97.4**	**100.0**

Samoa:
Lending and Disbursements



Bank operations

Operational strategy: The Bank supports the Government's reform measures, which are aimed at making the economy more enterprise-based and competitively structured. These measures include (i) public sector reform, (ii) liberalization of the financial sector, (iii) promotion of private sector-led growth, (iv) corporatization and privatization of SOEs, (v) improvement of the management of infrastructure, and (vi) improvements in the education system.

Policy dialogue: The Bank encouraged the Government to continue to implement its strategy of promoting private sector-led growth, as well as its privatization and corporatization program to reduce the fiscal drag on the economy. In particular, the Bank encouraged the Government to ensure greater financial autonomy of SOEs, improve accountability of their management, and continue its initiatives to rationalize utility pricing to improve cost recovery.

Loans and technical assistance: One financial sector program loan for $7.5 million was approved during the year. The Bank also approved three advisory technical assistance grants amounting to about $2 million for strengthening macro policy and planning capacity, evaluation of sewage treatment options, and institutional strengthening of government financial institutions.

Project implementation: Since becoming a member in 1966, Samoa has received 26 loans, of which one was still active at the end of 1998. Contract awards for the year amounted to about $4.3 million, bringing the cumulative total to $94.4 million. The contract award ratio for 1998 was 52.2 percent. Disbursements for the year amounted to $4.3 million, with cumulative disbursements standing at $90.7 million. The disbursement ratio for 1998 was 54.8 percent. Executing agency staff attended a regional project implementation management seminar in Fiji to identify ways to accelerate project implementation, and were provided training on Bank procedures related to project matters.

The cyclone damage rehabilitation project loan was closed in April 1998, leaving only one program loan under implementation. The program implementation progressed smoothly and compliance with all program conditionalities was generally on track, reflecting the Government's commitment to the reform program.

Solomon Islands

Economic performance (growth, inflation, and external sector)

Real GDP in Solomon Islands declined by 0.5 percent in 1997, and is estimated to have fallen by 10 percent in 1998. A collapse in Asia's log export markets occurred at the same time that the new Government was cutting spending to restore fiscal balance. Business confidence, and thus private investment, remained low, but the start of operations of the Gold Ridge mine was a significant development during the year. Inflation rate rose to 12.3 percent from 8.1 percent in 1997, largely because of a 20 percent devaluation of the Solomon Islands dollar in December 1997. The decline in commodity exports substantially weakened the underlying balance-of-payments position. Even with devaluation, a rise in official transfers, and an increase in external arrears, external reserves provided only two months of import cover.

Domestic policies: The Government continued to implement its Policy and Structural Reform Program in an effort to restore macroeconomic stability, improve the performance of the public sector, and create a policy environment conducive to private sector development. The settlement of domestic and external arrears remained a priority, requiring tight control on government expenditure and revenue enhancement. A public service wage freeze was imposed, and recruitment stopped. The tariff system was simplified, income taxes were increased, and other revenue-raising measures were introduced. However, government finances remained in a precarious state.

Bank operations

Operational strategy: The Bank's operational strategy for Solomon Islands is to strengthen central agency capabilities in economic policy formulation, planning, and management. Only after achieving some progress in these core areas would the Bank be able to address longer-term human development and social sector issues, and assist in infrastructure development.

Policy dialogue: The major immediate challenge for the Government is to restore the economy's fiscal and external balances. For this, tight fiscal discipline is necessary, supported by increased efficiency of public investment. Other core issues are the size and productivity of the civil service, weak regulatory frameworks in key subsectors such as forestry and fisheries, and poor services, particularly in the health and education fields. A joint economic review by the Bank and the Australian Agency for International Development in early 1998, followed by a Bank-financed program loan, helped the Government refine its Policy and Structural Reform Program. The program focuses on policy measures in the areas of fiscal stabilization, public service reform, privatization, and strengthening of governance institutions.

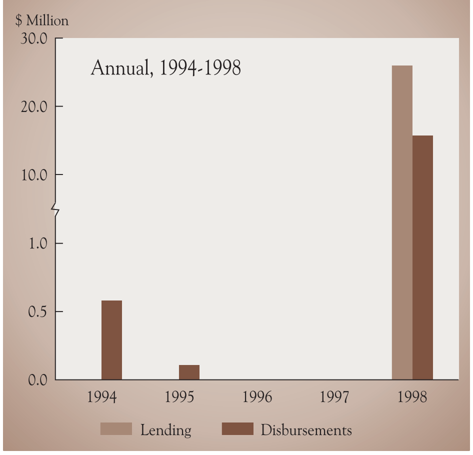
Loans and technical assistance: In 1998, Solomon Islands cleared all its overdue loan payments to the Bank. Two loans, including one public sector reform program ($25 million) and one technical assistance loan for privatization of SOEs ($1 million), were approved in 1998, totaling $26 million. Technical assistance grants amounting to $900,000 for three projects were also approved.

Project implementation: Since becoming a member in 1973, Solomon Islands has received a total of 15 loans, of which two were still active at the end of 1998. Contract awards for the year amounted to $15.7 million, bringing the cumulative total to $52.9 million. The contract award ratio for 1998 was 57.7 percent. Disbursements for the year amounted to $15.7 million, with cumulative disbursements standing at $53.3 million. The disbursement

Solomon Islands: Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Financial	4	30.0	43.3
Agriculture and Natural Resources	4	20.2	29.2
Energy	2	8.9	12.8
Transport and Communications	3	8.0	11.5
Social Infrastructure	1	1.7	2.5
Multisector	1	0.5	0.7
Total	**15**	**69.3**	**100.0**

Solomon Islands: Lending and Disbursements



ratio for 1998 was 60.3 percent. The Public Sector Reform Program (PSRP) was approved by the Bank on 27 August 1998 for $25 million, in support of far-reaching macroeconomic, fiscal, privatization, public service, and governance reforms. This was the first loan approved for Solomon Islands since the last loan provided by the Bank in 1993. The PSRP became effective on 24 November 1998. The first tranche of $15.7 million, disbursed in November 1998, financed the separation payments of redundant civil servants and the clearance of long-standing arrears to external and domestic creditors.

Tonga

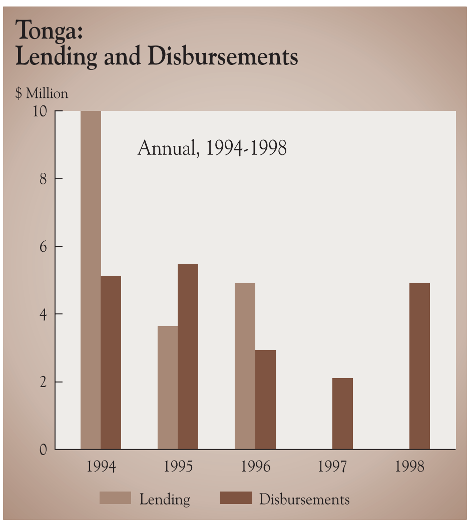
Economic performance (growth, inflation, and external sector)

The Tonga economy entered its third year of recession in FY1998/99 (ending 30 June), with real GDP falling by 0.3 percent. The decline reflected the continued poor performance of the agriculture sector, which was brought about by the impact of drought, disease, and increased international competition on squash production. The inflation rate increased slightly to 3 percent from 2.1 percent in 1997. The merchandise trade deficit worsened as a result of declining squash exports. Although private remittances grew from the 1997 level, the balance of payments was placed under considerable pressure. Gross foreign reserves fell to an equivalent of about two months of imports in August 1998, compared with five months in 1997, but have slightly recovered in the fourth quarter of 1998 because of the inflow of foreign exchange from the export of squash.

Domestic policies: The balance-of-payments pressures that developed during the year forced a tightening of monetary policy, aimed at defending the exchange rate peg. Fiscal policy, however, was not supportive of this tightening, with an overall budget deficit of 4.4 percent of GDP expected as a result of extrabudgetary appropriations and an increase in the wage bill. Greater macroeconomic policy coordination was needed. The Government expressed interest in developing an economic and public sector reform program.

Tonga:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Energy	2	12.2	25.5
Multisector	5	11.4	23.9
Transport and Communications	2	11.3	23.6
Financial	2	6.5	13.6
Agriculture and Natural Resources	2	6.0	12.6
Industry and Nonfuel Minerals	1	0.4	0.8
Total	**14**	**47.8**	**100.0**



Bank operations

Operational strategy: The Bank's operational strategy for Tonga continues to focus on (i) strengthening financial and economic management, (ii) creating an enabling environment for the private sector, and (iii) catalyzing development in the outer islands. These aims are to be achieved through support for public sector and public enterprise reform; private sector development, including basic infrastructure; agricultural diversification; and human development.

Policy dialogue: In terms of economic management, the major effort has been directed at introducing program budgeting within the Government. The new budgeting system has been designed and is being installed for application by all ministries in 1999. In its dialogue with the Government, the Bank is stressing the need to improve macroeconomic coordination among central agencies, in particular, as far as monetary and fiscal policies are concerned. The Bank is also emphasizing the need to rationalize the public service to broaden the country's tax base and to harmonize the tariff structures.

Loans and technical assistance: No loans or technical assistance grants were approved in 1998.

Project implementation: Since becoming a member in 1972, Tonga has received a total of 14 loans, of which four were still active at the end of 1998. Contract awards for the year amounted to about $3.3 million, bringing the cumulative total to $44.9 million. The contract award ratio for 1998 was 40.9 percent. Disbursements amounted to $4.9 million for the year, with cumulative disbursements standing at $35.8 million. The disbursement ratio for 1998 was 46.3 percent. Project implementation suffered from a shortfall of skilled personnel and institutional weaknesses. Executing agency staff attended the Bank's regional project implementation seminar, held in Fiji in May 1998.

Bank support for education continued in 1998, with an emphasis on improving quality and access and on strengthening decentralized management of education.

Implementation progress, except for one transport sector project, was behind schedule. This was mainly because of initial delays in making the loans effective and in the procurement process, and weaknesses of the executing agencies. In the case of the Second Power Project, a long delay in effectiveness has resulted from a lack of coordination among ministries.

Tuvalu

Economic performance (growth, inflation, and external sector)

Real GDP in Tuvalu grew by an estimated 2 percent in 1998. The inflation rate remained low in line with rates in Australia and Fiji, the major sources of imports. With merchandise exports financing only 5 percent of imports, continued reliance was placed on fishing and telecommunications license fees, remittances from overseas workers, official transfers, and investment income from overseas assets to cover the trade deficit.

Domestic policies: The Government continued to maintain a conservative fiscal policy stance that involved balancing the recurrent budget, maintaining the real value per capita of the Tuvalu Trust Fund, and funding development expenditures from foreign aid. Emphasis was again given to improved governance, and greater and more effective expenditure on health and education. Another focus is greater equality of income distribution between Funafuti and the outer islands, for which the Government planned to establish an Island Development Fund.

Bank operations

Operational strategy: The Bank's operational strategy for Tuvalu aims to promote sustainable economic and social development through (i) human development; (ii) reform of the public sector, including corporatization of government businesses; (iii) enhancement of private sector development; and (iv) improvement of the economic conditions of the outer islands. Assisting the Government in donor coordination is an important task of the Bank.

Policy dialogue: Discussions continued to center on economic management, reform of the public sector, outer islands development, and donor coordination.

Loans and technical assistance: No loans were approved during the year. One advisory technical assistance grant amounting to $150,000 was approved for the establishment of a trust fund for island development.

Project implementation: No loans have yet been provided to Tuvalu.

Vanuatu

Economic performance (growth, inflation, and external sector)

Real GDP growth in Vanuatu has slowed from 3.5 percent in 1996 to 1.7 percent in 1997, and to about negative 2 percent in 1998. The slowdown was the result of declining activity in the manufacturing, electricity, and construction subsectors, compounded in 1998 by a substantial drop in primary sector production and sluggishness in tourism. The Asian financial crisis seriously affected traditional exports, both in terms of demand and commodity prices. On the domestic front, the Vanuatu National Provident Fund (VNPF) riots in January 1998 and the announcement and subsequent revocation of the devaluation of the vatu (Vt) in March seriously destabilized the economy. The VNPF issue led to payouts that dramatically increased liquidity in the economy and saw a significant increase in imports, which resulted in a strain on the country's foreign reserves. These developments created instability in the economy that deferred investment and adversely affected the growth prospects of the country. Foreign reserves dropped to Vt3 billion in May 1998, its lowest level in the 1990s, before rising to Vt5 billion in the third quarter of 1998. This represent five to six months' import cover. This was only temporary relief, as it reflected the Government's receipt of the first drawdown of the Comprehensive Reform Program (CRP) loan which is held in US dollars with the Reserve Bank. Inflation increased to 3.9 percent in 1998 from 2.8 percent in 1997 because of the impact of a 12.5 percent value-added tax. Continued multipartisan political support for the CRP is essential to its successful completion.

Domestic policies: The new administration that took office in late March 1998 was initially preoccupied with restoring macroeconomic stability and preparing the delayed 1998 budget in a programming format. A budget deficit of approximately 10 percent of GDP was forecast, but this was almost entirely associated with one-off expenditures arising from VNPF payouts and implementation of the CRP adopted in 1997. Under the CRP, a public service restructuring and downsizing program was in progress; the legislative framework for improved governance had been established; budget coverage had been extended to include development projects; tax and tariff reform had been implemented; and reform of public sector financial institutions had begun.

Bank operations

Operational strategy: Since February 1997, the Bank has (i) actively supported the CRP formulation process; (ii) liaised closely with and provided technical support to the Government to ensure that a carefully sequenced and phased approach to CRP implementation is adopted, while recognizing the need to sustain the momentum of reforms; and (iii) played the lead role in coordinating donors' support. The Bank has also been encouraging the Government to pay greater attention to addressing issues in regard to the sustainability of the reform process. At a broader level, the Bank and other funding agencies have been emphasizing that the national-level consultative and participatory approach—which was adopted in the formulation phase of the CRP—should be further strengthened in the implementation phase. All key stakeholders need to support the reforms and play an active role in the process of ensuring sustainability. The Bank and other funding agencies also recognize that in Vanuatu, institutional capacities and technical/professional expertise are limited and currently constitute a major constraint. Substantial technical assistance is needed to meet the immediate, short-term, and long-term institutional strengthening and capacity-building requirements. The latter, in particular, is critical to the success of the whole reform effort. In this context, the strategic thrust of Bank operations in Vanuatu during 1998, and over the medium term, is to support actively the implementation of the CRP.

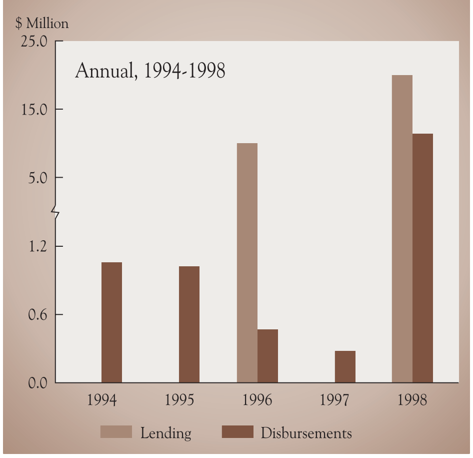
Policy dialogue: The key policy issues to be addressed by the Bank, in the context of implementing the CRP, cover both economic and public sector reforms. The emphasis is on supporting the national efforts to strengthen key institutions to ensure political stability and to improve economic growth performance through policy and institutional reforms. The overriding objectives are to (i) enhance private sector-led growth by ensuring policies that are consistent, transparent, and business friendly; (ii) ensure that output expands at a sustainable rate that is faster than population growth; (iii) ensure that the costs and benefits of growth are evenly spread among all sectors of the community and across the country; and (iv) promote increased participation of the indigenous people of Vanuatu in economic development. In this connection, one of the key themes of the Bank's policy support program would be institutional strengthening and capacity building in selected agencies.

The Bank's support will focus on the following five priority areas: (i) address governance and public sector reform issues, in coordination with other funding agencies, to help the Government restore stability and confidence, both of which are fundamental to attaining sustainable, private sector-led growth; (ii) provide technical assistance for institutional strengthening and capacity

Vanuatu:
Cumulative Bank Lending
(as of 31 December 1998)

Sector	No. of Loans	$ Million	%
Financial	3	26.0	52.7
Social Infrastructure	1	10.0	20.3
Transport and Communications	2	9.2	18.7
Multisector	1	3.0	6.1
Agriculture and Natural Resources	1	1.1	2.2
Total	**8**	**49.3**	**100.0**

Vanuatu:
Lending and Disbursements



building in critical areas such as financial and economic management, CRP coordination, and management effectiveness of the public service; (iii) facilitate national infrastructure and outer islands development to support economic growth, reduce income disparities, and achieve a more balanced growth; (iv) promote the further development of Vanuatu's financial sector, both through the restructuring and rehabilitation of key public financial institutions, and the reform of the financial and regulatory environment; and (v) facilitate donor coordination, through the Consultative Group process, to consolidate and enhance the complementarity of efforts of various external funding agencies.

Loans and technical assistance: A program loan amounting to $20 million to support the Government's comprehensive reform program was approved during the year. Two advisory technical assistance grants amounting to $1.8 million were also approved.

Project implementation: Since becoming a member in 1981, Vanuatu has received a total of eight loans, of which two were still active at the end of 1998. Contract awards for the year amounted to about $10.8 million, bringing the cumulative total to about $28 million. The contract award ratio for 1998 was 37.6 percent. Disbursements totaled $11.4 million for the year, with cumulative disbursements standing at $28.7 million. The disbursement ratio for 1998 was 37.8 percent. Project implementation continued to suffer from a lack of qualified personnel, institutional weaknesses, and difficulties in land acquisition. Executing agency staff attended the Bank's regional project implementation seminar, held in Fiji in May 1998.

Corporate Planning and Support Activities

To achieve its strategic and operational objectives, and to ensure that its projects meet the needs of its developing member countries (DMCs), the Bank must be both a planning and a learning organization. Both facets of the organizational structure—corporate planning and the activities that support that planning—are discussed in this chapter.

Corporate planning

With the extensive and disruptive impact on the region of the Asian financial crisis, the need for corporate planning and learning—and the ability to readily translate both vision and lessons learned into operational programs—has been highlighted. In this light, the Bank's corporate planning process, which has proven instrumental in introducing change in the Bank, has become more flexible and adaptive in the formulation of country assistance plans for the medium term. The process focuses on crisis alleviation and economic recovery and on the continuity of long-term development programs.

The corporate planning process begins with the reassertion of the Bank's mission as incorporated in its five strategic development objectives: promoting economic growth, reducing poverty, supporting human development, improving the status of women, and protecting the environment. These long-term objectives are then carefully considered in the context of each DMC's own development priorities and constraints. Country-specific Bank assistance plans for three-year rolling periods are developed in close consultation with government planning and sectoral ministries, and increasingly with the participation of beneficiary groups and nongovernment organizations (NGOs) concerned. These country assistance plans (CAPs) establish how the Bank will support policy reform, capacity building, and regional/subregional cooperation, and the creation and strengthening of productive capacity, infrastructure, and services in each DMC, in both the public and private sectors. The CAPs also present the pipeline of loan and technical assistance projects designed to implement country assistance objectives. Unique to the Bank's planning process is a formal project classification system that links individual projects to the Bank's strategic development objectives. The individual CAPs are aggregated into an overall medium-term work plan for the Bank, and the priorities and corporate resource implications of each are discussed informally with the Bank's Board of Directors. Finally, each year, the work program and administrative budget for the coming year are considered formally.

Recently, the country focus in the Bank's work programs has become greater, taking into account the phase of development of each individual DMC. The country-focused operational strategies have led to greater selectivity in the sectors, programs, and projects in which the Bank is involved.

The Bank has a deep commitment to the participatory development process, not only in project and program design, but also in its country operational strategy and programming work, during which project identification and selection take place. The annual country programming mission involves extensive consultations with government and NGOs at various levels in the country and, normally, a project must be included in the CAP resulting from the mission for it to be considered by the Bank for assistance. With the objective of mainstreaming stakeholder participation in the Bank's business processes, planning began in 1998 for a regional workshop to be held in early 1999 that will involve participants from DMCs, NGOs, and the Bank. It is expected that participants will identify systematic participatory approaches, specifically in the preparation of Bank country operational strategies and programs, and in the design of projects.

Finally, an important planning exercise was initiated in 1998 to prepare a long-term strategic vision and framework that will set out the development impact objectives of the Bank through the first decade of the new millennium.

Support activities

While all its departments and offices support the Bank's priorities and objectives, some areas of the Bank give particular emphasis to strengthening the Bank's capacity to realize its development role.

Economics and Development Resource Center

Guided by the Bank's underlying strategic objectives, the Economics and Development Resource Center (EDRC) provides research support to the Bank's management and operations, and disseminates knowledge and information on development issues to the Bank's DMCs and the international community. Its operational strategy focuses on (i) undertaking research in development policy issues and disseminating the findings to DMCs; (ii) extending support to Bank operations by reviewing the quality of project economic evaluations, country operational strategies, economic reports, and sector work, and undertaking studies in methodology development for economic analysis of projects and policies; (iii) providing information and advice to Management and other staff on economic events and development policy issues; (iv) providing statistical information and assistance to DMCs and other offices within the Bank; and (v) engaging in institutional strengthening and capacity-building activities for DMCs.

Work relating to the Asian financial crisis featured strongly in EDRC's 1998 activities. A major in-depth study of financial markets in selected DMCs was undertaken, which included institutional strengthening and policy development issues relating to macroeconomic management, and banking subsector and capital market development. With the objective of discussing with senior policymakers its key findings and the policy implications for rebuilding the financial sector in the region, EDRC began planning and preparing for a regional workshop to be held in 1999. Other financial sector-related studies undertaken in 1998 included mortgage-backed securities markets, a review of deposit insurance schemes, social impact of the financial crisis, and corporate governance and financing.

To discuss emerging issues and exchange views on the financial crisis, EDRC organized a number of seminars and workshops, including the Asian Development Forum–East Asia, The Unfinished Agenda; Senior Policy Seminar on Managing Global Financial Integration in Asia (held in collaboration with the World Bank); Financial Sector and Liberalization in Asia (jointly with the International Monetary Fund [IMF], the World Bank, and the Economic and Social Commission for Asia and the Pacific); Meetings of Heads of National Statistics Offices of the Countries in Crisis; and an inception workshop on the study of the Social Impact of the Financial Crisis. Also, Bank staff were keynote speakers in many international conferences.

The Bank also undertook regional studies in other areas, including Asian Exports: Trends and Prospects, and hosted the inception meetings on the study of Foreign Direct Investment and Technology Transfers in Asian Developing Countries. The Eleventh Workshop on the Asian Economic Outlook, a preparatory activity for the Bank's publication *Asian Development Outlook 1999*, was held in November 1998. Other conferences held during the year included the Joint ADB-Organisation for Economic Co-operation and Development (OECD) International Forum on Asian Perspectives and the Joint ADB-World Trade Organization Seminar on Asia and the Challenge of Globalization.

The Bank undertook several measures in the area of improving economic evaluation to ensure project quality prior to loan approval. For example, guidelines for the economic analysis of water supply projects and a handbook for economic analysis of subregional projects were completed; and similar work on build-own-operate-transfer projects was substantively completed. Further initiatives in 1998 included preparation of a handbook for the economic analysis of health sector projects, good practice examples in economic analysis, a study on the estimation of economic benefits of program loans, and a study on severe policy distortions and lack of competitive markets in the transitional economies of Central Asia.

In the area of its statistical services, the statistical database system and its Internet linkages were strengthened. The Bank also implemented technical assistance projects for statistical capacity building in its DMCs. Work on environment statistics neared completion. As part of the Bank's editing services, and with a view to achieving consistency in the presentation of Bank reports, the *Handbook of Style and Usage* was revised and published.

As part of its development resource center activities, the Bank produced and distributed numerous publications: *Asian Development Outlook 1998, Key Indicators of Developing Asian and Pacific Countries 1998,* and *ADB Research Bulletin*. The *1998 Monograph Series* included, among other titles, "Challenges for Asia's Trade and Environment" and "Adjustment and Distribution, The Indian Experience." Other notable publications included *Social Sector Issues in Transitional Economies of Asia* and *The Future of Asia in the World Economy* (Proceedings of the Joint ADB-OECD Conference–Third International Forum on Asian Perspectives). Work on the manuscript "Fiscal Transition in Kazakhstan" was substantially completed. In addition, EDRC initiated a new serial *Briefing Notes* on current economic issues; six *Briefing Notes* covering the major areas of financial crisis were produced and distributed.

Other development resource center activities included the conduct of conferences and workshops for government officials and policymakers. EDRC initiated collaborative activities such as a tax conference and a seminar on international finance with the ADB Institute, which was established by the Bank in 1997. As part of its capacity-building activities for DMCs, EDRC implemented training workshops on economic analysis of projects. A training course on macroeconomic and structural policies for government officials from Kazakhstan, Kyrgyz Republic, and Uzbekistan was also conducted, jointly with the IMF Institute.

The Bank also supported the Colombo Plan Secretariat, the East Asian Economic Association, and the American Committee on Asian Economic Studies in their research and capacity-building activities for DMCs, and served as a resource center on Asian economic issues for many external organizations from the public and private sectors.

Information systems and technology

In 1998, the Bank completed the Information Systems and Technology Strategy (ISTS), which sets the general directions for its information systems and technology infrastructure from 1998 to 2002. Following approval of the strategy and the related capital expenditure in October 1998, steps were initiated for implementing the strategy.

The Bank also completed the modifications to its computer programs which were required for year 2000 (Y2K) compliance and successfully carried out integrated simulation tests (*see box*). Vendors of software and hardware were also required to certify Y2K compliance of their goods and services.

Systems affected by the introduction of the euro on 1 January 1999 were enhanced to ensure compliance with euro requirements.

The Bank carried out modifications and enhancements on various mainframe and client/server systems during the year, including the loan financial information system, technical assistance information system, project administration system, and resident/regional missions accounting system. The project processing information system was redeveloped on a client/server platform to provide expanded functionality, including the automatic publication of project profiles and *ADB Business Opportunities* on the Bank's web site. The consultant data systems—data on consulting firms (DACON) and data on individual consultants (DICON)—were also converted from the mainframe to a client/server system with an Internet interface. The new investment portfolio accounting and management system software package was implemented at the start of 1998.

Various document management systems were enhanced and implemented. An environment network directory was established and a similar directory for social development expertise was also developed.

A new enterprise server with a new disk array subsystem and a new Y2K compliant operating system replaced the old mainframe system and now runs the Bank's legacy applications. The network facilities in some resident missions were upgraded; the other missions' network infrastructure will be upgraded in 1999 as part of the ISTS. The Bank's web site was rehosted in the US to provide faster access to Internet users from Europe and the US. In addition, the bandwidth capacity for the Bank's Internet facility was expanded to 512 kilobits per second to provide faster access and response times.

Year 2000 Compliance Activities

The Bank was dealing with the year 2000 computer problem (also known as the "millennium bug" or "Y2K") and the potential impact in its DMCs and in its internal information systems well before 1998; but this past year, work was intensified.

The Y2K problem arises because some computer equipment rely on microprocessors (so-called "embedded chips") that may not handle the transition to the year 2000 correctly (i.e., they are not Y2K compliant). The problem exists in computer hardware, operating systems, networks, and software. The risk is significant in that about 70 percent of computer applications make use of dates and must be assumed likely to fail unless made Y2K compliant. In addition, most modern equipment (e.g., medical, power generation, telecommunications) use embedded chips, of which a small, but significant proportion, is likely to fail.

Failure may be dramatic (e.g., complete failure of systems to operate at the end of 1999) or may be progressive (e.g., corruption of data over a period of time until it is detected). Either has the potential to lead to significant disruption, especially if a series of such problems occurs in parallel. The failure of noncompliant systems may result in administrative chaos, financial losses, danger to public safety, adverse public reaction, or other as yet unidentified consequences. At a macroeconomic level, the consequent poor performance and organizational failure may impact upon the national financial position.

Resolving Y2K problems is not difficult technically. The problem is primarily a managerial and resources issue relating to having to address multiple systems in parallel. This is compounded by the very limited time before year 2000. In addition, the computer industry has a poor track record of delivering systems and upgrades on schedule.

There is a significant risk of socially dysfunctional behavior relating to Y2K, e.g., hoarding, especially of cash. This risk is likely to be greater in wealthier countries, where there has been more media exposure, but may still be a significant risk in the Bank's larger developing member countries (DMCs). Consideration needs to be given to printing extra notes and to developing steps to avoid hoarding.

The estimated costs for rectifying the Y2K problem globally range anywhere from $600 billion to $1.5 trillion.[1] The US Government's current estimate of its own requirement is $6.9 billion.

The Year 2000 Problem in DMCs

The pervasiveness of computers in DMCs—even very small countries—is greater than generally realized. They are used, for example, in power generation and telecommunications; often for paying government salaries, budgeting, and accounting; and by large businesses such as financial institutions or extractive industries. Although the scale of disruption in some countries may be less than others, those with a limited resource base are likely to experience more disruptive failures. Investing resources in Y2K compliance will divert DMC resources from other high-priority areas, but failing to address the problem may have even greater costs.

It is generally expected that the losses resulting from the Y2K problem may be about 1–2 percent of GDP. This amounts to a minimum of $90 billion for the Asian DMCs altogether. Hence, the Y2K problem must be addressed at a national level. The Asian financial crisis has, in many DMCs, diverted attention from addressing the Y2K problem. In fact, Y2K problems may delay economic recovery from the crisis.

The Bank has a particular concern where its funds have been used to acquire equipment that uses embedded chips. Although more recently acquired systems and equipment are likely to be Y2K compliant, this cannot be safely assumed. In 1998, for example, computers and software which were not Y2K compliant were being sold. The benefits of the Bank's lending could potentially be negated by failures in acquired systems and equipment that are not Y2K compliant.

With regard to assisting its DMCs, the Bank first conducted a survey beginning in March 1998 to assess the level of awareness

(*continued on page 160*)

1 Report prepared by the Cutter Consortium for the International Finance Corporation, May 1998.

(Year 2000 Compliance, *continued***)**

of the governments about Y2K compliance and the measures already taken to monitor and coordinate remedial actions in the public and private sectors. The survey looked for measures such as the establishment of national coordinating mechanisms, identification of Y2K focal points or institutions, and conduct of public awareness campaigns.

A Task Force—established to coordinate ADB's response to the Y2K problem—determined that priority should be given first to Bank-financed projects, particularly to assessing the extent of risk exposure of each project to Y2K, and the preparedness of the project authorities to resolving the problem or minimizing the risk. In addition, the Bank is assessing and monitoring the readiness of individual DMCs, and taking steps to raise awareness among them about Y2K and available solutions. Because of the short time remaining to implement solutions, the Bank is also stressing the need to develop contingency plans in the event that critical systems fail to work properly in the year 2000.

To date, only a small number of DMCs have requested a modest level of assistance to address the Y2K problem, which is being provided, typically, through reallocation of resources under existing projects.

ADB is also collaborating closely with the World Bank's InfoDev (Information for Development) program regarding assistance to DMCs on Y2K. InfoDev has launched national and regional Y2K awareness seminars globally, including in several Asian DMCs. The World Bank is also providing grants and loans to DMCs for Y2K remedial measures.

Links to a number of web sites providing useful information on the nature of Y2K and the status of the national action programs of various DMCs may be found on ADB's web site at **http://www.adb.org**.

Internal Systems

In early 1996, the Bank inventoried all systems, programs, databases, and facilities that would require a Y2K compliance review. Based on the inventory, it was concluded that the Y2K resolution activities would be sufficiently manageable and be completed by end-1998, provided the activities were undertaken as a priority task under the Bank's annual work program.

In early 1997, the Bank assigned a team of programmers to apply and test Y2K program fixes in all its internal application systems. The repaired programs were tested in the current environment at the systems level and immediately turned over to production. A formal monitoring system was put in place to ascertain that all programs had been reviewed and that no slippage would occur. This remediation effort was completed in July 1998.

During the third quarter of 1998, the Bank conducted integrated simulation tests of high-volume, date-sensitive processes of critical systems to ascertain that the Y2K program fixes, tested at the systems level in 1997–1998, would continue to function properly in 2000 in an integrated application environment. The tests involved simulations of processes such as account closing, loan billing, payroll, and the execution of banking transactions for key dates between November 1999 and March 2000. Processing as of 29 February 2000 was also tested to address the issue of a leap year.

A contingency plan will be prepared in 1999, in coordination with users of the respective systems, to prepare for any unexpected problems associated with the Bank's internal systems that might arise during the millennium changeover period.

In addition to evaluating its internal systems, the Bank evaluated the Y2K compliance of the application software packages and information and data services of its vendors. It was confirmed that all application packages used in the Bank are Y2K compliant or will be compliant by the first half of 1999. Tests of the most critical processes supported by packages were carried out.

In parallel with the remediation effort for application software, a review of all equipment and systems software (including operating systems and database management systems) was conducted in 1997 and 1998, and many pieces of equipment and systems software were replaced or upgraded. With the exception of some network components, which will be replaced in 1999 as part of a planned overall network upgrade, all equipment and systems software currently in use have been certified as Y2K compliant by the suppliers.

Bank Management is attentive to the progress of Y2K problem resolution activities. In early 1998, the Bank's internal audit function conducted an audit of the overall action plan for Y2K problem resolution, including the procedures and approaches taken for problem resolution activities, and reported its findings to Management. Since then, the internal audit function has been monitoring Y2K activities on a continuing basis.

Almost all facets of life relying on computer equipment, including air transportation, will be affected by the millennium bug unless remedial action is taken before the transition to 2000. The Bank has taken steps to ensure that its internal systems are Y2K compliant and is helping its DMCs to do likewise.

Resident and regional missions and representative offices

Through its resident and regional missions and representative offices, the Bank achieves strengthened representation in its donor and developing member countries, and broader and more direct access to its constituencies.

Resident missions: The Bank has 10 resident missions, one each in Bangladesh, Cambodia, India, Indonesia, Kazakhstan, Nepal, Pakistan, Sri Lanka, Uzbekistan, and Viet Nam. The Kazakhstan and Uzbekistan resident missions began operations in 1998. The Sri Lanka Resident Mission, which commenced operations in Colombo in October 1997, was opened officially by the Bank's President in 1998.

The resident missions were established to (i) improve the Bank's coordination with the governments and funding agencies; (ii) assist with activities related to country programming and processing of new loan and technical assistance projects; and (iii) help ensure project quality by directly administering the implementation of select projects. Mission staff initiate and maintain dialogue with the governments on policy and other issues; and strengthen the work relationship between the Bank and government authorities in processing and implementing technical assistance and loan projects and programs, in coordination with representatives of bilateral and multilateral funding agencies. Because of their important role in improving implementation performance, the resident missions are being delegated more responsibility and accountability for portfolio management.

The resident missions develop their individual work programs to the country's particular needs. For example, in 1998, the Bangladesh Resident Mission assisted the Bank in its strategic objectives by arranging an in-country poverty consultation workshop, and was extensively involved in the flood damage assessment in preparation for the Flood Damage Rehabilitation Project approved by the Board in December 1998. The financial crisis and related political and social changes in Indonesia led to an increased need for the Bank to interact and coordinate with stakeholders with respect to Bank projects; the Indonesia Resident Mission assisted in this process. The Pakistan Resident Mission took a successful lead role in the spring-cleaning exercise and the campaign to accelerate disbursements, and interacted with government agencies and the Bank to ensure that Pakistan's loan service payments resumed toward the end of the year.

With regard to their external relations activities, in 1998, the India Resident Mission published and distributed a quarterly newsletter, and the Viet Nam Resident Mission launched its web site, which focuses on the Bank's program in Viet Nam. Two missions (India and Nepal) updated or developed new publicity brochures as part of the Bank's *Partners in Development* series.

Regional mission: The South Pacific Regional Mission (SPRM) in Port Vila, Vanuatu is the Bank's liaison to the eight member nations in the South Pacific: Cook Islands, Fiji, Kiribati, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. SPRM assists in the administration of loan and technical assistance projects in the South Pacific; provides economic and other inputs for the Bank's policy, project, and institutional development work; disseminates information about ADB activities; and promotes private sector development.

With the help of its resident missions, the Bank is able to improve project quality. Interaction with governments, stakeholders, and project beneficiaries is enhanced to ensure better project implementation.

Staff from the resident missions and representative offices assist the Bank in its external relations activities; shown here at the 1998 Frankfurt Book Fair.

Representative offices: The Bank's representative offices in Europe (Frankfurt), Japan (Tokyo), and North America (Washington, DC) strengthen its representation in donor members and assist in its resource mobilization efforts by promoting cofinancing with official and commercial sources. Through the representative offices, the Bank is able to interact regularly with key decision makers to inform them about the Bank's activities. The representative offices also help raise the profile of the Bank with key interest groups and with the public at large. They enable the Bank to communicate better and in a more timely manner with the development community, businesses, academics, and NGOs. Other important functions are information dissemination and public relations. In this regard, the Japanese Representative Office assisted in the translation of a number of Bank publications into the Japanese language.

Archives

The Bank's Archives was established to preserve and make available records of permanent value on the history of the Bank. The Archives maintains a repository that conforms to international standards on archival storage. A microfilm program is incorporated within the Records Center operations. The Bank uses off-site storage for vital records.

The Archives currently holds approximately 14,000 textual records; 33,000 photographs, slides, and negatives; and 600 audiovisual items. Holdings include records on the establishment, organization, structure, policies, programs, and projects of the Bank. The photographs held in the Archives provide visual documentation of the various projects and activities of the Bank. The Archives maintains a database of its collection called the Bank Archives Information System. The Bank's Archives is listed in the *Guide to the Archives of International Organizations*, a publication of the United Nations Educational, Scientific and Cultural Organization.

In 1998, staff carried out an active program to acquire historical Bank documents to be added to the existing collection.

Library

The Library, with a collection of approximately 200,000 volumes, is the Bank's knowledge resource center for information in print and electronic formats. It provides research assistance in all disciplines related to the Bank's strategic objectives, programs, and projects. The collection specializes in development economics, key economic sectors, and the countries of the Asian and Pacific region. Sectoral emphasis includes agriculture, energy, finance, environment, law, transport and communications, and social infrastructure.

A full range of library services supports the Bank's staff in headquarters and in the DMCs. In addition, educational institutions and individual researchers from around the world make regular use of the Library's collections and services via Internet, telephone or fax inquiries, or in-person visits. The Library received close to 3,000 inquiries from more than 2,500 external visitors in 1998. This number is lower than last year's high of 2,800 visitors because the Library was closed to external visitors for several months because of inventory taking.

The Library sponsors an active donation program, extending the shelf life of materials no longer needed by the Bank. For example, in 1998, nine institutions in the Philippines received more than 3,000 titles from the Library to assist them in building their collections.

The Library continued to broaden its outreach activities with an exhibit in March 1998 on gender and development to create awareness and assist in mainstreaming the consideration of gender into Bank operations and programs. Three other exhibits held in previous years focused on acquired immunodeficiency syndrome (AIDS), Asia-Pacific Economic Cooperation, and environmental issues facing Asia's megacities. The Library also updated its bibliography, "Publications On and About the Asian Development Bank, 1987–1997."

The Library's long-term strategy as the Bank's knowledge resource center is to increase the amount and the quality of information available at the desktops of Bank staff. In keeping with this strategy, the Library enhanced its electronic and Internet-based services to augment the coverage and sources available, increased and streamlined desktop access for Bank staff, and developed a home page for the Bank's internal use.

Public Information Center

One of the Bank's operational strategies is to increase awareness and understanding of its activities, strategies, and objectives among the public and policymakers in its DMCs and donor member countries. In addition, its Information Policy and Strategy, and Policy on Confidentiality and Disclosure of Information—both approved by the Board in 1994—provide for the greatest possible degree of transparency and disclosure in all areas of the Bank's operations, with few exceptions. To this end, the Bank established the Public Information Center (PIC) in 1996 to make available to the public—either free of charge or for purchase, depending on the publication—ADB publications, information brochures, videos, and documents.

In 1998, the PIC catered to about 4,200 visitors who sought its services either in person or through mail, phone, or electronic requests. This represents an increase of 20 percent over the 1997 numbers. An estimated 6,700 books, 180 videos, and 40 CD-ROMs (computer disk-read only memory) were sold in 1998. More than 2,500 documents were dispatched in response to requests for reports covered by the Bank's Policy on Confidentiality and Disclosure of Information; about 1,025 of these documents were distributed free of charge, the bulk going to NGOs.

The PIC is the dispatch point for the Bank's Depository Library Program, a worldwide network of about 130 libraries, offering the public free access to Bank documents and publications. Each member library received 285 publications and documents in 1998.

In addition, the PIC is the dispatch point for the Bank's subscription publications, *ADB Business Opportunities* and *Asian Development Review* (*ADR*). During the year, nearly 400 companies and individuals maintained subscriptions to *ADR* and about 2,100 maintained subscriptions to *Business Opportunities*. The decrease in *Business Opportunities* subscriptions from 2,500 in 1997 is attributed to its availability on the Bank's Internet web site at **http://www.adb.org**, a decision that the Bank made in 1995 to ensure that this publication would reach an even wider audience.

Asian Development Bank Institute

The ADB Institute was established in December 1997. Nineteen ninety-eight marked the start-up year during which research and capacity-building activities were initiated. The major activities in 1998 are summarized below.

During its first full year of operation, the Institute's core program achievement has been the preparation of the initial *Strategic Directions* paper, which identified the main areas of the research and capacity-building agenda: (i) Asian development paradigms, (ii) reform and strengthening of financial systems, (iii) education and social development, and (iv) strategic perspectives for development management. These directions were discussed by the Bank's Board of Directors and at the inaugural meeting of the Institute's Advisory Council.[1]

A high-level roundtable series on the Asian financial crisis was held in Manila, San Francisco, Singapore, and Tokyo. Preliminary results were published in the Institute's first book disseminated at a public symposium held during the Bank's 31st Annual Meeting in Geneva. An executive summary series was also initiated for these and other conference proceedings in print and on-line (**http://www.adbi.org**).

Start-up capacity-building and training activities were conducted mainly in collaboration with the Bank or OECD. Joint Institute-Bank capacity-building and training seminars were held in the fields of municipal management, taxation policy, and international finance. Together with OECD, the Institute organized an international symposium on securities market regulatory systems. Seminars on lessons learned and policy responses to the financial crisis were also held, based on materials developed by the Institute's research roundtable workshops. These capacity-building activities reached around 165 participants from 27 countries with about 770 person-days of training.

Planning workshops in the areas of education, social development, public policy, and institutional reforms were also held throughout the year. An innovative book entitled *The Learning of Nations* is now on-line as an experiment in the effective use of media and information technology. The on-line site features an e-mail feedback mechanism that encourages comments and documentation of experiences from interested readers and stakeholders.

The seven members of the Advisory Council were selected from leading scholars and senior policymakers of Bank member countries, and their guidance has been relied upon in refining the work programs. The international and local staff have now been recruited and have commenced work in Tokyo.

The professional staff (16 established posts, of which 13 have been filled) have also been augmented by one visiting scholar, seven contractual researchers, two research associates, and three program consultants. Major research initiatives were partnered worldwide with leading academic and other institutes, including the Institute of Fiscal and Monetary Policy, the Institute of South East Asian Studies, and the Federal Reserve Bank of San Francisco.

In accordance with its statutory oversight responsibilities, the Board of Directors reviewed and approved the Institute's 1998 work program and budget.

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1 The Institute's Advisory Council consists of seven members: two from the Bank's DMCs (the People's Republic of China and Sri Lanka), two nonregional donor countries (Italy and the United States), two regional donor countries (Australia and Japan), and a representative of the Bank (Chief Economist) (*see also Appendix 5*).

Administration

Human resource management and development

At the end of 1998, the Bank had a total staff of 1,966 coming from 44 of its 57 members. The total comprised 673 professional staff[1] and 1,293 supporting staff, of which 150 staff[2] were located in representative offices and resident and regional missions. During the year, there were 75 appointments and 61 departures of professional staff, while 51 supporting staff joined the Bank, and 60 left. At the end of 1998, the number of women professional staff was 129, or 19 percent of total professional staff.

In January 1998, the Bank's Training and Development Division was merged into the Human Resources Division to enhance coordination of human resource activities. The integration of training and development within an enlarged Human Resources Division also improved the service quality of training.

Human resource management activities in 1998 concentrated on the formulation of responsive human resource policies and strategies, including the nine-point Gender Action Plan to reduce gender disparities at all levels in the Bank. In support of the Bank's redefined role as a broad-based development institution, attention has focused on managing the Bank's desired skills mix through deploying administrative positions to operations, recruiting new skills such as financial economists and capital market specialists, terminating weak performers, reviewing anticipated competencies, and introducing collaborators from other areas of the Bank in a more rigorous recruitment exercise. A major focus in 1998 was the initiation of the procurement process for an integrated human resource management information system (HRMIS). Implementation of the new system package—which is expected to expand the human resource management services available to Management and staff—will begin in 1999 and be completed in 2001.

A Bankwide training needs assessment was conducted to determine the training and development priority directions of the Bank. Based on the assessment, several new training activities were conceptualized and implemented in 1998. These activities included technical training (such as macroeconomics, governance, and capacity building), and managerial and supervisory training.

Emphasis was given to training for senior management staff, managers, and mission leaders to enhance and upgrade their scenario planning, leadership, and managerial skills. A set of training curricula for executive assistants was developed and established. These include specific development steps and training programs. This exercise is also being undertaken for other job streams.

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1 Includes the President, Vice-Presidents, and staff on secondment and special leave without pay, but excludes Directors' Advisors.

2 Includes 37 professional staff, 47 national officers (locally recruited professional staff), and 66 supporting staff.

Staff coming from 44 of ADB's 57 members work together to improve the welfare of the people in the region.

In its capacity-building activities, and involving the cooperation of many departments and offices, the Bank again conducted the Orientation Program for Developing Member Country Officials to help participants better understand Bank operations. The Bank's internship program was resumed after a hiatus of two years. The program, offered to master and doctoral students from accredited universities, provides interns with an opportunity to learn about all facets of the Bank's operations during a two-month internship.

Compensation and benefits

The Bank approved a 4.3 percent salary structure increase for professional staff effective 1 May 1998, and a 15.9 percent salary structure increase for supporting staff effective 1 April 1998, in response to changes in market salaries. In line with the revision of the performance management system, the system for distributing the pay increase budget was refined. A preliminary review of staff benefits was undertaken, and rationalization measures were adopted for some items, which reduced benefit costs. A more extensive review is planned for 1999. A pilot test commenced in January 1998 to evaluate a flexible work hours scheme for staff. As a result, flexible work hours have been adopted by the Bank. Staff now have the option of a number of work periods, with some staff starting work at 7:00 a.m. and others finishing at 6:00 p.m.

Administrative services

In line with the Bank's efforts to streamline business processes, simplify work procedures, and automate enhancements, measures were undertaken to rationalize the Bank's administrative services and enhance their cost-effectiveness.

In the area of administrative services, such measures included the computerization of various work processes. For example, use of electronic file exchanges between user-departments and the Printing Unit expanded the production capability of the Unit. A records management study to develop guidelines for electronic document management was undertaken; and a computerized index system, which enhances access to the Bank's official and historical records, was developed.

During the year, a redesigned methodology for taking inventory of the Bank's equipment was implemented. This resulted in reducing the commitment of staff resources for the physical inventory, strengthening the equipment accounting system, and improving the quality of the equipment inventory database. Recommendations from a study on the vital records protection program were implemented to ensure protection of the Bank's vital records. In addition, procurement exercises to replace the Bank's telephone system, and acquire and install integrated software and related hardware were begun.

Budget

Actual internal administrative expenses (IAE) for 1998 amounted to $193.8 million, a saving of $11 million against the original budget of $204.8 million. The saving was mainly due to the impact of the depreciation of the Philippine currency; additionally, greater emphasis was given to both selectivity and flexibility in the allocation of internal resources during a year when additional resources were required for new policy initiatives and various efforts associated with the Asian financial crisis. The Bank will maintain a tight budgetary approach.

The IAE budget for 1999 of $207 million (*summarized in Appendix* 8) has been formulated with continued focus on economy and efficiency, while enabling the Bank to support the needs of its developing member countries (DMCs) and provide a broad range of development services. In response to the broader role of the Bank, the budget for 1999 provides for 15 new professional staff positions—the first such staff increase since 1994—yet reflects the lowest nominal budget growth in the Bank's history. In achieving this low-growth scenario, the Bank will intensify its focus on business process reforms and efficiency measures, and will continue its efforts on rationalizing work activities, redeploying staff positions, and improving the staff skills mix.

Financial and human resource management information systems

The Bank is introducing changes in its financial, administrative, and operational areas through the use of an information system that will eventually replace most of the Bank's existing computer applications systems. The initiative will take from five to six years to complete. As a preparatory step, the Bank's accounting and accounting-related business processes and systems were analyzed, and opportunities for improving, streamlining, simplifying, and automating the current processes were identified. As a result, an overall business process framework and concept were formulated, including systems infrastructure, to support a fully integrated system.

In the first phase, it has been proposed that the core financial management (including general ledger, budgeting, and procurement), treasury/banking, human resources, and project/program management systems be replaced. In this connection, a procurement process for the acquisition and implementation of the systems, together with the establishment of the necessary hardware platform, was initiated through international competitive bidding. Eligible bidders have been shortlisted, and bidders' proposed solutions are being evaluated. The new systems are expected to streamline, automate, and integrate the business processes in these respective areas, making them more efficient by reducing staff time and expense.

Internal audit

The Office of the General Auditor (OGA) conducts periodic, independent, and objective appraisals of Bank activities to ascertain the adequacy and effectiveness of controls, and to identify the means of improving economy and efficiency in the use of resources in carrying out the Bank's development mission. OGA reports directly to the President. Its activities are reviewed by the Audit Committee of the Board of Directors.

In 1998, OGA participated in the Task Force for formulating and implementing the Bank's Anticorruption Policy. As assigned under the policy, OGA made preparations and took on the new role of serving as the point of contact within the Bank for receiving and processing allegations of corruption, fraud, and abuse in headquarters as well as in all Bank-funded projects. In this regard, OGA initiated steps to collaborate with supreme audit institutions to achieve the common objectives of promoting good governance and undertaking anticorruption efforts in the Bank's member countries.

Also in 1998, OGA assumed responsibility for the Bank's regional technical assistance to strengthen auditing capabilities in its DMCs. It provided assistance in audit capacity building to individual DMCs on a selective basis. It also conducted training on the Bank's project accounting, reporting, and auditing requirements at a regional seminar on project implementation and administration held at headquarters.

To further its interaction with other multilateral development organizations and to comply with the requirements for the professional practice of internal auditing of the Institute of Internal Auditors, OGA undertook an exchange of peer reviews with the European Bank for Reconstruction and Development in 1998 and, as a result, made procedural changes to enhance the quality of its work.

OGA provided an audit perspective to a number of Bankwide efforts, including (i) acquisition of the new financial resources management system and HRMIS; (ii) conversion of all Bank computer hardware and software to ensure the ability to process correctly dates from 1 January 2000 onward; and (iii) modification of Bank software, business procedures, and external depository bank and counterparty arrangements to enable trading in the euro beginning on the first workday of 1999. Activities in 1998 included design reviews of new computerized systems to ensure their effectiveness and efficiency, as well as the presence of adequate controls to protect data integrity and reduce the risk of loss.

Internal audits conducted during 1998 led to recommendations for (i) enhancing the security of the Bank's internal network and Internet connection; (ii) reducing the cost of information technology (IT)-related services at headquarters; (iii) reducing the extent to which IT-related problems might delay the accomplishment of the Bank's work; and (iv) increasing efficiency and effectiveness by accelerating the disposal of Bank records, reducing the Bank's use of paper-based documents, and expediting decision making within the Project Administration Units as well as facilitating follow-ups on the submission of progress reports and audited financial statements.

By focusing the approach and streamlining the processes related to audits of consultants' contracts conducted in 1998, OGA was able to achieve significant cost saving to the Bank, both in terms of lower audit fees and through the recovery of overclaims. These audits also resulted in more effective control procedures for selecting consultants for Bank-financed technical assistance projects.

Expert consultants assisted OGA in conducting in-depth reviews of the financial instruments in the Bank's investment portfolio, investment performance, and, as part of the Bankwide Study on Internal Controls, internal controls over the procurement of goods and services under loan projects.

OGA also provided integrated assistance to its external auditors, PricewaterhouseCoopers LLP (International Firm).

Bank Resources and Financial Management

The Bank's financial resources consist of its ordinary capital resources (OCR) and special funds. Both are examined in this chapter. As the steward of these resources, the Bank is guided by a number of financial policies, which have been formulated on the basis of sound and prudent management practices.

Ordinary capital resources

Funding for OCR comes from three distinct sources: (i) private capital markets in the form of borrowings; (ii) paid-in capital provided by government funds; and (iii) accumulated retained income, i.e., reserves, which provides the buffer for any operational risk.

Financial policies: The following are the five financial management and policy concerns that underpin the management of OCR: (i) capital resource management policies, which aim for the efficient use of capital and provide an adequate capital base for lending and borrowing; (ii) borrowing policies and strategies, which aim for efficient mobilization of loanable resources from capital markets at the lowest possible cost, longest possible maturity, and most stable cost; (iii) net income management policies, which ensure that the Bank has the capacity to withstand large event risks from its loan portfolio and to contain interest rate risks in its operations; (iv) liquidity policy, which maintains investor confidence by ensuring that the Bank will have the capacity to meet its cash requirements even in the event of a major disruption of its expected cash inflows; and (v) loan products and credit risk policies, which provide borrowers a wider choice of loan products to suit their exchange rate and interest rate risk management needs.

Capitalization: As of 31 December 1998, the Bank's authorized capital stock amounted to $49.2 billion (SDR34.9 billion). The subscribed capital stock stood at $48.5 billion (SDR34.4 billion). During the year, Tajikistan's membership subscription became effective.

Performance and allocation of net income

At the end of 1998, the Bank's decisive income indicators, the interest coverage ratio (ICR) and the reserve:loan ratio (RLR), stood at 1.39 percent and 27.7 percent, respectively. The ICR, which measures the Bank's capacity to meet interest obligations on its debts from income, is the ratio of net income to financial expenses plus a factor of one. The RLR is the ratio of total reserves to the sum of outstanding loans, equity investments, and the present value of guarantees. The RLR is a capital adequacy ratio that measures the Bank's capacity to generate net income. Both ratios, however, measure the Bank's risk-bearing capacity.

The Bank's income and reserves policy, approved by the Board of Directors in 1997, was reflected in the annual review of the Bank's income outlook and allocation of 1997 net income. On the basis of the review, the Board of Directors approved the following:

(i) the Bank undertake conversion of currencies in reserves in 1998 in the amount of about $300 million as part of its long-term strategy to align currencies in reserve with those of outstanding loans;

(ii) the lending spread used in determining the Bank's pool-based variable lending rate be maintained at 40 basis points;

(iii) a Board of Directors recommendation to the Board of Governors that an amount of $367.5 million of 1997 net income, after appropriation of guarantee fees to the Special Reserve, be allocated to the ordinary reserve, and the balance of net income amounting to $100 million be retained in the surplus account; and

(iv) a Board of Directors recommendation to the Board of Governors that the amount of $80 million currently held in the Bank's surplus account be reallocated to the Bank's Technical Assistance Special Fund (TASF).

The allocation of net income was approved by the Board of Governors in May 1998 with the adoption of Resolution No. 256.

Income and expenses: Gross income increased by 26 percent, from $1.4 billion in 1997 to $1.8 billion in 1998, because of an increase in loan, investment, and other income. Of the total gross income, $1.4 billion was generated by the loan portfolio, $382.9 million by the investment portfolio, and $8.7 million from other sources (*see table*).

The average yield on the loan portfolio declined to 6.8 percent in 1998 from 6.9 percent in 1997, due mainly to an increasing share of lower-yielding variable-rate loans in the portfolio. The share of such loans increased from 91.5 percent in 1997 to 94.3 percent in 1998. The yield on the investment portfolio increased to 5.3 percent in 1998 from 5.2 percent in 1997. This increase was attributed to favorable conditions prevailing in international fixed-income markets during the year. The overall net return on average operating assets achieved for the year was 1.7 percent, compared with 2 percent in 1997.

Total operating expenses were $1.4 billion, up by $383.8 million or 39.1 percent from the previous year. The rise in expenses was because

Income and Expenses—Ordinary Capital Resources
($ million)

	Actual				
	1994	1995	1996	1997	1998
Total Income	1,525.3	1,745.3	1,561.7	1,449.7	1,832.5
From Loans	1,187.5	1,312.8	1,170.0	1,127.9	1,440.9
From Investments	296.1	418.7	359.8	311.7	382.9
From Other Sources	41.7	13.8	31.9	10.1	8.7
Less: Expenses					
Interest and Other Financial Expenses	878.4	962.6	877.9	853.2	1,206.5
Administrative Expenses[a]	110.7	108.3	108.8	95.7	121.7
Provision for Losses	22.7	14.0	2.9	32.9	37.4
Total Expenses	1,011.8	1,084.9	989.6	981.8	1,365.6
Net Income[b]	513.5	660.4	572.1	467.9	466.9

Note: Figures may not add because of rounding.

a Net of administration charge allocated to the Asian Development Fund.

b Before appropriation of guarantee fees to the Special Reserve.

of a $353.3 million increase in financial expenses, a $26 million increase in administrative expenses, and a $4.5 million increase in the provision for losses. Total operating expenses accounted for 74.5 percent of gross income, compared with 67.7 percent in 1997.

Net income for 1998, before appropriation of guarantee fees to the Special Reserve, amounted to $466.9 million, a 0.2 percent decrease from the previous year. This compared with an 18.2 percent decrease in net income in 1997.

Lending rates: The Bank has three lending windows: the pool-based multicurrency lending window, the pool-based single-currency loan window in United States (US) dollars, and the market-based loan (MBL) window. These lending windows were established in 1986, 1992, and 1994, respectively. The lending rates for the pool-based multicurrency and pool-based single-currency loan windows are determined on the basis of the average cost of borrowings plus a Board-approved loan spread (currently 40 basis points). The MBL window provides single-currency loans in US dollars, Japanese yen, or Swiss francs to private sector borrowers and government-guaranteed financial intermediaries at current terms. The interest rates on loans from the MBL window are on either fixed-rate or floating-rate terms.

The Bank's pool-based variable lending rates for the first half of 1998 were 6.01 percent for multicurrency loans and 6.93 percent for US dollar loans. During the second half of 1998, the lending rate on multicurrency loans rose slightly to 6.02 percent, while that on US dollar loans declined to 6.76 percent.

The lending rates for MBLs are determined on the basis of the six-month London interbank offered rate plus a lending spread. A lending spread of 0.4 percent currently applies for MBLs to financial intermediaries in the public sector; while for private enterprises, the lending spread is determined on a case-to-case basis to cover the Bank's risk exposure to the particular borrowers and projects.

Lending Rates[a]
(% per annum)

	1997	1998	
1 January	6.00	6.01	(multicurrency)
	6.79	6.93	(US dollar)
1 July	6.00	6.02	(multicurrency)
	6.82	6.76	(US dollar)

a Lending rates are set on 1 January and 1 July every year and are valid for six-month periods.

Loans

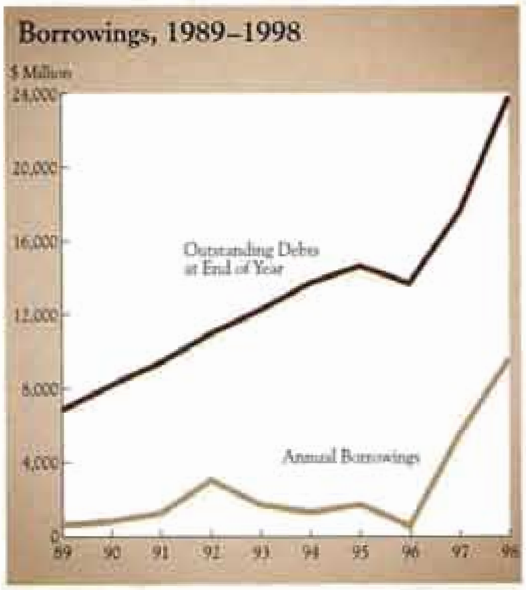
Loan disbursements and repayments: OCR loan disbursements in 1998 totaled $5.6 billion, an increase of 6 percent from 1997. Principal repayments for the year were $968.5 million, of which $48.5 million represented prepayment on loans. On 31 December 1998, cumulative loans outstanding after allowance for possible losses amounted to $24.7 billion.

Status of loans: There were 39 OCR loans approved in 1998, of which 77.8 percent was made to three countries: Indonesia, People's Republic of China, and Philippines.

Two public sector loans to Myanmar and seven private sector loans were in nonaccrual status at the end of 1998. The total outstanding balances of these loans amounted to $900,000 and $51.6 million, respectively, comprising about 0.2 percent of the total OCR loans outstanding.

Borrowings

The major objectives of the Bank's borrowing and liability management strategy are to ensure the availability of long-term funds for lending operations, fund



the liquidity portfolio, and minimize the cost of borrowing for the Bank and its borrowing members. To achieve these objectives, the Bank seeks to

(i) maintain a borrowing presence in the major capital markets and, where possible, increase the size of its public bond issues to provide "benchmark issues" that increase liquidity in the secondary markets, broaden the distribution of its bonds, and favorably align its funding and trading spreads with those of other supranational borrowers;

(ii) emphasize borrowings in the longer-maturity range (to the extent that the related borrowing costs remain attractive) to minimize fluctuations in its lending rates and to ensure a reasonable maturity relationship between borrowings and loans;

(iii) expand its investor base by borrowing in the private placement markets of various currencies;

(iv) tap new markets, especially where these will help develop capital markets in the Asian and Pacific region;

(v) use swap markets where cost-efficient arbitrage can significantly lower the cost of target currencies and transform structured financing into conventional fixed-rate liabilities; and

(vi) use short-term bridge financing should temporary deficiencies arise in currencies required for disbursements or debt service, and if market conditions are not attractive for bond issues with longer maturities.

In 1998, the Bank raised a record level of funds totaling about $9.6 billion, of which $7.8 billion were liabilities with maturities longer than one year and the remainder were euro-commercial paper liabilities. The average life of the 1998 long-term borrowings was about 10.8 years, compared with 12.7 years in 1997. After swaps, about $4.4 billion of the total long-term funds were in US dollar fixed-rate liabilities with an average all-in cost of 5.29 percent per annum, compared with 6.58 percent per annum in 1997. The remainder consisted of US dollar floating-rate liabilities aggregating about $2.7 billion, and a Japanese yen fixed-rate liability in the principal amount of about $741 million equivalent. The 1998 borrowings were used as follows: about $5.7 billion for the US dollar pool-based lending window, $3.2 billion for disbursements under a $4 billion financial sector program loan to the Republic of Korea, and $741 million for the multicurrency pool-based lending window.

Despite the difficult market conditions in 1998, the Bank successfully completed a number of key benchmark transactions during the year: a five-year $2 billion global bond issue, an Australian dollar (A$) domestic public bond issue in the principal amount of A$1 billion with a five-year maturity, and a Hong Kong dollar (HK$)3 billion multitranche public bond offering in the domestic bond market of Hong Kong, China. The Australian dollar offering represents the Bank's first transaction in the domestic bond market of Australia, while the HK$3 billion transaction was the largest ever fixed-rate bond issue in the Hong Kong dollar debt market. The remaining 1998 borrowings were undertaken through targeted opportunistic financing and private placements in a variety of currency debt markets, including those in Japanese yen, pounds sterling, Swiss francs, and US dollars.

Liquid asset investments: As of 31 December 1998, the Bank's liquid assets, consisting of investment holdings (net of Special Reserve investments) and unrestricted cash, totaled $7.9 billion, or approximately 55.4 percent of

Borrowings, 1998
(amounts in millions)

		Borrowing	Principal Amount	US$ Equivalent[a]
Long Term				
Global	Public Offering	5.75% 5-Year Bonds due 2003	US$2,000	2,000.0
Eurobond Market	Private Placement	4.10% 1.08-Year Notes due 1999	¥40,000[b]	278.3
	Private Placement	1.15% 10-Year Notes due 2008	¥100,000	741.3
	Private Placement	5.37% 10-Year Notes due 2008[c]	US$500	500.0
	Private Placement			
	Tranche I	Zero Coupon 3.65-Year Notes due 2002	US$237.6	237.6
	Tranche II	Zero Coupon 4.13-Year Notes due 2002	US$274.2	274.2
	Tranche III	Zero Coupon 4.06-Year Notes due 2002	US$66.8	66.8
	Private Placement	5.75% 4-Year Notes due 2002	£150	252.1
	Private Placement	5.75% 10-Year Notes due 2008[c]	US$120	120.0
Australia	Public Offering	5.375% 5-Year Bonds due 2003	A$1,000	596.6
Hong Kong, China	Public Offering			
	Tranche A	9.15% 1-Year Bonds due 1999	HK$1,000	129.2
	Tranche B	9.125% 2-Year Bonds due 2000	HK$1,000	129.2
	Tranche C	9.10% 3-Year Bonds due 2001	HK$1,000	129.2
Switzerland	Public Offering	3.00% 8-Year Bonds due 2006	SwF300	205.1
United States	Public Offering	5.82% 30-Year Bonds due 2028[c]	US$750	750.0
	Public Offering	5.593% 20-Year Bonds due 2018[c]	US$500	500.0
	Public Offering	5.593% 20-Year Bonds due 2018[c]	US$200	200.0
	Public Offering	6.375% 30-Year Bonds due 2028[c]	US$410	410.0
	Public Offering	5.80% 10-Year Bonds due 2008[c]	US$300	300.0
Subtotal				7,819.4[d]
Short Term				
Euro-Commercial Paper (ECP)			US$1,797.5	1,797.5[e]
Total				**9,616.9[d]**

a At the Bank's exchange rates effective on the date the terms of the borrowings were determined by the President.
b Principal amount payable at maturity is US$273.4 million.
c With put option.
d Total does not tally because of rounding.
e Represents outstanding ECP as of 31 December 1998. Total ECP issuance in 1998 was US$5.4 billion. The increase relative to previous years was necessary to offset temporary cash-flow deficiencies resulting from quick-disbursing loans.

undisbursed loan balances. Year-end levels of liquid assets are maintained at no less than 40 percent of undisbursed loan balances. This helps ensure the uninterrupted availability of funds for the Bank's operations and adds to flexibility in borrowing activities, especially when borrowings may be temporarily affected by adverse conditions in the capital markets.

The Bank invests its liquid assets with the primary objective of ensuring the security and liquidity of funds invested. Subject to meeting this objective, the Bank seeks to maximize income on its investments. The investment portfolio in fact generates a substantial portion of the Bank's net income. The Bank actively manages its liquid asset portfolio within the credit-risk and market-risk parameters outlined under the Investment Authority approved by the Board. Under this authority, the Bank is permitted to invest in the obligations of government and government-guaranteed entities, engage in securities lending and borrowing, enter into "short" securities positions, execute transactions in exchange-traded financial futures and options, and engage in covered forward investments.

The Bank's OCR investments increased to $8.1 billion equivalent as of 31 December 1998 from $7 billion equivalent in 1997. The investment portfolio was denominated in 23 currencies. The realized rate of return on OCR investments in 1998 was 5.3 percent, compared with 5.2 percent in 1997. Holdings of securities remained at approximately 55.7 percent of the portfolio, while investments in short-dated time deposits and other banking instruments accounted for 44.3 percent of the portfolio. The duration of the portfolio was 14.6 months at end-1998, compared with 10.8 months at end-1997.

Risk management: The Risk Management Division of the Treasurer's Department—established in September 1998—is responsible for the formulation and implementation of necessary systems, procedures, and guidelines for risk management activities. The Division identifies, quantifies, and monitors credit and market-risk exposure relating to activities of the Treasurer's Department. In addition, it undertakes performance measurement and monitoring relative to benchmarks, and oversees the selection and monitoring of external asset managers for the Staff Retirement Plan.

As wages drop as a result of the crisis, the provision of microfinance to start livelihood activities becomes a vital intervention. In 1998, the Bank examined its strategies and policies that address poverty reduction, in consultation with government officials, development institutions, nongovernment organizations, and communities.

Special funds

The Bank is authorized by its Charter to establish and administer special funds, which currently consist of the Asian Development Fund (ADF), the Technical Assistance Special Fund (TASF), the Japan Special Fund (JSF), and the ADB Institute Special Fund.

Asian Development Fund

Financial planning framework: In August 1998, the Bank approved recommendations concerning the mobilization and allocation of resources made available as a result of annual loan savings and cancellations in ADF-financed projects.

Loan terms: In December 1998, the Bank approved amended terms for new ADF loans. Project loans, i.e., loans other than quick-disbursing program loans, would have a maturity of 32 years including an 8-year grace period, with an interest charge of 1 percent per annum during the grace period and 1.5 percent per annum during the amortization period, and equal amortization. Quick-disbursing program loans would have a maturity of 24 years including an 8-year grace period, with an interest charge of 1 percent per annum during the grace period and 1.5 percent per annum during the amortization period, and equal amortization. In addition, the service charge was redesignated as an interest charge that would include a portion to cover administrative expenses and a portion that would not. The amended loan terms and the redesignation of the service charge will take effect from 1 January 1999 and apply only to new loans.

ADF VII: On completion of their negotiations in Tokyo in January 1997, donors recommended $6.3 billion as the level of ADF operations for the four-year period 1997–2000.

By the end of 1998, ADF VII Instruments of Contribution had been received from 25 members, including an additional contribution of $10 million from Indonesia, for a total amount of $2.7 billion (at the exchange rates specified in Resolution No. 247 of the Board of Governors, which sets out the terms and conditions of the replenishment). This compares with the level of contributions of $2,609,837,120 (SDR1,781,045,436) pledged by donors at the conclusion of the ADF VII negotiations in January 1997. Twenty two of these members, i.e., Australia; Austria; Belgium; Denmark; Finland; France; Germany; Hong Kong, China; Indonesia; Italy; Japan; Republic of Korea; Malaysia; Netherlands; New Zealand; Norway; Spain; Sweden; Switzerland; Thailand; Turkey; and United Kingdom, deposited unqualified Instruments of Contribution. Canada; Taipei,China; and United States deposited Instruments of Contribution containing a qualification, as permitted by the Resolution, that all installment payments, except the first, would be subject to budgetary appropriations. *For details of amounts released for operational commitments in 1998, see column labeled "Addition" in Table 42 in the Statistical Annex.*

The Resolution envisaged that the contributions would become available to the Bank for operational commitments in four equal tranches over the four years covered by the replenishment.

ADF VI: The fifth ADF replenishment (ADF VI) was intended to cover the four years 1992–1995. At the end of the period, a few contribution payments were still outstanding. In addition, as a consequence of the outstanding payments, some donors had not released the balance of their contributions to the Bank for operational commitments, as permitted by Resolution No. 214 authorizing the replenishment. At the end of 1998, $339 million had not been released for operational commitments ($441 million at the end of 1997).

ADF loan approvals, disbursements, and repayments: In 1998, 27 ADF loans totaling $987.1 million were approved, compared with 49 ADF loans totaling $1.6 billion approved in 1997. The largest borrowers were Viet Nam, Sri Lanka, and Bangladesh. Disbursements during 1998 totaled $1.1 billion, or 0.9 percent decrease from $1.2 billion in 1997. At the end of the year, cumulative disbursements from ADF resources were $14.3 billion. Loan repayments during the year amounted to $147.6 million, and cumulative repayments were $1.2 billion. As of 31 December 1998, ADF loans outstanding amounted to $14.3 billion, net of allowance for possible losses in the amount of $6.3 million.

Four loans to Afghanistan and 27 loans to Myanmar were in nonaccrual status as of the end of the year. Total outstanding loans to Afghanistan and

ADF Commitment Authority
($ million)

	1997	1998
ADF VII Contributions	424.48	1,085.03
ADF VI Arrears and Pro Rata Releases	5.43	118.62
Expanded Advance Commitment Authority	500.00	1,000.00
Total ADF Resources[a]	929.91	2,203.65
Less: Loans Committed	777.38[b]	2,114.73[c]
Provision for Disbursement Risk	27.94	78.24
Total	**124.59**	**10.68**

a Excludes pre-ADF VII amounts for the determination of ADF commitment authority under the new financial planning framework for the management of ADF resources, as approved by the Board of Directors on 15 April 1997.

b Excludes loans that were conditionally approved after 29 September 1997 and Loan No. 1513 to the Marshall Islands, which was a commitment of ADF VI resources, but includes Loan No. 1588 to the Cook Islands, which was unconditionally approved on 8 December 1997.

c Excludes loans that were conditionally approved after 30 September 1998, but includes Loan No. 1666 to Bangladesh, which was unconditionally approved on 18 December 1998.

Myanmar amounted to \$30.6 million and \$466.6 million, respectively, representing about 3.5 percent of the total ADF loans outstanding.

Portfolio position: The ADF investment portfolio at end-1998 amounted to \$1.4 billion, compared with nearly \$1 billion at end-1997. Of the portfolio, about 92 percent was invested in deposits and other bank instruments in member countries. The remaining amount was held in securities issued or guaranteed by governments of member countries. The return on ADF investments in 1998 was 4.6 percent, compared with 3.9 percent in 1997.

The portfolio was denominated in 18 currencies. Japanese yen and US dollars formed 36.4 percent of the portfolio.

ADF revenue and expenses: In 1998, the excess of ADF revenue over expenses (net income) was \$109.7 million, bringing the accumulated surplus to \$1.2 billion at the end of the year.

Gross revenue, consisting mainly of revenue from ADF investments and service fees on ADF loans, amounted to \$182 million. Expenses consisted mainly of administrative charges allocated from OCR of \$71.5 million and provision for losses of \$822,000.

Technical Assistance Special Fund

Review of activities: In May 1998, the Board of Governors approved the reallocation of \$80 million from the Bank's surplus account to TASF. During the year, Pakistan made the only direct voluntary contribution (its twenty-second) to TASF, amounting to \$66,000 equivalent. This was made on a wholly untied basis.

At the end of 1998, total TASF resources amounted to \$721.7 million. Of the total TASF resources, \$624.5 million had been committed, leaving an uncommitted balance of \$97.2 million. *For details, see Table 43 in the Statistical Annex.*

Technical Assistance Special Fund Resources
(\$ million)

	1997	1998
Regularized Replenishment Contributions	238.0	238.0
Allocations from OCR Net Income	261.0	341.0
Direct Voluntary Contributions	87.0	87.1
Income from Investment and Other Sources	54.1	59.1
Transfers from TASF to ADF	(3.5)	(3.5)
Total	636.6	721.7

( ) Negative.

Operations and resource position: The TASF contributed 27.1 percent of funding for technical assistance, with 121 technical assistance projects effective during the year. Revenue from investments increased from \$5.8 million in 1997 to \$5.9 million, due mainly to an increase in the size of the investment portfolio resulting from an allocation of \$80 million from the Bank's surplus account, while technical assistance committed decreased from \$58.2 million in 1997 to \$36 million. During 1998, \$15.6 million (\$5.5 million in 1997), representing completed and canceled technical assistance projects, was written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment was eliminated. As a result, the uncommitted balances available for future commitments increased from \$54 million in 1997 to \$97.2 million in 1998.

At the end of the year, TASF investments stood at \$183.1 million, up 18.6 percent from 1997. Other assets—comprising dues from banks, advances to consultants, and others—totaled \$15.2 million. Accounts payable to OCR and others amounted to \$82,000.

Japan Special Fund

Review of activities: In 1998, the Government of Japan provided a total amount of yen (¥)7.9 billion for its tenth yearly contribution to the JSF. The amount included ¥5.9 billion in regular contributions and ¥2 billion in supplementary contributions. This brought Japan's cumulative contributions to JSF, since its inception on 10 March 1988, to ¥80.7 billion (equivalent to about $696.4 million at historical exchange rates). *For details, see Table 44 in the Statistical Annex.* The cumulative total included regular contributions of ¥66.5 billion and supplementary contributions of ¥14.2 billion.

Of the total contributions received, $537.7 million had been used as of 31 December 1998, mainly for technical assistance, including organizing symposia/training, and activities supporting gender and development, environment, and promoting the private sector. As of 31 December 1998, a number of technical assistance projects and programs had been approved by the Bank and the Government of Japan, which had not yet become effective. Technical assistance totaling $35.1 million had been approved by both the Government of Japan and the Bank, and further technical assistance totaling $29 million had been approved by the Government of Japan and was being processed by the Bank. During 1998, $9.2 million ($3.3 million in 1997), representing completed and canceled technical assistance projects, was written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment was eliminated. The uncommitted balances available for new commitments were $63.4 million at end-1998 ($70.6 million in 1997).

Sectoral activities: In 1998, JSF financed 84 percent of the total project preparatory technical assistance approved by the Bank. The breakdown of JSF approvals by sector is shown in the table.

The social infrastructure sector, including education, received the largest share of technical assistance from the Japan Special Fund in 1998.

Japan Special Fund Technical Assistance by Sector,[a] 1998

	$ Million	%
Social Infrastructure	15.2	22.3
Others	12.5	18.3
Agriculture and Natural Resources	12.2	18.0
Transport and Communications	10.7	15.6
Energy	9.2	13.5
Financial	6.3	9.2
Multisector	2.1	3.1
Total	68.2	100.0

a Excludes regional technical assistance.

ADB Institute Special Fund

The costs for the operations of the ADB Institute continue to be met from the ADB Institute Special Fund, which is administered by the Bank in accordance with the Statute of the ADB Institute. Japan made its second contribution in the amount of ¥2 billion (equivalent to $16.3 million) in March 1998.

As of 31 December 1998, the cumulative commitments, since receipt of the first monies on 24 March 1997 from Japan, amounted to ¥3.5 billion (equivalent to about $28.1 million) excluding translation adjustments. Of the total contributions received, $15.1 million had been used as of 31 December 1998, mainly for start-up operations, administrative expenses, and research and capacity-building activities, including organizing symposia, training, and preparing research reports and publications. Certain ongoing program activities will be carried over to 1999, with the attainment of total staff and visiting scholar strength for a full-year work program.

As of 31 December 1998, the balance of liquid assets available for future projects and programs of the Institute was around $13 million.

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REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying balance sheet and the related statements of income and expenses, of cash flows, and of 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 1998 and 1997, and the results of its operations, its cash flows, and the changes in its capital and reserves for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Bank's management; 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 generally accepted auditing standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

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 1998 and 1997, and of statement of subscriptions to capital stock and voting power as of 31 December 1998 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

17 February 1999

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

BALANCE SHEET

31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

ASSETS

	1998		1997	
DUE FROM BANKS (Notes B and C)		$ 62,617		$ 75,726
INVESTMENTS (Notes B, C, D, and J)				
Government and government-guaranteed obligations	$ 4,500,649		$ 2,929,853	
Time deposits	3,446,843		3,815,770	
Other obligations of banks	128,028	8,075,520	295,977	7,041,600
LOANS OUTSTANDING (OCR-5) (Notes A, B, and E)				
Members and guaranteed by members	24,358,635		18,456,407	
Private sector	401,257		382,495	
	24,759,892		18,838,902	
Less—allowance for possible losses	61,507	24,698,385	50,401	18,788,501
EQUITY INVESTMENTS (Notes A, B, and F)	237,008		211,647	
Less—allowance for possible losses	51,115	185,893	37,595	174,052
ACCRUED INCOME				
On investments	107,122		99,522	
On loans	362,474	469,596	244,716	344,238
RECEIVABLE FROM MEMBERS				
Nonnegotiable, noninterest-bearing demand obligations (Notes C and I)	350,289		326,231	
Amounts required to maintain value of currency holdings (Note I)	13,541		3,555	
Subscription installments (Note I)	5,964	369,794	4,550	334,336
OTHER ASSETS				
Receivable from currency swaps (Note H)	6,773,746		5,148,537	
Notional amounts required to maintain value of currency holdings (Note I)	718,693		627,349	
Property, furniture, and equipment (Notes B and G)	160,155		166,910	
Unamortized issuance costs of borrowings	63,815		57,443	
Miscellaneous (Note L)	74,604	7,791,013	61,065	6,061,304
TOTAL		**$41,652,818**		**$32,819,757**

See notes to financial statements (OCR-8).

LIABILITIES, CAPITAL, AND RESERVES

	1998		1997	
BORROWINGS (OCR-6) (Note H)		$23,743,713		$17,494,446
ACCRUED INTEREST ON BORROWINGS		367,540		296,137
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Payable for currency swaps (Note H)	$ 7,095,896		$ 5,327,836	
Notional amounts required to maintain value of currency holdings (Note I)	247,931		177,294	
Payable to Asian Development Fund	–		721	
Advance payments on subscriptions (Note I)	6,496		4,346	
Miscellaneous (Note G)	127,995		217,121	
Total liabilities		7,478,318		5,727,318
CAPITAL AND RESERVES (OCR-4)				
Capital Stock (OCR-7) (Notes B and I)				
Authorized (SDR34,909,940,000)				
Subscribed (SDR34,414,060,000 – 1998, SDR34,397,990,000 – 1997)	48,456,029		46,411,488	
Less—"callable" shares subscribed	45,041,908		43,147,207	
"Paid-in" shares subscribed	3,414,121		3,264,281	
Less—subscription installments not due	244,542		307,105	
Subscription installments matured	3,169,579		2,957,176	
Less—capital transferred to the Asian Development Fund	67,036		64,237	
	3,102,543		2,892,939	
Ordinary Reserve (Note J)	6,211,102		5,867,429	
Special Reserve (Note J)	181,608		178,969	
Surplus (Note J)	276,645		256,645	
Net income after allocations and appropriations (OCR-2) (Note J)	464,257		467,458	
Accumulated other comprehensive income (OCR-4) (Note J)	(172,908)	10,063,247	(361,584)	9,301,856
TOTAL		**$41,652,818**		**$32,819,757**

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF INCOME AND EXPENSES

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998			1997		
INCOME (Note K)						
From loans (Notes B and E)						
Interest	$1,392,056			$1,077,018		
Commitment charge	47,773			48,994		
Other	1,100	$1,440,929		1,844	$1,127,856	
From investments (Notes B and D)						
Interest	353,592			295,321		
Net gain on sales	29,272	382,864		16,393	311,714	
From other sources—net (Notes E and P)		8,747			10,148	
TOTAL INCOME			$1,832,540			$1,449,718
EXPENSES (Note K)						
Interest and other financial expenses		1,206,478			853,241	
Administrative expenses (Note M)		121,701			95,728	
Provision for possible losses (Notes B, E, and F)		37,465			32,875	
TOTAL EXPENSES			1,365,644			981,844
NET INCOME			466,896			467,874
APPROPRIATION OF GUARANTEE FEES TO SPECIAL RESERVE (Note J)			(2,639)			(416)
NET INCOME AFTER APPROPRIATION TO SPECIAL RESERVE			**$ 464,257**			**$ 467,458**

See notes to financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and other charges on loans received	$ 1,066,994	$ 881,577
Interest on investments received	363,414	326,214
Interest and other financial expenses paid	(987,994)	(790,604)
Administrative expenses paid	(121,908)	(87,447)
Other—net	25,905	9,114
Net Cash Provided by Operating Activities	346,411	338,854
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash withdrawn from (invested in) time deposits and other obligations of banks[1]	525,129	(883,912)
Sales of investment securities	7,799,209	8,535,703
Maturities of investment securities	81,397,038	18,940,430
Purchases of investment securities	(90,727,988)	(28,009,400)
Cash collateral—securities loaned	–	93,018
Principal collected on loans	953,808	1,334,090
Loans disbursed	(5,344,655)	(5,073,249)
Property, furniture, and equipment acquired	(2,263)	(1,715)
Net purchases of equity investments	(63,398)	(10,345)
Net Cash Used in Investing Activities	(5,463,120)	(5,075,380)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds of new borrowings	12,971,107	5,573,751
Bonds purchased for redemption and borrowings redeemed	(7,897,339)	(840,301)
Matured capital subscriptions collected[2]	29,160	16,188
Issuance expenses paid	(17,019)	(4,727)
Demand obligations of members encashed	28,191	11,300
Net currency swaps	(18,297)	(23,858)
Net Cash Provided by Financing Activities	5,095,803	4,732,353
Effect of Exchange Rate Changes on Due from Banks	7,797	(14,246)
Net Decrease in Due from Banks	(13,109)	(18,419)
Due from Banks at Beginning of Year	75,726	94,145
Due from Banks at End of Year	$ 62,617	$ 75,726
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income (OCR-2)	$ 466,896	$ 467,874
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in accrued interest and other expenses	50,841	8,204
Change in accrued income, including interest and commitment charges added to loans	(381,927)	(240,851)
Depreciation and amortization	165,897	55,370
Net gain from sales of investments	(29,272)	(16,394)
Change in accrued/prepaid administrative expenses	(2,833)	19,877
Noncash reimbursement of administrative expenses	–	(27,262)
Provision for possible losses charged	37,465	32,875
Other—net	39,344	39,161
Net Cash Provided by Operating Activities	$ 346,411	$ 338,854

1 In addition, time deposits and related interest amounting to $78,658 were transferred to the Technical Assistance Special Fund ($230,000 to Asian Development Fund—1997).

2 In addition, nonnegotiable, noninterest-bearing demand promissory notes amounting to $44,770 ($29,148 – 1997) were received from members.

See notes to financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Notes B and I)

	Capital Stock	Ordinary Reserve	Special Reserve	Surplus	Net Income After Allocations and Appropriations	Accumulated Other Comprehensive Income	Total
Balance— 1 January 1997	**$3,021,721**	**$5,522,677**	**$178,553**	**$230,000**	**$571,645**	**$ 141,054**	**$9,665,650**
Comprehensive income for the year 1997 (Note J)					467,458	(502,638)	(35,180)
Appropriation of guarantee fees to Special Reserve			416				416
Change in SDR value of paid-in shares subscribed	(179,528)						(179,528)
Additional paid-in shares subscribed during the year	–						–
Change in subscription installments not due	46,654						46,654
Change in SDR value of capital transferred to Asian Development Fund	4,092						4,092
Allocation of 1996 net income to ordinary reserve (Note J)		315,000			(315,000)		–
Allocation of 1996 net income to surplus (Note J)				256,645	(256,645)		–
Allocation of surplus to Asian Development Fund (Note J)				(230,000)			(230,000)
Credit to ordinary reserve for change in SDR value of capital stock (Note J)		29,752					29,752
Balance— 31 December 1997 (Forward)	**$2,892,939**	**$5,867,429**	**$178,969**	**$256,645**	**$467,458**	**$(361,584)**	**$9,301,856**

	Capital Stock	Ordinary Reserve	Special Reserve	Surplus	Net Income After Allocations and Appropriations	Accumulated Other Comprehensive Income	Total
Balance— 31 December 1997 (Forward)	$2,892,939	$5,867,429	$178,969	$256,645	$467,458	$(361,584)	$ 9,301,856
Comprehensive income for the year 1998 (Note J)					464,257	188,676	652,933
Appropriation of guarantee fees to Special Reserve			2,639				2,639
Change in SDR value of paid-in shares subscribed	140,800						140,800
Additional paid-in shares subscribed during the year	6,538						6,538
Change in subscription installments not due	65,064						65,064
Change in SDR value of capital transferred to Asian Development Fund	(2,798)						(2,798)
Allocation of 1997 net income to ordinary reserve (Note J)		367,458			(367,458)		–
Allocation of 1997 net income to surplus (Note J)				100,000	(100,000)		–
Allocation of surplus to Technical Assistance Special Fund (Note J)				(80,000)			(80,000)
Charge to ordinary reserve for change in SDR value of capital stock (Note J)		(23,785)					(23,785)
Balance— 31 December 1998	$3,102,543	$6,211,102	$181,608	$276,645	$464,257	$(172,908)	$10,063,247

Accumulated Other Comprehensive Income (Note J)
For the Years Ended 31 December 1998 and 1997
Expressed in Thousands of United States Dollars (Note B)

	Accumulated Translation Adjustments	Unrealized Investment Holding Gains (Losses)	Accumulated Other Comprehensive Income
Balance, 1 January 1997	$ 80,432	$ 60,622	$ 141,054
Other comprehensive income in 1997	(473,450)	(29,188)	(502,638)
Balance, 31 December 1997	$ (393,018)	$ 31,434	$ (361,584)
Other comprehensive income in 1998	192,982	(4,306)	188,676
Balance, 31 December 1998	**$(200,036)**	**$ 27,128**	**$ (172,908)**

See notes to financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

SUMMARY STATEMENT OF LOANS

31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

Borrower/Guarantor	Loans Outstanding [1]	Undisbursed Balance of Effective Loans [2]	Loans Not Yet Effective	Total Loans	Percent of Total Loans
Bangladesh	$ –	$ –	$ 56,700	$ 56,700	0.15
China, People's Republic of	3,724,115	2,401,048	1,462,000	7,587,163	19.45
Fiji	53,998	40,556	–	94,554	0.24
India	3,651,413	1,263,308	588,000	5,502,721	14.10
Indonesia	5,514,187	4,319,411	–	9,833,598	25.20
Kazakhstan	259,144	95,856	–	355,000	0.91
Korea, Republic of	4,060,643	315,000	–	4,375,643	11.21
Malaysia	505,526	168,087	40,000	713,613	1.83
Myanmar	935	–	–	935	n.a.[3]
Nauru	–	–	5,000	5,000	0.01
Nepal	28,680	17,854	–	46,534	0.12
Pakistan	2,060,883	502,592	–	2,563,475	6.57
Papua New Guinea	139,937	40,059	14,114	194,110	0.50
Philippines	2,682,637	1,462,428	230,462	4,375,527	11.21
Sri Lanka	5,000	–	5,000	10,000	0.03
Thailand	2,061,842	903,011	80,000	3,044,853	7.80
Uzbekistan	1,428	68,572	120,000	190,000	0.49
Viet Nam	–	30,000	–	30,000	0.08
	24,750,368	11,627,782	2,601,276	38,979,426	99.90
Regional	9,524	30,476	–	40,000	0.10
TOTAL – 31 December 1998	24,759,892	11,658,258	2,601,276	39,019,426	100.00
Allowance for possible losses	(61,507)			(61,507)	
NET BALANCE – 31 December 1998	**$24,698,385**	**$11,658,258**	**$2,601,276**	**$38,957,919**	
Made up of loans to:					
Members and guaranteed by members	$ 24,358,635	$ 11,531,796	$ 2,514,576	$ 38,405,007	
Private sector (net of allowance for possible losses)	339,750	126,462	86,700	552,912	
Net balance – 31 December 1998	$ 24,698,385	$ 11,658,258	$ 2,601,276	$ 38,957,919	
TOTAL – 31 December 1997	$ 18,838,902	$ 13,107,765	$ 3,324,522	$ 35,271,189	
Allowance for possible losses	(50,401)			(50,401)	
NET BALANCE – 31 December 1997	**$18,788,501**	**$13,107,765**	**$3,324,522**	**$35,220,788**	
Made up of loans to:					
Members and guaranteed by members	$ 18,456,407	$ 13,042,007	$ 3,197,022	$ 34,695,436	
Private sector (net of allowance for possible losses)	332,094	65,758	127,500	525,352	
Net Balance – 31 December 1997	$ 18,788,501	$ 13,107,765	$ 3,324,522	$ 35,220,788	

1 The interest rates charged on loans outstanding range from 5.44297% per annum to 11.00% per annum on loans to governments or with government-guarantee and 6.36031% per annum to 13.73% per annum for loans to the private sector. Amounts outstanding on loans made under the Pool-Based Variable Interest Rate System and market-based variable interest rate loans totalled $23,339,784 ($17,238,762 – 1997). The average yield on loans was 6.78% in 1998 (6.89% – 1997).

2 Of the undisbursed balances, the Bank has made irrevocable commitments to disburse various amounts totalling $499,767 ($528,143 – 1997).

3 Below 0.01%.

See notes to financial statements (OCR-8).

MATURITY OF EFFECTIVE LOANS

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
1999	$ 1,131,343	2008	12,611,308
2000	1,155,939	2013	9,564,150
2001	1,321,783	2018	5,743,910
2002	1,540,074	2023	1,718,685
2003	1,598,210	2028	32,748
		Total	**$36,418,150**

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	1998	1997	Currency	1998	1997
Australian dollar	$ 220	$ 305	Netherlands guilder	–	399
Deutsche mark	44,778	56,001	New Zealand dollar	1,233	2,683
Japanese yen	10,173,726	9,202,189	Swiss franc	1,186,268	1,226,729
Malaysian ringgit	41	115	United States dollar	13,353,626	8,350,481
			Total	**$24,759,892**	**$18,838,902**

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

SUMMARY STATEMENT OF BORROWINGS

31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	Borrowings		
	Principal Outstanding [1]		Weighted Average Cost (%)
	1998	1997	1998
Long-Term Borrowing:			
Australian dollar	$ 614,000	$ –	5.57
Austrian schilling	85,036	78,904	8.08
Canadian dollar	161,447	174,935	7.88
Deutsche mark	1,019,306	947,651	5.61
Hong Kong dollar	580,832	193,598	8.70
Japanese yen	6,536,291	5,207,340	4.86
Korean won	66,918	56,529	12.33
Netherlands guilder	393,790	381,717	7.13
New Taiwan dollar	297,859	294,136	6.13
Pound sterling	537,495	286,934	8.86
Swiss franc	1,213,773	1,042,928	5.48
United States dollar	10,475,531	5,551,845	6.46
Subtotal	21,982,278	14,216,517	6.03 [2]
Short-Term Borrowing:			
United States dollar	1,797,500	3,325,000	5.21
Principal amount outstanding	23,779,778	17,541,517	5.96
Unamortized discounts and premiums	(36,065)	(47,071)	
TOTAL	**$23,743,713**	**$17,494,446**	

MATURITY STRUCTURE OF BORROWINGS OUTSTANDING

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
1999	$3,183,339	2008	7,437,110
2000	1,056,373	2013	758,510
2001	1,365,988	2018	847,263
2002	3,655,570	2023	43,582
2003	3,972,043	2028	1,460,000
		Total	**$23,779,778**

1 Includes zero coupon 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:

	Aggregate Face Amount		Discounted Value	
Currency	1998	1997	1998	1997
Swiss franc	$ 353,707	$336,013	$147,263	$132,909
United States dollar	1,254,591	676,063	838,909	319,058

Currency Swap Arrangement [3]				
Payable (Receivable)		Weighted Average Cost (Return) %	Net Currency Obligation	
1998	1997	1998	1998	1997
$ (609,318)	$ –	(5.38)	$ 4,682	$ –
(85,325)	(79,201)	(8.08)	(289)	(297)
(160,573)	(173,805)	(7.88)	874	1,130
(1,019,294)	(947,625)	(5.61)	12	26
(580,348)	(193,598)	(8.70)	484	–
2,992,437	2,936,382	5.64 [4]	9,052,608	8,028,409
(476,120)	(115,313)	(5.03)		
(66,918)	(56,529)	(12.33)	–	–
(393,029)	(375,962)	(7.13)	761	5,755
(297,533)	(293,759)	(6.13)	326	377
(372,451)	(123,742)	(7.47)	165,044	163,192
392,811	383,236	6.22	1,316,903	1,357,450
(289,681)	(68,714)	(2.38)		
3,710,648	2,008,218	5.63 [4]	11,763,023	4,839,774
(2,423,156)	(2,720,289)	(7.31) [4]		
–	–	–	1,797,500	3,325,000

INTEREST RATE SWAP ARRANGEMENTS [5]

	Notional Amount	Average Rate (%) Receive	Pay Fixed	Pay Floating	Maturing Through
Receive Fixed Swaps:					
Australian dollar [6]	$ 261,495	6.34	4.89		2001–2005
Deutsche mark [7]	87,165	4.40	3.62		2010
Japanese yen	87,165	5.50		0.07	2004
United States dollar	2,281,840	6.07		5.06	1999–2004
Receive Floating Swaps:					
Japanese yen	435,825	2.00	4.56		2002–2004
United States dollar	5,000	5.69	6.76		2007
Total	$3,158,490				

2 The weighted average cost of long-term borrowings outstanding at 31 December 1998, after adjustment for swap activities, was 5.70% (6.10% – 1997).

3 At 31 December 1998, the remaining duration of currency swap agreements ranged from 1 to 24 years. Approximately 24.50% of the currency swap receivables and 22.55% of the payables are due from 31 December 2003 through 1 August 2022.

4 Includes cost of related interest rate swap transaction.

5 The interest rate swap information is based on interest rates at 31 December 1998. To the extent that interest rates change, variable interest rate information will change.

6 Consists of a currency coupon swap with interest receivable in Australian dollar and interest payable in Japanese yen.

7 Consists of a currency coupon swap with interest receivable in Deutsche mark and interest payable in Japanese yen.

See notes to financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

31 December 1998

Expressed in Thousands of United States Dollars (Note B)

MEMBER	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value of Shares Total	Par Value of Shares Callable	Par Value of Shares Paid-in	Number of Votes	Percent of Total
REGIONAL							
Afghanistan	1,195	0.035	$ 16,826	$ 11,447	$ 5,379	16,288	0.379
Australia	204,740	5.949	2,882,801	2,680,917	201,883	219,833	5.110
Bangladesh	36,128	1.050	508,693	473,070	35,623	51,221	1.191
Bhutan	220	0.006	3,098	2,774	324	15,313	0.356
Cambodia	1,750	0.051	24,641	20,445	4,196	16,843	0.392
China, People's Rep. of	228,000	6.625	3,210,308	2,985,432	224,876	243,093	5.651
Cook Islands	94	0.003	1,324	1,239	84	15,187	0.353
Fiji	2,406	0.070	33,877	31,498	2,380	17,499	0.407
Hong Kong, China	19,270	0.560	271,327	252,319	19,008	34,363	0.799
India	224,010	6.509	3,154,128	2,933,250	220,878	239,103	5.558
Indonesia	192,700	5.599	2,713,274	2,523,274	190,000	207,793	4.830
Japan	552,210	16.046	7,775,282	7,230,769	544,513	567,303	13.188
Kazakhstan	28,536	0.829	401,795	373,649	28,147	43,629	1.014
Kiribati	142	0.004	1,999	1,859	141	15,235	0.354
Korea, Rep. of	178,246	5.179	2,509,757	2,334,021	175,736	193,339	4.494
Kyrgyz Republic	10,582	0.307	148,998	138,564	10,434	25,675	0.597
Lao PDR	492	0.014	6,928	6,181	746	15,585	0.362
Malaysia	96,350	2.800	1,356,637	1,261,623	95,014	111,443	2.591
Maldives	142	0.004	1,999	1,859	141	15,235	0.354
Marshall Islands	94	0.003	1,324	1,239	84	15,187	0.353
Micronesia, Fed. States of	142	0.004	1,999	1,859	141	15,235	0.354
Mongolia	532	0.015	7,491	6,970	521	15,625	0.363
Myanmar	19,270	0.560	271,327	252,319	19,008	34,363	0.799
Nauru	142	0.004	1,999	1,859	141	15,235	0.354
Nepal	5,202	0.151	73,246	68,106	5,139	20,295	0.472
New Zealand	54,340	1.579	765,124	711,548	53,576	69,433	1.614
Pakistan	77,080	2.240	1,085,310	1,009,304	76,005	92,173	2.143
Papua New Guinea	3,320	0.096	46,747	43,494	3,253	18,413	0.428
Philippines	83,752	2.434	1,179,253	1,096,292	82,961	98,845	2.298
Samoa	116	0.003	1,633	1,464	169	15,209	0.354
Singapore	12,040	0.350	169,527	157,657	11,870	27,133	0.631
Solomon Islands	236	0.007	3,323	3,098	225	15,329	0.356
Sri Lanka	20,520	0.596	288,928	268,694	20,233	35,613	0.828
Taipei,China	38,540	1.120	542,655	504,666	37,989	53,633	1.247
Tajikistan	10,134	0.294	142,690	132,651	10,039	25,227	0.586
Thailand	48,174	1.400	678,304	630,797	47,507	63,267	1.471
Tonga	142	0.004	1,999	1,859	141	15,235	0.354
Tuvalu	50	0.001	704	648	56	15,143	0.352
Uzbekistan	23,834	0.693	335,590	312,090	23,500	38,927	0.905
Vanuatu	236	0.007	3,323	3,098	225	15,329	0.356
Viet Nam	12,076	0.351	170,034	150,532	19,501	27,169	0.632
Total Regional (Forward)	**2,187,185**	**63.555**	**$30,796,221**	**$28,624,433**	**$2,171,788**	**2,805,998**	**65.230**

MEMBER	SUBSCRIBED CAPITAL Number of Shares	Percent of Total	Par Value of Shares Total	Callable	Paid-in	VOTING POWER Number of Votes	Percent of Total
Total Regional (Forward)	**2,187,185**	**63.555**	**$30,796,221**	**$28,624,433**	**$2,171,788**	**2,805,998**	**65.230**
NONREGIONAL							
Austria	12,040	0.350	169,527	157,657	11,870	27,133	0.631
Belgium	12,040	0.350	169,527	157,657	11,870	27,133	0.631
Canada	185,086	5.378	2,606,066	2,423,572	182,495	200,179	4.653
Denmark	12,040	0.350	169,527	157,657	11,870	27,133	0.631
Finland	12,040	0.350	169,527	157,657	11,870	27,133	0.631
France	82,356	2.393	1,159,597	1,078,382	81,215	97,449	2.265
Germany	153,068	4.448	2,155,243	2,004,303	150,941	168,161	3.909
Italy	55,975	1.627	788,145	727,332	60,813	71,068	1.652
Netherlands	36,294	1.055	511,030	475,252	35,778	51,387	1.195
Norway	12,040	0.350	169,527	157,657	11,870	27,133	0.631
Spain	12,040	0.350	169,527	157,657	11,870	27,133	0.631
Sweden	12,040	0.350	169,527	157,657	11,870	27,133	0.631
Switzerland	20,650	0.600	290,758	270,384	20,374	35,743	0.831
Turkey	12,040	0.350	169,527	157,657	11,870	27,133	0.631
United Kingdom	72,262	2.100	1,017,471	946,224	71,246	87,355	2.031
United States	552,210	16.046	7,775,282	7,230,769	544,513	567,303	13.188
Total Nonregional	**1,254,221**	**36.445**	**17,659,808**	**16,417,475**	**1,242,333**	**1,495,709**	**34.770**
TOTAL	**3,441,406**	**100.000**	**$48,456,029**	**$45,041,908**	**$3,414,121**	**4,301,707**	**100.000**

Note: Figures may not add due to rounding.

See notes to financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997

NOTE A—NATURE OF OPERATIONS AND LIMITATIONS ON LOANS, GUARANTEES, AND EQUITY INVESTMENTS

Nature of Operations

The Asian Development Bank, a multilateral development finance institution, was established in 1966 with its headquarters in Manila, Philippines. The Bank and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its principal objective is to help accelerate economic and social development of its developing member countries (DMCs) in the Asian and Pacific region by providing financial and technical assistance (TA) for projects and programs which will contribute to sustainable economic development and social advancement.

Mobilizing financial resources, including cofinancing, is an integral part of the Bank's operational activities. In addition, the Bank, alone or jointly, administers on behalf of donors, including members, their agencies and other development institutions, funds restricted for specific uses which include technical assistance for borrowers as well as for regional programs.

The Bank's ordinary operations comprise loans, equity investments, and guarantees. It 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 the Bank shall not exceed the total of the Bank's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. At 31 December 1998, the total of such loans, equity investments, and guarantees aggregated approximately 71.7% (67.9% – 1997) 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 actually paid-in capital together with reserves and surplus, exclusive of the special reserve. At 31 December 1998, such equity investments represented approximately 3.7% (4.2% – 1997) 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.

Valuation of Capital Stock

The authorized capital stock of the Bank 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 (the Bank'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 the Bank'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.

As of 31 December 1998, the value of the SDR in terms of the current United States dollar was $1.40803 ($1.34925 –

CONTINUED

1997) giving a value for each share of the Bank's capital equivalent to $14,080.30 ($13,492.50—1997). However, the Bank 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.

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."

Investments

All investment securities held by the Bank are considered by Management to be available for sale and are reported at estimated fair value, with unrealized gains and losses excluded from netincome and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income." Estimated fair value generally represents market value. Cost or amortized cost is used to approximate fair value for certain short-term investments not traded in the market (time deposits, etc.). Realized gains and losses are included in income from investments and are measured by the difference between average cost or amortized cost and the net proceeds of sales.

Loans

The Bank's loans are made to or guaranteed by members, with the exception of loans to the private sector, and have maturities ranging between 5 and 30 years. The Bank requires its borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies which it has disbursed. It is the policy of the Bank to place in nonaccrual status loans for which principal, interest, or other charges are overdue by six months. When loans are in nonaccrual status, the related unpaid interest and other charges are reversed and are deducted from loan interest income and other charges, as appropriate. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the Bank. The Bank follows a policy of not taking part in debt rescheduling agreements with respect to public sector loans. In the case of private sector loans, the Bank may agree to debt rescheduling only after alternative courses of action have been exhausted.

The Bank 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 made to or guaranteed by a member (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 possible losses.

The Bank's periodic evaluation of the adequacy of the allowance for possible 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.

Equity Investments

Investments in equity securities without readily determinable fair values are reported at cost less an allowance for possible losses. Provisions for possible loss of value are established quarterly based on Management's evaluation of potential losses for such investments. Equity securities with readily determinable fair values are reported at fair value, with unrealized gains and losses excluded from net income

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and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income." The Bank applies the equity method of accounting to one investment where it has the ability to exercise significant influence.

Property, Furniture, and Equipment

Property, furniture, and equipment is stated at cost and, except for land, is 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.

Statement of Cash Flows

For the purposes of the statement of cash flows, the Bank considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

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 the Bank or by any recipient from the Bank 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 37 DMCs for 1998 (36 – 1997), cash in banks (due from banks) and demand obligations totalling $52,270,000 ($53,359,000 – 1997) and $221,478,000 ($213,054,000 – 1997), respectively, may be, but are not currently so restricted.

In accordance with Article 24, paragraphs 2(i) and (ii) of the Charter, two members have restricted the use by the Bank or by any recipient from the Bank of their currencies to payments for goods or services produced in their territories. Cash in banks (due from banks), demand obligations of members, and investments totalling $22,000 ($21,000 – 1997), $2,579,000 ($1,658,000 – 1997) and $4,460,000 ($4,296,000 – 1997), respectively, have been so restricted.

NOTE D—INVESTMENTS

The currency compositions of the investment portfolio as of 31 December 1998 and 1997 expressed in United States dollars were as follows:

Currency	1998	1997
Australian dollar	$ 342,733,000	$ 467,843,000
Canadian dollar	429,372,000	575,628,000
Deutsche mark	216,295,000	182,794,000
Italian lira	326,480,000	400,186,000
Japanese yen	1,223,655,000	634,515,000
Pound sterling	281,856,000	284,729,000
Swiss franc	456,100,000	558,629,000
United States dollar	4,162,395,000	3,275,633,000
Other	636,634,000	661,643,000
Total	$8,075,520,000	$7,041,600,000

The amortized cost and estimated fair value of the investments by contractual maturity at 31 December 1998 were as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$4,860,931,000	$4,863,104,000
Due after one year through five years	2,662,653,000	2,676,482,000
Due after five years through ten years	531,537,000	535,934,000
Total	$8,055,121,000	$8,075,520,000

Additional information relating to investments in government and government-guaranteed obligations and other obligations of banks is as follows:

	1998	1997
As of 31 December:		
Amortized cost	$4,608,278,000	$3,209,783,000
Estimated fair value	4,628,677,000	3,225,830,000
Gross unrealized gains	25,500,000	19,549,000
Gross unrealized losses	5,101,000	3,502,000
For the years ended 31 December:		
Change in net unrealized gains/losses	4,352,000	(8,152,000)
Proceeds from sales	7,799,209,000	8,535,703,000
Gross realized gains	39,646,000	32,780,000
Gross realized losses	10,374,000	16,387,000

Investments are governed by the Investment Authority approved by the Board of Directors. The main investment management objective is to maintain security and liquidity. Subject to these parameters, the Bank seeks the highest possible return on its investments.

To reduce credit risk, the Bank is restricted by its Investment Authority to invest in (a) securities which are obligations of a limited class of issuers, primarily government or government-guaranteed obligations, multilateral banks and selected commercial banks; and (b) exchange-traded derivatives of such securities. Exposure to interest rate risk may be adjusted within defined bands to reflect changing market circumstances. These adjustments are made through the purchase and sale of both securities and exchange-traded financial futures and options. The use of options has been minimal and there were no outstanding options as of 31 December 1998 (nil – 1997). To increase returns, the Bank may invest in securities denominated in currencies other than the original functional currencies and then enter into covered forward foreign exchange agreements in order to maintain its original mix of functional currency holdings. Accordingly, the financial futures, options, and covered forwards are held for risk management rather than trading purposes.

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 settled daily. Changes in the market value of open futures contracts are recognized as gains or losses in the period of the change and included in income from investments. At 31 December 1998, there were no outstanding purchase contracts ($9,664,000 – 1997) nor outstanding sales contracts ($9,477,000 – 1997).

Covered forwards: Covered forwards are agreements in which cash in one currency is converted into a different currency and simultaneously a forward exchange agreement is executed providing for a future exchange of the two currencies in order to recover the currency converted. The Bank records the covered forward as an investment in the underlying currency. A receivable is created for the forward contract of the originating currency and a payable for the underlying instrument to be converted into the originating currency at maturity. Premiums or discounts are deferred and amortized as income from investments over the life of the underlying instrument. No covered forward agreements were outstanding at 31 December 1998 (nil – 1997).

Short sales: Short sales are sales of securities not held in the Bank's portfolio at the time of the sale. The Bank must purchase the security at a later date and bears the risk that the market value of the security will move adversely between the time of the sale and the time the security must be delivered. The payable created upon entering into a short sale is stated at the market value of the security subject to the short sale and gains and losses resulting from changes in market value are included in income from investments in the period of the change. Short sales are used

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by the Bank for adjusting the risk exposure of the investment portfolio and for establishing spread positions to enhance income. As of 31 December 1998, there was no open short sale position (nil –1997).

NOTE E—LOANS AND GUARANTEES

Loans

The carrying amount and estimated fair value of loans outstanding at 31 December 1998 and 1997 were as follows:

	1998	
	Carrying Amount	Estimated Fair Value
Loans to the public sector with interest at variable rates	$23,053,815,000	$23,053,815,000
Loans to the public sector with interest at fixed rates	1,304,821,000	1,631,770,000
Loans to the private sector	339,749,000	358,121,000
Total	$24,698,385,000	$25,043,706,000

	1997	
	Carrying Amount	Estimated Fair Value
Loans to the public sector with interest at variable rates	$16,981,610,000	$16,981,610,000
Loans to the public sector with interest at fixed rates	1,474,797,000	1,829,896,000
Loans to the private sector	332,094,000	343,590,000
Total	$18,788,501,000	$19,155,096,000

Prior to 1 July 1986, the lending rate of the Bank 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, the Bank adopted a multicurrency pool-based variable lending rate system. In addition, in July 1992, the Bank introduced a pool-based variable United States dollar lending system, and in November 1994, a market-based variable lending system was made available to financial intermediaries in the public sector and to the private sector. For loans to the private sector, approximately 71% (68% – 1997) of the loans were based on a variable interest rate.

Undisbursed loan commitments and an analysis of loans by borrowing member countries as of 31 December 1998 are shown in OCR-5.

Public Sector Loans

Loans outstanding to or guaranteed by members with interest rates which vary based on the pool-based variable lending rate system were fair valued using an entry value method. Under this method, fair value was determined based on the terms at which a similar loan would currently be made by the Bank to a similar borrower. For such loans, fair value approximated the carrying amount. For undisbursed balances of effective loans and for loans not yet effective, the contractual amount approximated fair value.

Loans outstanding to or guaranteed by members with fixed interest rates (principally loans made prior to 1 July 1986) were fair valued using a discounted cash flow method. This method takes into account the scheduled cash flows over the average life, by currency, of the loans, and current funding costs for the average life, including a factor for administrative costs.

The estimated fair value of loans to or guaranteed by members was not affected by credit risks based on the Bank's experience with its borrowers.

CONTINUED

Two public sector loans to Myanmar were in nonaccrual status but were not impaired as of 31 December 1998 (nil – 1997). The principal outstanding and overdue at that date was $935,000 (nil – 1997). Overdue interest and other charges on these loans totalled $70,000 (nil – 1997). Loans in nonaccrual status resulted in a reduction of $68,000 (nil – 1997) in income from public sector loans for the year ended 31 December 1998.

Private Sector Loans

Loans outstanding to the private sector were fair valued using a discounted cash flow method. The estimated fair value of these loans was $358,121,000 ($343,590,000 – 1997).

Seven private sector loans were in nonaccrual status as of 31 December 1998 (six – 1997). The principal outstanding at that date was $51,609,000 ($41,002,000 – 1997) of which $17,752,000 ($12,062,000 – 1997) was overdue. Overdue interest and other charges on these loans totalled $6,665,000 ($8,376,000 – 1997). Loans in nonaccrual status resulted in a reduction of $5,226,000 ($4,464,000 – 1997) in income from private sector loans for the year ended 31 December 1998.

Loan Loss Provision

The Bank has not suffered any losses of principal on loans made to or guaranteed by members. No loan loss provisions have been made against loans outstanding to or guaranteed by members, but loan loss provisions were made against private sector loans during the year. (*See Note K.*)

Information appertaining to loans which are subject to loan loss provisions at 31 December 1998 and 1997 was as follows:

	1998	1997
Loans not subject to loss provisions	$24,358,635,000	$18,456,407,000
Loans subject to loss provisions	401,257,000	382,495,000
Total	$24,759,892,000	$18,838,902,000
Average amount of loans subject to loss provisions	$ 381,108,000	$ 383,388,000
Related interest income recognized on such loans	$ 28,642,000	$ 28,126,000
Cash received on related interest income on such loans	$ 28,413,000	$ 27,292,000

The changes in the allowance for possible loan losses during 1998 and 1997 were as follows:

	1998	1997
Balance – 1 January	$ 50,401,000	$ 38,544,000
Provision during the year	10,981,000	11,857,000
Provision written off	(218,000)	–
Translation adjustments	343,000	–
Balance – 31 December	$ 61,507,000	$ 50,401,000

Loan Guarantees and Cofinancings

The Bank extends guarantees for the benefit of its members which are not reflected in the financial statements. Such guarantees include partial credit guarantees where only certain principal and/or interest payments are covered. Such guaranteed payments are generally due 10 or more years from the loan inception date. The present value of the contingent future payment obligations of all outstanding guarantees at 31 December 1998 and 1997 is used to calculate the Bank's lending limitation. None of these amounts were subject to call as of that date. The Bank

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estimates that the fair value of guarantees outstanding at 31 December 1998 approximates their present value. The estimated fair value of loans to or guaranteed by members was not affected by credit risks based on the Bank's experience with its borrowers.

As of 31 December 1998 and 1997, the outstanding amount and present value of the Bank's guarantee obligations covered:

	1998	
	Outstanding Guaranteed Amount	Present Value
Complementary Loans:		
China, People's Rep. of	$ 28,674,000	$ 14,857,000
India	65,374,000	30,431,000
Indonesia	24,833,000	12,704,000
Papua New Guinea	3,863,000	3,346,000
Subtotal	122,744,000	61,338,000
Bond Issue:		
Philippines	104,598,000	28,381,000
Term Loans:		
Sri Lanka	115,144,000	56,200,000
Thailand	108,963,000	97,449,000
Subtotal	224,107,000	153,649,000
Total	$451,449,000	$243,368,000

	1997	
	Outstanding Guaranteed Amount	Present Value
Complementary Loans:		
China, People's Rep. of	$ 28,003,000	$ 13,491,000
India	57,657,000	24,814,000
Indonesia	18,327,000	10,374,000
Papua New Guinea	4,500,000	4,385,000
Subtotal	108,487,000	53,064,000
Bond Issue:		
Philippines	92,250,000	23,176,000
Term Loans:		
Sri Lanka	47,766,000	22,888,000
Thailand	–	–
Subtotal	47,766,000	22,888,000
Total	$248,503,000	$ 99,128,000

The terms of the guarantee for Thailand cover the repayment of the principal amount due and outstanding under the Co-Financing Facility Agreement on each repayment date, up to, and including, 1 April 2001 and interest due and outstanding on each interest payment date, up to, and including interest due on or accrued up to 1 April 2001. Under certain circumstances, the guarantee may be extended to cover the principal amount due and outstanding on 1 October 2001 and 1 April 2002 and interest due and outstanding on each interest payment date after 1 April 2001 up to, and including, interest due on or accrued up to 1 April 2002. As of 31 December 1998, the facility has not been fully utilized. Had the facility been fully utilized, the guaranteed amount would have been $664,214,000 and the present value would have been $591,997,000. The availability period for drawdowns expired 26 January 1999. No further applications for drawdowns were received by that date.

The Bank functions as lead lender in cofinancing arrangements with other participating financial institutions who also provide funds to the Bank's public and private sector borrowers. In such capacity, the Bank provides loan administration services, which include loan disbursement and loan servicing. The participating financial institutions have no recourse to the Bank for their outstanding loan balances.

Loans administered by the Bank on behalf of participating institutions as of 31 December 1998 and 1997 were as follows:

	1998	
	Amount	No. of Loans
Public Sector Loans	$ 931,603,000	41
Private Sector Loans	157,634,000	11
Total	$1,089,237,000	52

CONTINUED

	1997	
	Amount	No. of Loans
Public Sector Loans	$1,009,291,000	30
Private Sector Loans	88,288,000	15
Total	$1,097,579,000	45

During the year ended 31 December 1998, a total of $1,583,000 ($509,000 – 1997) was received as compensation for arranging and administering such loans. This amount has been included in "Income from Other Sources."

NOTE F—EQUITY INVESTMENTS

The Bank's investments in equity securities issued by private enterprises located in DMCs include a $10,342,000 ($36,277,000 – 1997) investment in the Asian Finance and Investment Corporation Ltd. (AFIC) which is accounted for on the equity method. The holding represents 30.3% of the investee's issued ordinary share capital and net assets. The Bank also holds 100% of AFIC issued convertible noncumulative preference shares in the amount of $25,000,000 (nil – 1997). In addition, the Bank, together with other financiers, has agreed to provide AFIC a revolving credit facility up to a maximum aggregate principal amount outstanding at any time of $105,000,000 (nil – 1997). The Bank's obligations amount to $40,000,000, of which, at 31 December 1998, the outstanding loan is $9,524,000 (nil – 1997). This amount has been included in "Loans Outstanding" (***Note E***).

Unrealized gains on equity investments reported at market value were $6,729,000 at 31 December 1998 ($15,387,000 – 1997) and are reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income."

Undisbursed equity investment commitments were $175,429,000 at 31 December 1998 ($212,594,000 – 1997).

NOTE G—PROPERTY, FURNITURE, AND EQUIPMENT

In 1991, under the terms of an agreement with the Government of the Republic of the Philippines (Government), the Bank returned the former headquarters premises which had been provided by the Government. In accordance with the agreement as supplemented by a memorandum of understanding, the Bank 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. At 31 December 1998, accumulated depreciation for property, furniture, and equipment was $61,396,000 ($53,112,000 – 1997). The amortization for the years ended 31 December 1998 and 1997 amounted to $566,000 reducing depreciation expense for the new headquarters building from $4,700,000 ($4,778,000 – 1997) to $4,134,000 ($4,212,000 – 1997). At 31 December 1998, the unamortized deferred compensation balance (included in "ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous") was $18,174,000 ($18,740,000 – 1997).

NOTE H—BORROWINGS AND SWAPS

The Bank uses derivative financial instruments in connection with its borrowing activities to diversify its funding sources across public and private debt markets, currencies and instruments. Currency swaps are used to convert a currency borrowed under advantageous terms into one of the Bank's major operational currencies, taking advantage of the opportunities offered in different financial markets. Such currency swaps enable the Bank 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 balance sheet interest rate mismatches arising from lending operations.

The Bank issues structured debt which includes embedded currency and/or interest rate derivatives in order to decrease its cost of borrowing. However, the Bank enters into

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simultaneous currency and/or interest rate swaps to fully hedge against the effects of such embedded derivatives.

The Bank has a potential risk of loss if the swap counterparty fails to perform its obligations (*see Note O*). In order to reduce such credit risk, the Bank only enters into long-term swap transactions with counterparties eligible under the Bank's swap guidelines which includes a requirement that the counterparties have a credit rating of double A or higher. The Bank does not anticipate that any of its counterparties will fail to perform their obligations under such agreements.

Interest rate swaps: Under a typical interest rate swap agreement used by the Bank, 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. Amounts receivable or payable under the terms of the swap are accrued over the period to which the payment relates and the related cost or income is included in interest and other financial expenses. The terms of the Bank's interest rate swap agreements specifically 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 periodic payments to be received, and a payable is created for payments to be made. Swap premiums and discounts are deferred and amortized into interest and other financial expenses over the life of the underlying instruments. The terms of the Bank's currency swap agreements specifically match the terms of particular borrowings.

The fair value of borrowings outstanding is estimated using prevailing market prices where available, or estimated replacement values where market prices are not available.

Outstanding currency and interest rate swap agreements are fair valued at the estimated amount that the Bank would receive or pay to terminate the agreements based upon market quotes from dealers.

As of 31 December 1998 and 1997, the carrying amounts and estimated fair values of borrowings and swaps were as follows:

	1998	
	Carrying Amount	**Estimated Fair Value**
Balance sheet financial instruments:		
Borrowings	$23,743,713,000	$23,009,165,000
Currency swap receivables	6,773,746,000	7,029,990,000
Currency swap payables	7,095,896,000	7,563,385,000
	Notional Amount	**Unrealized Gain**
Off-balance sheet financial instruments:		
Interest rate swaps	$ 3,158,490,000	$ 115,676,000

	1997	
	Carrying Amount	**Estimated Fair Value**
Balance sheet financial instruments:		
Borrowings	$17,494,446,000	$18,532,945,000
Currency swap receivables	5,148,537,000	5,318,477,000
Currency swap payables	5,327,836,000	5,822,528,000
	Notional Amount	**Unrealized Gain**
Off-balance sheet financial instruments:		
Interest rate swaps	$ 1,126,408,000	$ 17,767,000

CONTINUED

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 the Bank as of the end of 1998 and 1997 consists of 3,490,994 shares, of which 3,441,406 shares (3,439,799 – 1997) have been subscribed by members. Of the subscribed shares, 3,198,931 (3,197,866 – 1997) are "callable" and 242,475 (241,933 – 1997) are "paid-in." The "callable" share capital is subject to call by the Bank only as and when required to meet the Bank'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, the Bank accepts nonnegotiable, noninterest-bearing demand obligations in satisfaction of the portion payable in the currency of the member, provided such currency is not required by the Bank for the conduct of its operations. The settlement of such amounts is not determinable and, accordingly, it is not practicable to fair value these receivables.

As of 31 December 1998, all matured installments amounting to $3,169,579,000 ($2,957,176,000 – 1997) were received except for $5,964,000 from five countries ($4,550,000 – 1997). Installments not due aggregating $244,542,000 ($307,105,000 – 1997) are receivable as follows:

Year ending 31 December:

1999	$91,760,000	2001	$63,633,000
2000	76,212,000	2002	12,937,000

Payments in respect of capital subscription installments in advance of due dates are shown in the balance sheet (under the caption "ACCOUNTS PAYABLE AND OTHER LIABILITIES") as "Advance payments on subscriptions" pending the determination of the full value of such payments based on the rate of exchange to be used by the Bank as of the date on which such payments are actually due.

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 the Bank. The resources so set aside amounting to $67,036,000 as of 31 December 1998 ($64,237,000 – 1997) expressed in terms of the SDR on the basis of $1.40803 ($1.34925 – 1997) 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, the Bank implemented maintenance of value 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. The "Amounts required to maintain value of currency holdings" under "RECEIVABLE FROM MEMBERS" represent the aggregate amounts receivable resulting from changes in exchange rates of member currencies from those previously used for the purpose of computing maintenance of value of the Bank's holdings of certain member currencies. The settlement of such amounts is not determinable and, accordingly, it is not practicable to fair value these receivables.

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Since 1 April 1978, inasmuch as the valuation of the Bank's capital stock and the basis of determining possible maintenance of value 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. The timing of any establishment and settlement of such amounts is uncertain and, accordingly, it is not practicable to fair value such receivables and payables. The notional amounts as of 31 December 1998 consisting of receivables of $718,693,000 ($627,349,000 – 1997) and payables of $247,931,000 ($177,294,000 – 1997) consist of (a) the increase of $423,006,000 ($307,089,000 – 1997) 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 1998 and (b) the net decrease of $47,756,000 ($142,966,000 – 1997) in the value of such currency holdings in relation to the United States dollar during the same period.

Membership

As of 31 December 1998, the Bank is owned by 57 member countries, 41 countries from the region and 16 countries from outside the region (***see OCR-7***). During 1998, the Board of Governors approved the membership applications of Turkmenistan and Tajikistan. As of 31 December 1998, Tajikistan has subscribed to 10,134 shares of the Bank's capital stock and remitted the required paid-in portion of its subscription.

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 1998, $367,458,000 ($315,000,000 – 1997) of the net income after appropriation of guarantee fees to Special Reserve for the year ended 31 December 1997 was allocated to the Ordinary Reserve, and $100,000,000 ($256,645,000 – 1997) was allocated to Surplus.

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 $23,784,000 to the Ordinary Reserve during the year ended 31 December 1998 (credit of $29,752,000 – 1997). 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.

Special Reserve

The Special Reserve represents 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 1998, guarantee fees amounting to $2,639,000 ($416,000 – 1997) were appropriated to Special Reserve. The commission charged on loans was discontinued in 1986.

Surplus

During 1998, the Board of Governors allocated $100,000,000 ($256,645,000 – 1997) out of 1997 net income after appropriation of guarantee fees to Special Reserve to Surplus of which $80,000,000 was subsequently reallocated and transferred to Technical Assistance Special Fund ($230,000,000 to Asian Development Fund – 1997). Surplus represents funds for future use to be determined by the Board of Governors.

CONTINUED

Comprehensive Income and Accumulated Other Comprehensive Income

In 1998, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 130 – Reporting Comprehensive Income issued by the Financial Accounting Standards Board. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. Comprehensive income has two major components: net income and other comprehensive income. Other comprehensive income include such items as unrealized gains and losses on available-for-sale securities and foreign currency translation adjustments. The 1997 financial statements have been reclassified for comparative purposes.

NOTE K—INCOME AND EXPENSES

Total income from loans for the year ended 31 December 1998 was $1,440,929,000 ($1,127,856,000 – 1997). The average yield on the loan portfolio during the year was 6.78% (6.89% – 1997).

Total income from investments for the year ended 31 December 1998 was $382,864,000 ($311,714,000 – 1997). 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, was 5.27% (5.24% – 1997). If unrealized gains and losses were included, the annualized rate of return would have been 5.32% (5.08% – 1997).

Income from other sources includes a share in the net losses of equity investments of $25,951,000 ($8,484,000 – 1997) accounted for on the equity method.

Dividends received for the year ended 31 December 1998 amounted to $18,173,000 ($5,873,000 – 1997).

Total interest expense incurred for the year ended 31 December 1998 amounted to $1,187,630,000 ($839,363,000 – 1997).

Other financial expenses consist of amortization of borrowings' issuance costs and other expenses of $16,039,000 ($13,544,000 – 1997) and charges of $2,809,000 ($334,000 – 1997) representing the difference between reacquisition price and net carrying amount of borrowings extinguished prior to maturity.

Administrative expenses (other than those appertaining directly to ordinary operations and special operations) for the year ended 31 December 1998 were apportioned between Ordinary Capital Resources and the Asian Development Fund according to the number of loans and equity investments approved during the year. Of the total administrative expenses of $193,176,000 ($192,180,000 – 1997), $71,475,000 ($96,452,000 – 1997) was accordingly charged to the Asian Development Fund.

For the year ended 31 December 1998, the provision for possible losses totalled $37,465,000 ($10,981,000 for private sector loans and $26,484,000 for equity investments). For the year ended 31 December 1997, the provision for losses totalled $32,875,000 ($11,857,000 for private sector loans and $21,018,000 for equity investments).

NOTE L—OTHER ASSETS—MISCELLANEOUS

Included in miscellaneous assets are amounts receivable from the following related funds as of 31 December 1998 and 1997:

	1998	1997
Asian Development Fund (Note K)	$12,101,000	$ –
Technical Assistance Special Fund	65,000	117,000
Japan Special Fund	512,000	856,000
Asian Development Bank Institute Special Fund	78,000	494,000
Total	$12,756,000	$1,467,000

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

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31 December 1998 and 1997

NOTE M—STAFF RETIREMENT PLAN AND POSTRETIREMENT MEDICAL BENEFITS

Staff Retirement Plan

The Bank 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 the Bank, 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 remuneration to the Plan and may also make voluntary contributions. The Bank's contribution is determined at a rate sufficient to cover that part of the costs of the Plan not covered by the participants' contributions.

Postretirement Medical Benefits Plan

In 1993, the Bank adopted a cost-sharing plan for retirees medical insurance premiums. Under the plan, the Bank is obligated to pay 80% 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 postretirement medical benefits.

The following table sets forth the pension and postretirement benefits at 31 December 1998 and 1997:

	Pension Benefits 1998	Pension Benefits 1997
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 439,427,000	$ 403,222,000
Service cost	16,813,000	14,704,000
Interest cost	31,853,000	31,237,000
Participants' contributions	19,802,000	13,847,000
Actuarial loss (gain)	20,335,000	(6,362,000)
Benefits paid	(22,723,000)	(17,221,000)
Benefit obligation at end of year	$ 505,507,000	$ 439,427,000
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 527,904,000	$ 487,641,000
Actual return on plan assets	97,866,000	33,160,000
Employer's contribution	11,465,000	10,477,000
Plan participants' contributions	19,802,000	13,847,000
Benefits paid	(22,723,000)	(17,221,000)
Fair value of plan assets at end of year	$ 634,314,000	$ 527,904,000
Funded status	$ 128,807,000	$ 88,477,000
Unrecognized actuarial loss	(132,209,000)	(100,124,000)
Unrecognized prior service cost	4,739,000	5,721,000
Unrecognized transition obligation	(5,532,000)	(6,637,000)
Net amount recognized	$ (4,195,000)	$ (12,563,000)
Amounts recognized in the balance sheet consist of:		
Accrued benefit cost	$ (4,195,000)	$ (12,563,000)
Accrued benefit liability	(218,000)	(127,000)
Net amount recognized	$ (4,413,000)	$ (12,690,000)
Weighted-average assumptions as of 31 December		
Discount rate	6.5%	7.0%
Expected return on plan assets	8.0%	8.0%
Rate of compensation increase varies with age and averages	5.5%	6.0%

CONTINUED

	Postretirement Medical Benefits	
	1998	1997
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 51,476,000	$ 37,192,000
Service cost	1,714,000	1,354,000
Interest cost	3,696,000	2,865,000
Participants' contributions	–	–
Actuarial loss	1,236,000	10,952,000
Benefits paid	(992,000)	(887,000)
Benefit obligation at end of year	$ 57,130,000	$ 51,476,000
Change in plan assets:		
Fair value of plan assets at beginning of year	$ –	$ –
Actual return on plan assets	–	–
Employer's contribution	992,000	887,000
Plan participants' contributions	–	–
Benefits paid	(992,000)	(887,000)
Fair value of plan assets at end of year	$ –	$ –
Funded status	$ (57,130,000)	$(51,476,000)
Unrecognized actuarial loss	1,261,000	25,000
Unrecognized prior service cost	–	–
Unrecognized transition obligation	14,933,000	17,342,000
Net amount recognized	$ (40,936,000)	$(34,109,000)
Amounts recognized in the balance sheet consist of:		
Accrued benefit cost	$ (40,936,000)	$(34,109,000)
Accrued benefit liability	–	–
Net amount recognized	$ (40,936,000)	$(34,109,000)
Weighted-average assumptions as of 31 December		
Discount rate	6.5%	7.0%
Expected return on plan assets	N/A	N/A
Rate of compensation increase varies with age and averages	5.5%	6.0%

For measurement purposes, an 11.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as at 31 December 1998. The rate was assumed to decrease gradually to 3.5% for 2009 and remain at that level thereafter.

	Pension Benefits	
	1998	1997
Components of net periodic benefit cost:		
Service cost	$ 16,813,000	$ 14,704,000
Interest cost	31,853,000	31,237,000
Expected return on plan assets	(41,824,000)	(36,674,000)
Amortization of prior service cost	982,000	982,000
Amortization of transition obligation	(1,105,000)	(1,105,000)
Recognized actuarial loss	(3,622,000)	(2,154,000)
Net periodic benefit cost	$ 3,097,000	$ 6,990,000

	Postretirement Medical Benefits	
	1998	1997
Components of net periodic benefit cost:		
Service cost	$ 1,714,000	$ 1,354,000
Interest cost	3,696,000	2,865,000
Expected return on plan assets	–	–
Amortization of prior service cost	–	–
Amortization of transition obligation	2,409,000	2,409,000
Recognized actuarial loss	–	(711,000)
Net periodic benefit cost	$ 7,819,000	$ 5,917,000

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $487,000,000, $487,000,000, and $218,000,000,

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997

respectively as of 31 December 1998 and $337,000,000, $337,000,000, and $127,000,000, respectively, as of 31 December 1997.

A one-percentage-point change in assumed health care trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	1,182,000	(925,000)
Effect on postretirement benefit obligation	10,342,000	(8,302,000)

NOTE N—FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of the Bank's significant financial instruments as of 31 December 1998 and 1997 are summarized as follows:

	1998	
	Carrying Amount	Estimated Fair Value
On-balance sheet financial instruments:		
ASSETS:		
Due from banks	$ 62,617,000	$ 62,617,000
Investments (Note D)	8,075,520,000	8,075,520,000
Loans outstanding (Note E)	24,698,385,000	25,043,706,000
Equity investments	185,893,000	185,893,000
Other assets		
Nonnegotiable, noninterest-bearing demand obligations	350,289,000	350,289,000
Currency swap receivables (Note H)	6,773,746,000	7,029,990,000
LIABILITIES:		
Borrowings (Note H)	23,743,713,000	23,009,165,000
Other liabilities		
Currency swap payables (Note H)	7,095,896,000	7,563,385,000
	Notional/Contract Amount	**Unrealized Gain (Loss)**
Off-balance sheet financial instruments:		
Investments (Note D)		
Futures – Purchase	$ –	$ –
– Sell	–	–
Borrowings (Note H)		
Interest rate swaps	3,158,490,000	115,676,000
Guarantees (Note E)	451,449,000	–

CONTINUED

	1997	
	Carrying Amount	Estimated Fair Value
On-balance sheet financial instruments:		
ASSETS:		
Due from banks	$ 75,726,000	$ 75,726,000
Investments (Note D)	7,041,600,000	7,041,600,000
Loans outstanding (Note E)	18,788,501,000	19,155,096,000
Equity investments	174,052,000	174,052,000
Other assets		
Nonnegotiable, noninterest-bearing demand obligations	326,231,000	326,231,000
Currency swap receivables (Note H)	5,148,537,000	5,318,477,000
LIABILITIES:		
Borrowings (Note H)	17,494,446,000	18,532,945,000
Other liabilities		
Currency swap payables (Note H)	5,327,836,000	5,822,528,000
	Notional/Contract Amount	**Unrealized Gain (Loss)**
Off-balance sheet financial instruments:		
Investments (Note D)		
Futures – Purchase	$ 9,664,000	$ –
– Sell	9,477,000	–
Borrowings (Note H)		
Interest rate swaps	1,126,408,000	17,767,000
Guarantees (Note E)	248,503,000	–

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 fair value of financial instruments that are short-term approximates their carrying amounts.

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.

NOTE O—OFF-BALANCE SHEET CREDIT RISK

The Bank is a party to off-balance sheet financial instruments. These financial instruments involve elements of credit risk in excess of amounts reflected on the balance sheet. Credit risk represents the maximum potential accounting loss due to possible nonperformance by obligors and counterparties under the terms of the contract.

	1998	1997
Credit risk at 31 December:		
Currency swaps (Note H)	$156,657,000	$72,257,000
Interest rate swaps (Note H)	117,823,000	34,445,000
Guarantees (Note E)	243,368,000	99,128,000

NOTE P—SPECIAL AND TRUST FUNDS

The Bank's operations include special operations, which are financed from special funds resources, consisting of the Asian Development Fund, the Technical Assistance Special Fund, Japan Special Fund, and the Asian Development Bank Institute Special Fund.

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

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31 December 1998 and 1997

In addition, the Bank, alone or jointly with donors, administers on behalf of the donors, including members of the Bank, their agencies and other development institutions, projects/programs supplementing the Bank's operations. Such projects/programs are funded with external funds administered by the Bank and with external funds not under the Bank's administration. The funds are restricted for specific uses including technical assistance to borrowers and technical assistance for regional programs. The responsibilities of the Bank under these arrangements range from project processing to project implementation including the facilitation of procurement of goods and services.

Special funds and funds administered by the Bank 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 1998 and 1997 was as follows:

	1998	
	Total Net Assets	No. of Funds
Special Funds		
Asian Development Fund	$20,535,398,000	1
Technical Assistance Special Fund	97,187,000	1
Japan Special Fund	183,170,000	1
Asian Development Bank Institute Special Fund	17,998,000	1
Subtotal	20,833,753,000	4
Trust Funds		
Funds administered by the Bank	48,585,000	21
Funds not administered by the Bank	17,322,000	1
Subtotal	65,907,000	22
Total	$20,899,660,000	26

	1997	
	Total Net Assets	No. of Funds
Special Funds		
Asian Development Fund	$18,219,229,000	1
Technical Assistance Special Fund	53,968,000	1
Japan Special Fund	204,421,000	1
Asian Development Bank Institute Special Fund	8,890,000	1
Subtotal	18,486,508,000	4
Trust Funds		
Funds administered by the Bank	51,733,000	19
Funds not administered by the Bank	19,670,000	1
Subtotal	71,403,000	20
Total	$18,557,911,000	24

During the year ended 31 December 1998, a total of $992,000 ($735,000 –1997) was received as compensation for administering projects/programs under Trust Funds. The amount has been included in "Income from Other Sources."

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REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying balance sheet and the related statements of revenue and expenses, of cash flows, and of changes in unexpended balances and capital present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank – Asian Development Fund at 31 December 1998 and 1997, and the results of its operations, its cash flows and the changes in its unexpended balances and capital for the years then ended, in conformity, with generally accepted accounting principles. These financial statements are the responsibility of the Bank's management; 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 generally accepted auditing standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Our audits were conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The accompanying summary statements of loans as at 31 December 1998 and 1997 and of resources as at 31 December 1998 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

17 February 1999

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

BALANCE SHEET

31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998		1997	
ASSETS				
DUE FROM BANKS (Note B)		$ 7,893		$ 3,299
INVESTMENTS (Notes B and C)				
Government and government-guaranteed obligations	$ 116,375		$ 86,767	
Time deposits and other obligations of banks	1,319,512	1,435,887	882,349	969,116
LOANS OUTSTANDING (ADF-5) (Notes B and D)	14,324,035		12,266,102	
Less—allowance for possible losses	6,267	14,317,768	5,577	12,260,525
ACCRUED REVENUE				
On investments	10,736		4,669	
On loans	36,959	47,695	31,693	36,362
DUE FROM CONTRIBUTORS (Notes B and E)		4,738,765		5,005,406
RECEIVABLE FROM ORDINARY CAPITAL RESOURCES		–		721
OTHER ASSETS		3,471		3,455
TOTAL		**$20,551,479**		**$18,278,884**
LIABILITIES, UNEXPENDED BALANCES, AND CAPITAL				
PAYABLE TO ORDINARY CAPITAL RESOURCES		$ 12,101		$ –
ADVANCE PAYMENTS ON CONTRIBUTIONS (ADF-6)		–		59,468
OTHER LIABILITIES		3,980		187
UNEXPENDED BALANCES AND CAPITAL				
Amounts available for loan commitments (ADF-6)				
Contributed Resources (Note B)	$19,020,422		$16,902,469	
Set-Aside Resources (Note G)	67,036		64,237	
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund (Note A)	233,256		233,057	
	19,320,714		17,199,763	
Accumulated surplus (ADF-4)	1,177,152		1,067,453	
Accumulated other comprehensive income (ADF-4) (Note H)	37,532	20,535,398	(47,987)	18,219,229
TOTAL		**$20,551,479**		**$18,278,884**

See notes to financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

STATEMENT OF REVENUE AND EXPENSES

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998			1997		
REVENUE						
From loans (Notes B and D)		$122,184			$123,694	
From investments (Notes B and C)						
Interest	$59,542			$33,167		
Net gain on sales	–	59,542		2	33,169	
From other sources—net		297	$ 182,023		130	$156,993
EXPENSES						
Administrative expenses (Note F)		71,502			96,460	
Provision for possible losses (Notes B and D)		822	72,324		3,799	100,259
EXCESS OF REVENUE OVER EXPENSES—NET INCOME			**$109,699**			**$ 56,734**

See notes to financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

STATEMENT OF CASH FLOWS

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Service charges on loans received	$ 99,447	$ 103,180
Interest on investments received	55,202	33,159
Revenue received from other activities	297	130
Administrative expenses paid	(58,680)	(89,075)
Net Cash Provided by Operating Activities	96,266	47,394
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash invested in time deposits and other obligations of banks	(383,566)	(325,357)
Sales of investment securities	738,558	758,112
Maturities of investment securities	5,900,540	7,175,198
Purchases of investment securities	(6,693,268)	(7,980,519)
Principal collected on loans	147,637	147,596
Loans disbursed	(1,121,384)	(1,137,067)
Net Cash Used in Investing Activities	(1,411,483)	(1,362,037)
CASH FLOWS FROM FINANCING ACTIVITIES		
Demand obligations of contributors encashed	1,328,876	1,313,237
Contributions received (returned) [1]	(5,137)	5,418
Cash received from (paid to) Ordinary Capital Resources and others—net	287	(297)
Net Cash Provided by Financing Activities	1,324,026	1,318,358
Effect of Exchange Rate Changes on Due from Banks	(4,215)	(3,362)
Net Increase in Due from Banks	4,594	353
Due from Banks at Beginning of Year	3,299	2,946
Due from Banks at End of Year	$ 7,893	$ 3,299
RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES—NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Excess of revenue over expenses—net income (ADF-2)	$ 109,699	$ 56,734
Adjustments to reconcile excess of revenue over expenses—net income to net cash provided by operating activities:		
Change in accrued revenue on investments and loans	(8,080)	(2,703)
Change in accrued/prepaid administrative expenses	12,822	(19,877)
Noncash payment of administrative expenses	–	27,262
Charges capitalized	(20,724)	(18,766)
Provision for possible losses charged	822	3,799
Amortization of discounts/premiums	1,727	947
Other—net	–	(2)
Net Cash Provided by Operating Activities	$ 96,266	$ 47,394

1 In addition, nonnegotiable, noninterest-bearing demand promissory notes amounting to $736,879 ($455,736 – 1997) were received from contributing members.

See notes to financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

STATEMENT OF CHANGES IN UNEXPENDED BALANCES AND CAPITAL

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	Contributed Resources	Set-Aside Resources	Transfers from OCR & TASF	Accumulated Surplus	Accumulated Other Comprehensive Income	Total
Balance— 1 January 1997	**$18,203,262**	**$68,329**	**$ 3,464**	**$1,010,719**	**$ 53,344**	**$19,339,118**
Comprehensive income for the year 1997 (Note H)				56,734	(101,331)	(44,597)
Change in amount available for loan commitment	(1,300,793)					(1,300,793)
Change in SDR value of set-aside resources		(4,092)				(4,092)
Transfer from Ordinary Capital Resources			230,000			230,000
Change in value of transfers from Technical Assistance Special Fund			(407)			(407)
Balance— 31 December 1997	**$16,902,469**	**$64,237**	**$233,057**	**$1,067,453**	**$ (47,987)**	**$18,219,229**
Comprehensive income for the year 1998 (Note H)				109,699	85,519	195,218
Change in amount available for loan commitment	2,117,953					2,117,953
Change in SDR value of set-aside resources		2,799				2,799
Change in value of transfers from Technical Assistance Special Fund			199			199
Balance— 31 December 1998	**$19,020,422**	**$67,036**	**$233,256**	**$1,177,152**	**$ 37,532**	**$20,535,398**

Accumulated Other Comprehensive Income (Note H)
For the Years Ended 31 December 1998 and 1997
Expressed in Thousands of United States Dollars (Note B)

	Accumulated Translation Adjustments	Unrealized Investment Holding Gains	Accumulated Other Comprehensive Income
Balance, 1 January 1997	$ 53,251	$ 93	$ 53,344
Other comprehensive income in 1997	(101,431)	100	(101,331)
Balance, 31 December 1997	$ (48,180)	$ 193	$(47,987)
Other comprehensive income in 1998	84,060	1,459	85,519
Balance, 31 December 1998	**$ 35,880**	**$1,652**	**$37,532**

See notes to financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

SUMMARY STATEMENT OF LOANS

31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

Borrower/Guarantor [1]	Loans Outstanding [2]	Undisbursed Balance of Effective Loans [3]	Loans Not Yet Effective [3]	Total Loans	Percent of Total Loans
Afghanistan	$ 30,598	$ –	$ –	$ 30,598	0.15
Bangladesh	3,953,754	1,022,140	188,689	5,164,583	25.46
Bhutan	43,789	8,991	6,067	58,847	0.29
Cambodia	122,740	112,043	39,991	274,774	1.35
Cook Islands	20,115	2,740	–	22,855	0.11
Indonesia	653,464	184,037	–	837,501	4.13
Kazakhstan	37,443	21,746	–	59,189	0.29
Kiribati	3,311	–	10,238	13,549	0.07
Kyrgyz Republic	160,436	93,739	63,220	317,395	1.56
Lao PDR	512,320	215,462	20,977	748,759	3.69
Maldives	32,547	7,007	6,609	46,163	0.23
Marshall Islands	26,697	11,999	–	38,696	0.19
Micronesia, Federated States of	18,648	16,440	–	35,088	0.17
Mongolia	236,978	131,163	–	368,141	1.81
Myanmar	466,562	–	–	466,562	2.30
Nepal	1,019,827	282,808	55,968	1,358,603	6.70
Pakistan	3,774,316	1,125,020	217,249	5,116,585	25.22
Papua New Guinea	273,487	32,017	–	305,504	1.51
Philippines	822,724	240,911	–	1,063,635	5.24
Samoa	78,476	3,682	–	82,158	0.41
Solomon Islands	48,367	11,654	–	60,021	0.30
Sri Lanka	1,478,971	377,389	191,395	2,047,755	10.09
Tajikistan	–	–	19,995	19,995	0.10
Thailand	64,756	–	–	64,756	0.32
Tonga	32,357	5,908	4,792	43,057	0.21
Uzbekistan	460	19,893	–	20,353	0.10
Vanuatu	30,195	19,604	–	49,799	0.25
Viet Nam	380,697	804,860	386,701	1,572,258	7.75
BALANCE – 31 December 1998	14,324,035	4,751,253	1,211,891	20,287,179	100.00
Allowance for possible losses	(6,267)			(6,267)	
NET BALANCE – 31 December 1998	**$14,317,768**	**$4,751,253**	**$1,211,891**	**$20,280,912**	
BALANCE – 31 December 1997	$ 12,266,102	$ 4,800,747	$ 1,407,250	$ 18,474,099	
Allowance for possible losses	(5,577)			(5,577)	
NET BALANCE – 31 December 1997	**$12,260,525**	**$4,800,747**	**$1,407,250**	**$18,468,522**	

1 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 $16,209 ($15,152 – 1997).

2 For all Special Funds Loans approved prior to 21 March 1974, the Bank charges interest (including a service fee of 3/4 of 1%) on amounts disbursed and outstanding ranging from 1% per annum to 3% per annum. For loans approved after 21 March 1974, the Bank levies a service charge on amounts disbursed and outstanding at the rate of 1% per annum.

MATURITY OF EFFECTIVE LOANS

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
1999	$251,288	2008	2,489,609
2000	266,428	2013	3,311,878
2001	303,537	2018	3,835,841
2002	336,771	2023	3,659,918
2003	368,450	2028	2,502,391
		2033	1,347,848
		2038	401,329
		Total	**$19,075,288**

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	1998	1997	Currency	1998	1997
Australian dollar	$ 391,511	$338,065	Japanese yen	8,092,001	6,565,422
Austrian schilling	125,068	105,557	Korean won	23	–
Belgian franc	142,441	102,114	Netherlands guilder	387,413	329,223
Canadian dollar	676,201	726,155	New Zealand dollar	26,613	25,941
Danish krone	94,504	77,519	Norwegian krone	73,271	76,938
Deutsche mark	1,056,399	869,562	Pound sterling	326,311	351,761
Finnish markka	73,716	61,669	Spanish peseta	49,337	39,239
French franc	482,818	380,903	Swedish krona	82,773	71,192
Italian lira	254,008	194,834	Swiss franc	188,977	163,970
			United States dollar	1,800,650	1,786,038
			Total	**$14,324,035**	**$12,266,102**

3 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, the Bank has entered into irrevocable commitments to disburse various amounts totaling $161,061 ($117,703 – 1997).

See notes to financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

STATEMENT OF RESOURCES

31 December 1998

Expressed in Thousands of United States Dollars (Note B)

	Effective Amounts Committed During 1998	Effective Amounts Committed: At Exchange Rates Per Resolutions	Effective Amounts Committed: At 31 Dec 1998 Exchange Rates	Amounts Not Yet Available For Loan Commitments	Amounts Available For Loan Commitments	Amounts Received	Amounts Receivable[2]
CONTRIBUTED RESOURCES							
Australia	$ –	$ 1,139,532	$ 821,815	$ 71,098	$ 750,717	$ 750,717	$ –
Austria	20,674	144,706	170,965	18,719	152,246	152,246	–
Belgium	17,058	138,556	150,229	8,529	141,700	141,700	–
Canada	–	1,280,180	1,018,737	55,621	963,116	963,116	–
Denmark	–	154,229	162,252	10,657	151,595	151,595	–
Finland	–	100,391	90,204	7,889	82,315	82,315	–
France	–	831,755	854,659	113,373	741,286	791,653	(50,367)
Germany	–	1,132,547	1,338,879	146,534	1,192,345	1,192,345	–
Hong Kong, China	–	20,270	20,270	7,695	12,575	12,575	–
Indonesia	–	14,960	14,960	5,000	9,960	14,960	(5,000)
Italy	102,914	707,302	540,884	51,457	489,427	463,699	25,728
Japan	–	6,441,291	10,395,079	469,722	9,925,357	9,925,357	–
Korea, Republic of	35,541	77,170	58,441	17,770	40,671	40,671	–
Malaysia	–	10,000	6,708	3,354	3,354	6,708	(3,354)
Nauru	–	1,933	1,933	500	1,433	1,433	–
Netherlands	–	413,497	482,300	28,696	453,604	453,604	–
New Zealand	–	70,473	52,807	8,872	43,935	43,935	–
Norway	–	138,458	112,325	10,224	102,101	102,101	–
Spain	11,768	103,513	93,418	5,884	87,534	93,418	(5,884)
Sweden	–	249,844	184,989	16,499	168,490	168,490	–
Switzerland	–	214,910	264,842	28,306	236,536	236,536	–
Taipei,China	12,398	31,080	28,898	6,199	22,699	16,500	6,199
Thailand	2,753	4,000	2,753	1,376	1,377	2,753	(1,376)
Turkey	16,120	100,386	100,386	19,715	80,671	80,671	–
United Kingdom	–	725,477	683,133	55,666	627,467	627,467	–
United States	400,000	2,924,928	2,924,928	387,017	2,537,911	2,437,911	100,000
Total	619,226	17,171,388	20,576,794	1,556,372	19,020,422	18,954,476	65,946
SET-ASIDE RESOURCES (Note G)	–	–	67,036	–	67,036	–	–
TRANSFER FROM ORDINARY CAPITAL RESOURCES	–	–	230,000	–	230,000	–	–
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND[1]	–	–	3,256	–	3,256	–	–
TOTAL	**$619,226**	**$17,171,388**	**$20,877,086**	**$1,556,372**	**$19,320,714**	**$18,954,476**	**$65,946**

1 Includes translation adjustments amounting to $216 as of 31 December 1998.
2 Negative amounts represent contributed resources received in advance of their due dates and therefore not yet available for loan commitments.

See notes to financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997 **CONTINUED**

NOTE A—NATURE OF OPERATIONS

The Asian Development Fund (the Fund) was established on 28 June 1974 to carry out more effectively the special operations of the Bank by providing resources on concessional terms which are made available almost exclusively to the poorest borrowing countries.

The resources of the Fund have been subsequently augmented by six replenishments, the most recent of which became effective in September 1997 in a total amount equivalent to US$2,657,777,000 to cover the operational requirements for the four-year period from January 1997. In 1997, unallocated net income in the amount of $230,000,000 held in the surplus account of the Bank's Ordinary Capital Resources was allocated to the Fund to supplement donors' contributions.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional Currencies and Reporting Currency

The currencies of contributing member countries are 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, 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 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 relating to set-aside resources (*see Note G*) are recorded as notional amounts receivable from or payable to Ordinary Capital Resources. Other translation adjustments are charged or credited to "Accumulated translation adjustments" and reported in "UNEXPENDED BALANCES AND CAPITAL" as part of "Accumulated other comprehensive income." Exchange gains or losses on currency transactions among functional currencies are included in revenue.

Investments

All investment securities held by the Bank are considered by Management to be available for sale and are reported at estimated fair value, with unrealized gains and losses excluded from revenue and reported in "UNEXPENDED BALANCES AND CAPITAL" as part of "Accumulated other comprehensive income." Estimated fair value generally represents market value. Cost or amortized cost is used to approximate fair value for certain short-term investments not traded in the market (time deposits, etc.). Realized gains and losses are included in revenue from investments and are measured by the difference between average cost or amortized cost and the net proceeds of sales.

Loans

Loans of the Fund are extended to eligible developing member countries, bear only a service charge and require repayment over periods ranging from 35 to 40 years. The Fund requires borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies disbursed. It is the policy of the Fund to place in nonaccrual status loans made to eligible developing member countries if the principal or service charges with respect to any such loans are overdue by six months. When loans are in nonaccrual status, the related unpaid service charges are reversed and are deducted from revenue. Service charges on nonaccruing loans are included in revenue only to the extent that payments have actually been received by the Fund. The Bank follows a policy of not taking part in debt rescheduling agreements with respect to public sector loans. In case of private sector loans, the Bank may agree to debt rescheduling only after alternative courses of action have been exhausted.

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997

The Bank determines that a loan is impaired and therefore subject to provisioning when principal or service charges are in arrears for one year for public sector loans made to or guaranteed by a member country (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 possible losses.

The Bank's periodic evaluation of the adequacy of the allowance for possible 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.

Contributed Resources

Contributions by member countries are included in the financial statements as amounts committed 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 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 Fund considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

NOTE C—INVESTMENTS

The currency compositions of the investment portfolio as of 31 December 1998 and 1997 expressed in United States dollars were as follows:

Currency	1998	1997
Australian dollar	$ 142,529,000	$127,944,000
Austrian schilling	27,998,000	22,063,000
Belgian franc	23,922,000	39,743,000
Canadian dollar	99,276,000	65,862,000
Deutsche mark	40,890,000	22,671,000
French franc	118,489,000	101,124,000
Italian lira	81,671,000	67,546,000
Japanese yen	178,867,000	132,097,000
Netherlands guilder	26,222,000	15,721,000
Norwegian krone	22,123,000	16,958,000
Pound sterling	233,076,000	137,839,000
Spanish peseta	33,291,000	23,527,000
United States dollar	343,458,000	145,926,000
Others	64,075,000	50,095,000
Total	$1,435,887,000	$969,116,000

The amortized cost and estimated fair value of the investments by contractual maturity at 31 December 1998 were as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$1,378,755,000	$1,378,755,000
Due after one year through five years	37,218,000	37,960,000
Due after five years through ten years	18,262,000	19,172,000
Total	$1,434,235,000	$1,435,887,000

CONTINUED

Additional information relating to investments in government and government-guaranteed obligations is as follows:

	1998	1997
As of 31 December:		
Amortized cost	$114,723,000	$86,574,000
Estimated fair value	116,375,000	86,767,000
Gross unrealized gains	1,652,000	253,000
Gross unrealized losses	–	60,000
For the years ended 31 December:		
Change in net unrealized gains/losses	1,459,000	100,000
Proceeds from sales	738,558,000	758,110,000
Gross gains	1,000	3,000
Gross losses	1,000	1,000

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, was 4.56% (3.93% – 1997). If unrealized gains and losses were included, the annualized rate of return would have been 4.67% (3.94% – 1997).

Investments are governed by the Investment Authority approved by the Board of Directors. The main investment management objective is to maintain security and liquidity. Subject to these parameters, the Bank seeks the highest possible return on its investments.

NOTE D—LOANS AND LOAN LOSS PROVISION

Loans

Loans are fair valued 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 the Bank to a similar borrower. Such terms generally include a service charge of 1% and a final maturity of about 40 years. 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 the Bank's experience with its borrowers.

Undisbursed loan commitments and an analysis of loans by countries as of 31 December 1998 are shown in ADF-5.

The principal amount outstanding of public sector loans in nonaccrual status as of 31 December 1998 was $492,379,000 ($61,341,000 – 1997) of which $22,253,000 ($8,620,000 – 1997) was overdue. Overdue charges on these loans totalled $6,960,000 ($2,460,000 – 1997). Loans in nonaccrual status resulted in a reduction of $5,740,000 ($736,000 – 1997) in revenue from loans for the year ended 31 December 1998. The loans in nonaccrual status as of 31 December 1998 were four loans made to Afghanistan and twenty-seven loans to Myanmar. (Four loans to Afghanistan and twelve loans to Solomon Islands were in nonaccrual status as of 31 December 1997).

Private sector loans outstanding as of 31 December 1998 were $13,885,000 ($13,518,000 – 1997), net of accumulated provision for possible loan losses as of 31 December 1998 of $2,324,000 ($1,634,000 – 1997), and there were no undisbursed loan commitments (nil – 1997).

Loan Loss Provision

The Bank makes provision for possible losses on loans to the private sector based on an evaluation by the Bank of the collectibility of loans outstanding.

The Bank makes provision for possible losses on loans made to the public sector when principal or service charges are in arrears for a year or more unless there is clear and convincing evidence warranting the deferment or acceleration of such provisioning. The amount of any loss provision is determined by comparing the carrying value of the loan to the present value of expected cash inflows discounted at the loan's effective interest rate.

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997

During the 1998 financial year, no loan loss provisions ($3,943,000 – 1997) were made against public sector loans while $822,000 (write back of $144,000 – 1997) has been provided against private sector loans.

Information appertaining to loans which are subject to loan loss provisions as at 31 December 1998 and 1997 were as follows:

	1998	1997
Loans without loss provisions	$14,277,229,000	$12,222,964,000
Loans subject to loss provisions	46,806,000	43,138,000
Total	$14,324,035,000	$12,266,102,000
Average amount of loans subject to loss provisions	$ 46,962,000	$ 45,302,000
Related service charges recognized on such loans	$ 151,000	$ 158,000
Cash received on related service charges on such loans	$ 149,000	$ 189,000

The changes in the allowance for possible loan losses during 1998 and 1997 were as follows:

	1998	1997
Balance – 1 January	$ 5,577,000	$ 1,778,000
Provision during the year	822,000	3,799,000
Translation adjustments	(132,000)	–
Balance – 31 December	$ 6,267,000	$ 5,577,000
Made up of:		
Against public sector loans		
Afghanistan	$ 3,943,000	$ 3,943,000
Against private sector loans	2,324,000	1,634,000
Total	$ 6,267,000	$ 5,577,000

NOTE E—NOTES OF CONTRIBUTORS

Notes of contributors are nonnegotiable, noninterest-bearing and, subject to certain restrictions imposed by applicable Board of Governors' resolutions, encashable by the Bank at par upon demand.

The Bank currently expects that the notes outstanding at 31 December 1998 will be encashed in varying amounts over the nine-year period ending 31 December 2007.

Notes of contributors are fair valued 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 include an administration charge from Ordinary Capital Resources amounting to $71,475,000 ($96,452,000 – 1997). The charge represents an apportionment of all administrative expenses of the Bank (other than those appertaining directly to ordinary operations and special operations) based on the number of loans and equity investments approved during the year.

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 the Bank. The capital so set aside was allocated and transferred from the Ordinary Capital Resources to the Fund as Set-Aside Resources.

The capital stock of the Bank 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 (the Bank'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 the Bank'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 1998, the value of the SDR in terms of the current United States dollar was $1.40803 ($1.34925 – 1997). On this basis, Set-Aside Resources amounted to $67,036,000 ($64,237,000 – 1997). If the capital stock of the Bank as of 31 December 1998 had been valued in terms of $12,063.50 per share, Set-Aside Resources would have been $57,434,000.

NOTE H—COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

In 1998, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 130 – Reporting Comprehensive Income issued by the Financial Accounting Standards Board. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. Comprehensive income has two major components: net income and other comprehensive income. Other comprehensive income include such items as unrealized gains and losses on available-for-sale securities and foreign currency translation adjustments. The 1997 financial statements have been reclassified for comparative purposes.

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 fair value of financial instruments that are short-term approximates their carrying amounts.

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 Fund's balance sheet carrying amounts are considered to approximate fair values for all significant financial instruments. See Notes B, C, D, and E for discussions with respect to investments, loans, and notes of contributors, respectively.

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REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets and of 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 1998 and 1997, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Bank's management; 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 generally accepted auditing standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

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 1998 and summary statement of technical assistance approved and effective for the year ended 31 December 1998 are presented as 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

17 February 1999

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF FINANCIAL POSITION

31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998		1997	
ASSETS				
DUE FROM BANKS (Note B)		$ 1,216		$ 641
INVESTMENTS (Notes B and C)				
Government and government-guaranteed obligations	$ 36,111		$ 15,710	
Time deposits and other obligations of banks	146,966	183,077	138,711	154,421
ACCRUED REVENUE		2,209		791
OTHER ASSETS		11,804		13,372
TOTAL		**$198,306**		**$169,225**
LIABILITIES AND UNCOMMITTED BALANCES				
PAYABLE TO ORDINARY CAPITAL RESOURCES		$ 65		$ 117
ACCOUNTS PAYABLE AND OTHER LIABILITIES		17		117
UNDISBURSED COMMITMENTS (Notes B and E)		101,037		115,023
UNCOMMITTED BALANCES (TASF-2 and TASF-4) (Note B), represented by:				
Unrestricted net assets	$ 97,187		$ 53,776	
Temporarily restricted net assets	–	97,187	192	53,968
TOTAL		**$198,306**		**$169,225**

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998		1997	
CHANGES IN UNRESTRICTED NET ASSETS				
CONTRIBUTIONS (TASF-4) (Notes B and D)		$ 80,066		$ 1,126
REVENUE				
From investments (Notes B and C)				
Interest	$5,918		$5,876	
Unrealized investment losses	(40)		(114)	
Net gain on sales	7		–	
	5,885		5,762	
From other sources—net (Note E)	766	6,651	746	6,508
NET ASSETS RELEASED FROM RESTRICTIONS (Note B)		192		–
Total		86,909		7,634
EXPENSES				
Technical assistance (TASF-5) (Note B)		36,037		58,233
Financial expenses		7		5
Total		36,044		58,238
CONTRIBUTIONS AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES		50,865		(50,604)
EXCHANGE LOSSES—net (Note B)		(7,454)		(13,745)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS		43,411		(64,349)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS				
CONTRIBUTIONS (TASF-4) (Notes B and D)		–		192
NET ASSETS RELEASED FROM RESTRICTIONS (Note B)		(192)		–
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS		(192)		192
INCREASE (DECREASE) IN NET ASSETS		43,219		(64,157)
NET ASSETS AT BEGINNING OF YEAR		53,968		118,125
NET ASSETS AT END OF YEAR		**$97,187**		**$ 53,968**

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF CASH FLOWS

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 2,461	$ 643
Interest on investments received	5,457	5,871
Cash received from other activities	704	717
Technical assistance disbursed	(49,616)	(49,406)
Financial expenses paid	(7)	(5)
Net Cash Used in Operating Activities	(41,001)	(42,180)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash withdrawn from time deposits and other obligations of banks[1]	64,736	34,026
Sales of investment securities	4,060	13,093
Maturities of investment securities	9	505
Purchases of investment securities	(27,294)	(4,930)
Net Cash Provided by Investing Activities	41,511	42,694
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid to Ordinary Capital Resources and others—net	(42)	(463)
Net Cash Used in Financing Activities	(42)	(463)
Effect of Exchange Rate Changes on Due from Banks	107	(31)
Net Increase in Due from Banks	575	20
Due from Banks at Beginning of Year	641	621
Due from Banks at End of Year	$ 1,216	$ 641
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Increase (Decrease) in net assets (TASF-2)	$ 43,219	$(64,157)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Noncash contributions from OCR	(78,658)	–
Change in contributions receivable	1,053	(675)
Change in undisbursed commitments	(13,986)	9,885
Translation adjustments	7,392	13,716
Unrealized investment losses	40	114
Change in advances for technical assistance to member countries	407	(1,058)
Amortization of discounts/premiums	527	57
Gain on sale of investments	(7)	–
Change in accrued interest receivable and other	(988)	(62)
Net Cash Used in Operating Activities	$(41,001)	$(42,180)

1 In addition to cash invested in time deposits during 1998, time deposits and related interest amounting to $78,658 were received by the Fund from the Ordinary Capital Resources of the Bank.

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF RESOURCES

31 December 1998

Expressed in Thousands of United States Dollars (Note B)

	Contributions Received During 1998	Cumulative Contributions Received	Contributions Utilized During 1998	Cumulative Contributions Utilized	Contributions Unutilized
DIRECT VOLUNTARY CONTRIBUTIONS					
Australia	$ –	$ 2,484	$ –	$ 2,484	$ –
Austria	–	159	–	159	–
Bangladesh	–	47	–	47	–
Belgium	–	1,394	–	1,394	–
Canada	–	3,346	–	3,346	–
China, People's Republic of	–	600	–	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	–	2,659	256	2,659	–
Indonesia	–	250	–	250	–
Italy	–	774	–	774	–
Japan	–	47,710	–	47,710	–
Korea, Republic of	–	1,900	–	1,900	–
Malaysia	–	909	–	909	–
Netherlands	–	1,337	–	1,337	–
New Zealand	–	1,096	–	1,096	–
Norway	–	3,279	–	3,279	–
Pakistan	66	1,317	128	1,317	–
Singapore	–	1,100	1,000	1,100	–
Spain	–	190	–	190	–
Sri Lanka	–	6	–	6	–
Sweden	–	861	–	861	–
Switzerland	–	1,035	–	1,035	–
Taipei,China	–	200	–	200	–
United Kingdom	–	5,617	–	5,617	–
United States	–	1,500	–	1,500	–
Total	66	87,082	1,384	87,082	–
REGULARIZED TASF REPLENISHMENTS AND ALLOCATION FROM ORDINARY CAPITAL RESOURCES NET INCOME (Note D)	80,000	579,039	40,488	523,913	55,126
TRANSFERS TO ASIAN DEVELOPMENT FUND	–	(3,472)	–	(3,472)	–
OTHER RESOURCES[1]	–	57,923	7	17,017	40,906
UNREALIZED INVESTMENT HOLDING GAINS	–	1,155	–	–	1,155
TOTAL	**$80,066**	**$721,727**	**$41,879**[2]	**$624,540**	**$97,187**

1 Other resources represent income and replenishments accruing to TASF since 1 April 1980.
2 Includes exchange loss amounting to $5,835.

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

SUMMARY STATEMENT OF TECHNICAL ASSISTANCE APPROVED AND EFFECTIVE

For the Year Ended 31 December 1998

Expressed in Thousands of United States Dollars (Note B)

Recipient	Project Preparation	Project Implementation/ Advisory	Total
Bangladesh	$ 289	$ 2,844	$ 3,133
Bhutan	–	(77)	(77)
Cambodia	(34)	1,014	980
China, People's Republic of	402	2,413	2,815
Cook Islands	–	(965)	(965)
Fiji	–	(95)	(95)
India	917	479	1,396
Indonesia	202	368	570
Kazakhstan	(31)	1,395	1,364
Kiribati	(28)	361	333
Kyrgyz Republic	–	819	819
Lao PDR	(18)	1,008	990
Malaysia	(33)	(362)	(395)
Maldives	–	1,079	1,079
Marshall Islands	–	830	830
Micronesia, Federated States of	–	1,191	1,191
Mongolia	(81)	1,603	1,522
Nepal	(8)	(73)	(81)
Pakistan	(409)	391	(18)
Papua New Guinea	108	(132)	(24)
Philippines	(5)	1,145	1,140
Samoa	(16)	(52)	(68)
Solomon Islands	150	750	900
Sri Lanka	–	(428)	(428)
Tajikistan	–	150	150
Thailand	(11)	118	107
Tonga	–	(9)	(9)
Tuvalu	–	135	135
Uzbekistan	(23)	1,150	1,127
Vanuatu	–	1,807	1,807
Viet Nam	–	3,615	3,615
Total	$1,371	$22,472	23,843
Regional Activities			12,194
TOTAL			**$36,037**

Negative amounts represent net undisbursed commitments written back to balances available for future commitments (Notes B and E).

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK – TECHNICAL ASSISTANCE SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997

NOTE A—NATURE OF OPERATIONS

The Technical Assistance Special Fund (TASF) was established to provide technical assistance on a grant basis to the Bank's developing member countries 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, temporarily restricted, and permanently restricted net assets.

TASF 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 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.

Investments

All investment securities held by TASF are reported at estimated fair value, with realized and unrealized gains and losses included in revenue. Estimated fair value generally represents market value. Cost or amortized cost is used to approximate fair value for certain short-term investments not traded in the market (time deposits, etc.).

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 TA 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 charged or credited to operations.

CONTINUED

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 TASF considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

NOTE C—INVESTMENTS

The currency compositions of the investment portfolio as of 31 December 1998 and 1997 expressed in United States dollars were as follows:

Currency	1998	1997
Australian dollar	$ 5,299,000	$ 5,231,000
Canadian dollar	85,137,000	89,047,000
Deutsche mark	6,103,000	5,821,000
Italian lira	5,032,000	4,490,000
Netherlands guilder	2,542,000	2,286,000
Swiss franc	72,884,000	40,040,000
Others	6,080,000	7,506,000
Total	$183,077,000	$154,421,000

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 4.10% (3.18% – 1997).

Investments are governed by the Investment Authority approved by the Board of Directors. The main investment management objective is to maintain security and liquidity. Subject to these parameters, the Bank seeks the highest possible return on its investments.

NOTE D—FUNDING

Since 1967, contributions have been made by 31 member countries. In February 1992, the Board of Governors, in authorizing a $4,200,000,000 replenishment of the ADF, provided for an allocation to the TASF in an aggregate amount equivalent to $140,000,000 to be used for technical assistance to poorer developing members and for regional technical assistance. This replenishment became effective in August 1992.

An aggregate amount equivalent to $161,000,000 has been allocated to TASF ($81,000,000 and $80,000,000 from the 1994 and 1997 net income of the OCR, respectively, in 1995 and 1998).

Some of the contributions received were restricted to use upon procurement sources, while some were given on condition that the TA be made on reimbursable basis.

The total contributions received for the years ended 31 December 1998 and 1997 were as follows:

	1998	1997
Unrestricted contributions	$80,066,000	$1,126,000
Temporarily restricted contributions	–	192,000
Total	$80,066,000	$1,318,000

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 1998, an amount of $15,557,000 ($5,481,000 – 1997) representing completed and cancelled

ASIAN DEVELOPMENT BANK – TECHNICAL ASSISTANCE SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997

TA projects has been written back as a reduction in TA of the period and the corresponding undisbursed commitment has been eliminated. The fair value of undisbursed commitments approximates the amounts undisbursed because the Bank expects that grants will be made for all projects/programs covered by the commitments. When TA provided as a project preparatory grant leads to a Bank loan, the amount of the grant exceeding $250,000 will be refinanced under the terms of that Bank loan. Refinanced amounts of $714,000 ($656,000 – 1997) were charged to such loans and credited to revenue from other sources of the TASF during the year ended 31 December 1998.

NOTE F—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 fair value of financial instruments that are short-term approximates their carrying amounts.

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 Fund's statement of financial position carrying amounts 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.

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REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets, and of 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 1998 and 1997, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Bank's management; 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 generally accepted auditing standards 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 amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

17 February 1999

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF FINANCIAL POSITION

31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998		1997	
ASSETS				
DUE FROM BANKS (Note B)		$ 329		$ 38,458
INVESTMENTS (Notes A, B, and C)				
Government and government-guaranteed obligations	$ –		$ 538	
Time deposits	309,782	309,782	268,914	269,452
EQUITY INVESTMENTS (Notes A, B, and D), net		216		373
ACCRUED REVENUE		3,279		460
OTHER ASSETS		4,362		3,207
TOTAL		**$317,968**		**$311,950**
LIABILITIES AND UNCOMMITTED BALANCES				
PAYABLE TO ORDINARY CAPITAL RESOURCES		$ 512		$ 856
ACCOUNTS PAYABLE AND OTHER LIABILITIES		36		90
UNDISBURSED COMMITMENTS (Notes B and E)		134,250		106,583
NET ASSETS (JSF-2) (Note B), represented by:				
Uncommitted Balances (Note F)				
Unrestricted	$103,071		$129,463	
Temporarily restricted (Notes A and G)	24,464		34,642	
	127,535		164,105	
Net Accumulated Investment Income				
Temporarily restricted (Notes A and G)	55,635	183,170	40,316	204,421
TOTAL		**$317,968**		**$311,950**

See notes to financial statements (JSF-4).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998		1997	
CHANGES IN UNRESTRICTED NET ASSETS				
CONTRIBUTIONS (Notes B and G)		$ 46,479		$ –
REVENUE FROM OTHER SOURCES		64		209
UNREALIZED HOLDING LOSSES ON EQUITY INVESTMENT		(152)		(259)
NET ASSETS RELEASED FROM RESTRICTIONS (Notes B and G)		26,926		17,138
Total		73,317		17,088
EXPENSES				
Technical assistance (Note B)		95,651		72,477
Administrative expenses		1,080		1,278
Provision for possible losses (Notes B and D)		134		–
Total		96,865		73,755
CONTRIBUTIONS AND REVENUE LESS THAN EXPENSES		(23,548)		(56,667)
EXCHANGE LOSSES (Note B)		(1,585)		(10,137)
DECREASE IN UNRESTRICTED NET ASSETS BEFORE TRANSLATION ADJUSTMENTS		(25,133)		(66,804)
TRANSLATION ADJUSTMENTS (Note B)		(1,259)		(15,787)
DECREASE IN UNRESTRICTED NET ASSETS AFTER TRANSLATION ADJUSTMENTS		(26,392)		(82,591)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS				
CONTRIBUTIONS (Notes B and G)		16,068		–
REVENUE				
From investments (Notes B and C)				
Interest	$ 16,560		$ 2,534	
Unrealized investment losses	–	16,560	(58)	2,476
NET ASSETS RELEASED FROM RESTRICTIONS (Notes B and G)				
Project related	(25,846)		(15,860)	
Administrative expenses	(1,080)	(26,926)	(1,278)	(17,138)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS BEFORE TRANSLATION ADJUSTMENTS		5,702		(14,662)
TRANSLATION ADJUSTMENTS (Note B)		(561)		(13,228)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS AFTER TRANSLATION ADJUSTMENTS		5,141		(27,890)
DECREASE IN NET ASSETS		(21,251)		(110,481)
NET ASSETS AT BEGINNING OF YEAR		204,421		314,902
NET ASSETS AT END OF YEAR		**$183,170**		**$204,421**

See notes to financial statements (JSF-4).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF CASH FLOWS

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 62,547	$ –
Interest on investments received	13,738	3,563
Interest on bank account	–	177
Technical assistance disbursed	(69,012)	(71,689)
Administrative expenses paid	(1,446)	(822)
Other—net	(1,666)	(632)
Net Cash Provided by (Used in) Operating Activities	4,161	(69,403)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash withdrawn from (invested in) time deposits	(43,904)	85,544
Sales of investment securities	63,478	79,410
Maturities of investment securities	–	17,521
Purchases of investment securities	(63,070)	(74,690)
Net Cash Provided by (Used in) Investing Activities	(43,496)	107,785
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid to Ordinary Capital Resources and others—net	(139)	(329)
Effect of Exchange Rate Changes on Due from Banks	1,345	(23)
Net Increase (Decrease) in Due from Banks	(38,129)	38,030
Due from Banks at Beginning of Year	38,458	428
Due from Banks at End of Year	$ 329	$ 38,458
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Decrease in net assets (JSF-2)	$(21,251)	$(110,481)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Unrealized investment losses	152	317
Translation adjustments	1,820	38,304
Gain on sale of investments	–	(411)
Provision for possible losses charged	134	–
Change in undisbursed commitments	27,667	1,446
Amortization of discounts/premiums	(3)	1,085
Other—net	(4,358)	337
Net Cash Provided by (Used in) Operating Activities	$ 4,161	$ (69,403)

See notes to financial statements (JSF-4).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997 **CONTINUED**

NOTE A—NATURE OF OPERATIONS

The Japan Special Fund (JSF) was established in March 1988 when Japan and the Bank entered into a financial arrangement whereby Japan agreed to make an initial contribution and the Bank became the administrator. The purpose of JSF is to help developing member countries (DMCs) of the Bank restructure their economies and broaden the scope of opportunities for new investments, thereby assisting the recycling of funds to DMCs of the Bank. While the JSF resources are used mainly to finance technical assistance (TA) operations, these resources may also be used for equity investment operations in the Bank's DMCs. Under the agreement between the Bank and the Government of Japan, the Bank may invest the proceeds of JSF pending disbursement. The revenue from such investments, if retained by the Bank, may only be used to pay for direct and identifiable costs incurred in the administration of JSF.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the JSF are presented on the basis of unrestricted and temporarily restricted net assets.

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, with realized and unrealized gains and losses included in revenue. Estimated fair value generally represents market value. Cost or amortized cost is used to approximate fair value for certain short-term investments not traded in the market (time deposits, etc.).

Contributions

Contributions by Japan are included in the financial statements from the date indicated by the government of Japan that funds are expected to be made available. Contributions which are restricted by the donor for specific TA projects/programs are classified as temporarily restricted contributions. Those without any stipulation as to specific use are accounted for as unrestricted contributions and reported as such.

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 TA for the period and the corresponding undisbursed commitment is eliminated accordingly.

Functional Currency and Reporting Currency

The functional currency of JSF is the Japanese yen, while 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 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 year are translated at the applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts in Japanese yen are translated for each semimonthly period at the applicable rates of exchange at the beginning of each period; such practice approximates

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997

the application of average rates in effect during the period. Exchange gains or losses on currency transactions arise on translation differences between the date a project/program is committed and the timing of disbursements. Exchange gains or losses are charged or credited to operations.

Equity Investments

Equity investments with readily determinable fair values are reported at fair value. The Bank makes provisions for possible loss of value quarterly based on Management's evaluation of potential losses on investments without readily determinable fair values.

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 currency compositions of the investment portfolio as of 31 December 1998 and 1997 expressed in United States dollars were as follows:

Currency	1998	1997
Japanese yen	$ –	$152,367,000
United States dollar	309,782,000	117,085,000
Total	$309,782,000	$269,452,000

Starting November 1997, liquid funds denominated in yen were converted into United States dollar denominated investments. This has resulted in an increase in the return on investments noted below.

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 5.08% (0.68% – 1997).

Investments are governed by the Investment Authority approved by the Board of Directors. The main investment management objective is to maintain security and liquidity. Subject to these parameters, the Bank seeks the highest possible return on its investments.

NOTE D—EQUITY INVESTMENTS

The Bank used JSF resources to make an equity investment in India in 1990 totalling $216,000 at 31 December 1998 ($373,000 – 1997). The investment is reported at its estimated fair value and the unrealized loss of $152,000 ($259,000 – 1997) is included in income for the year.

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent effective TA for projects/programs which have not been disbursed. During 1998, an amount of $9,169,000 ($3,266,000 – 1997) representing completed and cancelled TA projects has been written back as a reduction in TA of the period and the corresponding undisbursed commitment has been eliminated. The fair value of undisbursed commitments approximates the amounts outstanding because JSF expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

CONTINUED

NOTE F—UNCOMMITTED BALANCES

Uncommitted balances are composed of amounts which have not been committed by the Bank as at 31 December 1998. These balances include TA projects/programs that had been approved but which had not yet become effective.

As of 31 December 1998 and 1997 these balances were as follows:

	1998	1997
Uncommitted balances	$127,535,000	$164,105,000
TA projects/programs approved by the Government of Japan and the Bank but not yet effective	(35,108,000)	(49,243,000)
TA projects/programs approved by the Government of Japan and not yet effective	(29,050,000)	(44,236,000)
Uncommitted balances available for new commitments	$ 63,377,000	$ 70,626,000

NOTE G—CONTRIBUTIONS AND TEMPORARILY RESTRICTED NET ASSETS

All contributions for the years ended 31 December 1998 and 1997 were received during the respective years. Some of the contributions received were with the restriction that they were to be utilized for specific TA projects/programs. Such contributions were classified as temporarily restricted support.

Temporarily restricted uncommitted balances are available for the following purposes as of 31 December 1998 and 1997:

	1998	1997
Environment-Related Activities	$13,917,000	$20,113,000
Private Sector Promotion	5,458,000	8,760,000
Gender and Development	4,809,000	5,586,000
Training/Symposium	280,000	183,000
Total	$24,464,000	$34,642,000

Accumulated investment income net of accumulated administrative expenses has been categorized as temporarily restricted net assets because, under the terms of the agreement between the Bank and the donor, it may only be used for the defrayment of the Fund's administrative expenses.

Net assets released from restrictions relate to commitments for TA 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 fair value of financial instruments that are short-term approximates their carrying amounts.

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997

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 Fund's statement of financial position carrying amounts are considered to approximate fair values for all significant financial instruments. See Notes B, C, D, and E for discussions with respect to investments, equity investments, and undisbursed commitments, respectively.

PRICEWATERHOUSECOOPERS

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REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets, and of 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 1998 and 1997, and the results of its activities and changes in net assets and its cash flows for the year ended 31 December 1998 and the period 24 March to 31 December 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Bank's management; 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 generally accepted auditing standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

17 February 1999

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

STATEMENT OF FINANCIAL POSITION

31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	1998		1997	
ASSETS				
DUE FROM BANKS (Note B)		$ 714		$ 276
INVESTMENTS (Notes B, C, and D)				
Time deposits		12,233		3,575
PROPERTY, FURNITURE, AND EQUIPMENT (Note B)	$4,722		$4,225	
Less—allowance for depreciation	1,146	3,576	303	3,922
OTHER ASSETS		1,946		1,643
TOTAL		**$18,469**		**$9,416**
LIABILITIES AND UNCOMMITTED BALANCES				
ACCOUNTS PAYABLE TO ORDINARY CAPITAL RESOURCES		$ 78		$ 494
ACCOUNTS PAYABLE AND OTHER LIABILITIES		393		32
UNCOMMITTED BALANCES (ADBISF-2)		17,998		8,890
TOTAL		**$18,469**		**$9,416**

See notes to financial statements (ADBISF-4).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended 31 December 1998 and the Period 24 March to 31 December 1997

Expressed in Thousands of United States Dollars (Note B)

	1998	1997
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note B)	$16,254	$11,828
REVENUE		
Income from investments (Notes B and C)	57	28
Total	16,311	11,856
EXPENSES	8,745	2,788
CONTRIBUTIONS AND REVENUE IN EXCESS OF EXPENSES	7,566	9,068
EXCHANGE LOSSES	(37)	–
TRANSLATION ADJUSTMENTS (Note B)	1,579	(178)
INCREASE IN UNRESTRICTED ASSETS AFTER TRANSLATION ADJUSTMENTS	9,108	8,890
NET ASSETS AT BEGINNING OF YEAR	8,890	–
NET ASSETS AT END OF YEAR	**$17,998**	**$ 8,890**

See notes to financial statements (ADBISF-4).

ADBISF-3

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

STATEMENT OF CASH FLOWS

For the Year Ended 31 December 1998 and the Period 24 March to 31 December 1997

Expressed in Thousands of United States Dollars (Note B)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 16,254	$ 11,828
Interest on investments received	52	26
Administrative expenses paid	(8,241)	(4,119)
Net Cash Provided by Operating Activities	8,065	7,735
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash invested in time deposits	(6,115)	(3,343)
Sales of investment securities	28,753	14,185
Purchases of investment securities	(29,821)	(14,345)
Furniture and equipment acquired	(47)	(4,225)
Net Cash Used in Investing Activities	(7,230)	(7,728)
Effect of Exchange Rate Changes on Due from Banks	(397)	269
Net Increase in Due from Banks	438	276
Due from Banks at Beginning of Year	276	–
Due from Banks at End of Year	$ 714	$ 276
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets (ADBISF-2)	$ 9,108	$ 8,890
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Translation adjustments	(1,579)	178
Amortization of discounts/premiums	(4)	(2)
Depreciation	719	303
Other—net	(179)	(1,634)
Net Cash Provided by Operating Activities	$ 8,065	$ 7,735

See notes to financial statements (ADBISF-4).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997 CONTINUED

NOTE A—NATURE OF OPERATIONS

In 1996, the Bank approved the establishment of the Asian Development Bank Institute (the Institute) in Tokyo, Japan as a subsidiary body of the Bank. The Institute's operations commenced upon the receipt of the first fund from the Government of Japan on 24 March 1997, and it was inaugurated on 10 December 1997. The Institute maintains its own financial accounts and is financed by a Special Fund. The Institute's funds consist of voluntary contributions, donations, and grants from members, nongovernment organizations, and foundations. The objectives of the Institute, as defined under its Statute, are the identification of effective development strategies and the improvement of capacity for sound development management in developing member countries.

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 the contributions of cash and other assets as unrestricted support as these are contributed by donors 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. Cost or amortized cost is used to approximate fair value for certain short-term investments not traded in the market (time deposits, etc.).

Property, Furniture, and Equipment

Property, furniture, and equipment is stated at cost and is depreciated over their estimated useful lives using the straight-line method.

Contributions

Contributions from donors are included in the financial statements from the date indicated by the donors that funds are expected to be made available.

Functional Currency and Reporting Currency

The currencies of contributing members are 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, 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 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 (24 March – 31 December 1997) and the reported amounts of income and expenses during the year (24 March – 31 December 1997). The actual results could differ from those estimates.

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 1998 and 1997

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."

NOTE C—INVESTMENTS

The investment portfolio was composed wholly of investments denominated in Japanese yen. As of 31 December 1998 and 1997, the estimated fair value of the investments approximates the amortized cost. All such investments are due in one year or less.

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 0.48% (0.53% – annualized rate of return for the period ended 31 December 1997).

Investments are governed by the Investment Authority approved by the Board of Directors. The main investment management objective is to maintain security and liquidity. Subject to these parameters, the Bank seeks the highest possible return on its investments.

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 fair value of financial instruments that are short-term approximates their carrying amounts.

The Institute's statement 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 the Bank. 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 the Bank, 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 remuneration 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.

Postretirement Medical Benefits Plan

The Institute participates in the cost-sharing plan of the Bank for retirees medical insurance premiums of ADB. Under the plan, the Institute is obligated to pay 80% of the Group Medical Insurance Plan premiums for retirees 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 postretirement medical benefits.

The following table sets forth the pension and postretirement benefits at 31 December 1998:

	Pension Benefits	Post-retirement Medical Benefits
Change in benefit obligation:		
Benefit obligation at beginning of year	$ –	$ –
Service cost	193,000	103,000
Interest cost	17,000	7,000
Participants' contributions	54,000	–
Benefit obligation at end of year	$ 264,000	$ 110,000
Change in plan assets:		
Fair value of plan assets at beginning of year	$ –	$ –
Employer's contribution	86,000	–
Plan participants' contributions	54,000	–
Fair value of plan assets at end of year	$ 140,000	$ –
Funded status	$(124,000)	$(110,000)
Unrecognized actuarial loss, prior service cost, and transition obligation	–	–
Net amount recognized	$(124,000)	$(110,000)
Amounts recognized in the statement of financial position consists of:		
Prepaid benefit cost	$(124,000)	$(110,000)
Accrued benefit liability	80,000	–
Net amount recognized	$ (44,000)	$(110,000)
Weighted-average assumptions as of 31 December		
Discount rate	6.5%	6.5%
Expected return on plan assets	8.0%	N/A
Rate of compensation increase varies with age and averages	5.5%	5.5%

For measurement purposes, an 11.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as at 31 December 1998. The rate was assumed to decrease gradually to 3.5% for 2009 and remain at that level thereafter.

	Pension Benefits	Postretirement Medical Benefits
Components of net periodic benefit cost:		
Service cost	$193,000	$103,000
Interest cost	17,000	7,000
Net periodic benefit cost	$210,000	$110,000

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:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	22,000	(18,000)
Effect on postretirement benefit obligation	22,000	(18,000)

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Table 1
ESTIMATES OF REAL GDP GROWTH RATE, 1988–1998
AND PER CAPITA GNP, 1997

	GDP Growth Rate (%)				Per Capita GNP [a]
	Annual Average (1988–1995)	1996	1997	1998[b]	(US$) 1997[h]
NIEs	7.3	6.3	6.0	(1.8)	
Hong Kong, China	5.1	4.5	5.3	(5.1)	25,200
Korea, Rep. of	8.1	7.1	5.5	(5.5)	10,550
Singapore	9.1	6.9	7.8	1.5	32,810
Taipei,China	6.8	5.7	6.8	4.8	13,470
PRC and MONGOLIA	9.9	9.6	8.8	7.8	
China, People's Rep. of	9.9	9.6	8.8	7.8	860
Mongolia	(0.8)	2.4	4.0	3.5	390
CENTRAL ASIAN REPUBLICS	(8.5)	1.1	3.6	1.0	
Kazakhstan	(10.8)[c]	0.4	2.1	(1.5)	1,350
Kyrgyz Republic	(12.5)[c]	7.1	9.9	1.8	480
Tajikistan	(15.7)[c]	(4.4)	1.7	4.0	330
Uzbekistan	(4.0)[c]	1.7	5.2	4.4[d]	1,020
SOUTHEAST ASIA	7.9	7.1	4.1	(8.0)	
Cambodia	5.6	7.0	2.0	0.0	300
Indonesia	7.9	7.8	4.9	(13.7)	1,110
Lao PDR	6.3	6.9	6.9	4.0	400
Malaysia	8.9	8.6	7.7	(6.2)	4,530
Myanmar [e,f]	3.1	6.4	5.7	5.0	... [g]
Philippines	3.4	5.8	5.2	(0.5)	1,200
Thailand	9.9	5.5	(0.4)	(8.0)	2,740
Viet Nam	6.3	9.3	8.2	5.8[d]	310
SOUTH ASIA	6.0	7.2	4.5	5.7	
Afghanistan[e]	(7.1)[c]	...	...	...	... [g]
Bangladesh[f]	4.1	5.4	5.9	5.7	360
Bhutan[h]	5.0	6.0	5.4	5.6	430
India[f,h]	6.3	7.8	5.0	5.8	370
Maldives	8.5	6.5	6.2	6.8	1,180
Nepal[f]	5.3	5.3	4.0	1.9	220
Pakistan[f]	5.2	4.7	(0.4)	5.3	500
Sri Lanka	4.8	3.8	6.4	5.3	800
PACIFIC DMCs	4.3	3.1	(3.3)	(0.2)	
Cook Islands	3.8	(0.2)	(0.5)	(1.0)	...
Fiji[h]	4.0	3.4	(1.8)	(3.9)	2,460
Kiribati	3.7	6.3	1.5	1.5	910
Marshall Islands[f]	3.5	(15.2)	(5.3)	(5.0)	1,610
Micronesia, Fed. States of [f]	2.1	0.7	(4.0)	(3.1)	1,920
Nauru[e]	...	...	...	...	...
Papua New Guinea	4.7	3.5	(4.6)	2.5	930
Samoa	1.2[c]	6.9	0.8	...	1,140
Solomon Islands[h]	5.0	0.6	(0.5)	(10.0)	870
Tonga[f,h]	2.1	(1.5)	(6.6)	(0.3)	1,810
Tuvalu[h]	4.2[c]	20.4	2.5	2.0	...
Vanuatu	2.9	3.5	1.7	(2.0)	1,340
WEIGHTED AVERAGE[i]	**7.7**	**7.4**	**6.2**	**1.2**	

... Data not available.
( ) Negative.

a Based on the World Bank Atlas methodology. Fluctuations in prices and exchange rates are smoothened by averaging the exchange rates for 1995–1997, after adjusting for differences in inflation rates between the country and the G-5 countries (France, Germany, Japan, United Kingdom, and United States). Figure for Hong Kong, China refers to GDP.
b Preliminary estimates from country sources.
c Refers to 1988–1993 for Afghanistan; 1991–1995 for Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan; 1991–1995 for Samoa; and 1989–1995 for Tuvalu.
d Refers to the discussion in the text.
e Country figure will be excluded from respective group and total weighted average.
f Refers to fiscal year.
g Estimated to be low income ($785 or less).
h Refers to GDP growth at factor cost.
i Respective year GDP (in US dollars) is used as weights for 1996 and 1997. However, GDP in 1997 is used as weights to derive the averages for the other years.

Sources: Country sources; ADB data file; and World Bank, official communication, 8 February 1999.

Table 2
GROSS DOMESTIC SAVING, GROSS CAPITAL FORMATION, AND RESOURCE GAP AS PERCENTAGE OF GDP, 1996–1998

	Gross Domestic Saving as Percentage of GDP			Gross Capital Formation as Percentage of GDP			Resource Gap as Percentage of GDP		
	1996	1997	1998[a]	1996	1997	1998[a]	1996	1997	1998[a]
NIEs									
Hong Kong, China	30.7	31.8	30.5	32.1	35.4	30.2	1.4	3.5	(0.3)
Korea, Rep. of	34.5	34.2	42.3	38.4	35.0	29.0	3.9	0.8	(13.3)
Singapore	51.2	51.8	52.2	35.3	37.4	34.0	(15.9)	(14.4)	(18.2)
Taipei,China	25.1	24.8	25.1	21.2	22.0	22.7	(3.8)	(2.7)	(2.4)
PRC and MONGOLIA									
China, People's Rep. of	39.5	40.1	41.5	39.6	38.2	39.0	0.0	(1.9)	(2.5)
Mongolia	19.9	21.9	27.0	25.2	26.0	25.8	5.3	4.1	(1.1)
CENTRAL ASIAN REPUBLICS									
Kazakhstan	21.1	18.0	...	18.3	16.9	...	(2.8)	(1.1)	...
Kyrgyz Republic	(0.6)	13.8	...	25.2	21.7	...	25.8	7.9	...
Tajikistan	...	...	...	...	...	...	...	...	...
Uzbekistan	22.7	15.1	11.9	23.0	15.4	10.2	0.3	0.2	(1.8)
SOUTHEAST ASIA									
Cambodia	3.6	4.3	10.8	25.9	19.0	15.0	22.3	14.7	4.2
Indonesia	30.1	31.0	26.2	30.7	31.3	18.5	0.6	0.3	(7.7)
Lao PDR	...	...	...	...	...	...	...	...	...
Malaysia	42.6	43.9	48.0	41.6	42.5	33.2	(1.0)	(1.4)	(14.8)
Myanmar	11.5	10.4	12.1	12.3	11.1	12.8	0.8	0.7	0.6
Philippines	14.6	14.3	12.3	24.0	24.8	20.2	9.4	10.5	7.9
Thailand	33.7	32.9	36.0	41.7	35.0	24.3	8.1	2.1	(11.7)
Viet Nam	17.2	20.1	21.4	28.1	28.3	28.7	10.9	8.2	7.3
SOUTH ASIA									
Afghanistan	...	...	...	...	...	...	...	...	...
Bangladesh	7.5	7.5	7.6	17.0	17.4	17.8	9.5	9.9	10.2
Bhutan	34.5	...	...	44.4	...	...	9.9	...	...
India	24.4	23.1	23.5	25.7	24.8	25.2	1.3	1.7	1.7
Maldives	...	...	...	...	...	...	...	...	...
Nepal	13.8	12.8	...	27.3	25.1	...	13.5	12.3	...
Pakistan	14.2	12.6	16.0	18.6	17.4	17.3	4.4	4.8	1.3
Sri Lanka	15.5	21.4	19.3	24.2	24.4	26.6	8.7	3.0	7.3
PACIFIC DMCs									
Cook Islands	...	...	...	...	...	...	...	...	...
Fiji	14.7	13.1	7.6	11.0	12.4	12.0	(3.7)	(0.7)	4.5
Kiribati	...	...	...	...	...	...	...	...	...
Marshall Islands	...	...	...	...	...	...	...	...	...
Micronesia, Fed. States of	...	...	...	...	...	...	...	...	...
Nauru	...	...	...	...	...	...	...	...	...
Papua New Guinea	32.1	23.0	28.3	27.9	27.1	30.3	(4.3)	4.0	2.0
Samoa	...	...	...	...	...	...	...	...	...
Solomon Islands	...	...	...	...	...	...	...	...	...
Tonga	...	...	...	...	...	...	...	...	...
Tuvalu	...	...	...	...	...	...	...	...	...
Vanuatu	...	...	...	...	...	...	...	...	...

... Data not available.
( ) Negative.
0.0 Data negligible.

a Preliminary estimates.

Source: Country sources and ADB data file.

Table 3
CHANGES IN CONSUMER PRICES,[a] 1996–1998
(%)

	1996	1997	1998[b]
NIEs	4.3	3.5	4.1
Hong Kong, China	6.3	5.9	2.8
Korea, Rep. of	4.9	4.5	7.5
Singapore	1.4	2.0	(1.5)
Taipei,China	3.1	0.9	1.7
PRC and MONGOLIA	8.3	2.8	(0.8)
China, People's Rep. of	8.3	2.8	(0.8)
Mongolia	46.7	36.8	9.4
CENTRAL ASIAN REPUBLICS	47.9	25.7	13.7
Kazakhstan	39.1	17.4	8.2
Kyrgyz Republic	30.3	25.5	12.1
Tajikistan[c]	40.6	159.8	7.0
Uzbekistan[c]	64.4	28.0	22.8
SOUTHEAST ASIA	6.6	5.5	26.6
Cambodia[d]	7.2	8.0	14.8
Indonesia	7.9	6.6	57.9
Lao PDR	13.0	19.3	90.1
Malaysia	3.5	2.7	5.3
Myanmar[d,e]	16.3	29.7	50.0
Philippines	9.1	5.9	9.7
Thailand	5.8	5.6	8.1
Viet Nam[c]	4.5	3.6	9.2
SOUTH ASIA	9.2	7.5	12.1
Afghanistan[e]	...	...	...
Bangladesh	6.6	2.6	7.0
Bhutan	8.8	7.0	9.0
India	9.0	7.2	13.2
Maldives	6.2	7.6	(2.2)
Nepal	8.1	7.8	4.0
Pakistan	10.7	11.8	7.8
Sri Lanka	15.9	9.6	9.4
PACIFIC DMCs	8.5	3.9	8.2
Cook Islands[d]	(0.6)	(0.4)	1.0
Fiji	3.1	3.4	5.7
Kiribati[d]	(1.5)	2.2	2.0
Marshall Islands[d]	9.8	4.8	4.0
Micronesia, Fed. States of	4.0	3.0	3.0
Nauru[e]	4.0	6.1	4.0
Papua New Guinea	11.6	3.9	10.0
Samoa	5.4	6.8	6.0
Solomon Islands[d]	11.8	8.1	12.3
Tonga	3.0	2.1	3.0
Tuvalu[d]	0.0	1.4	0.8
Vanuatu[d]	0.9	2.8	3.9
WEIGHTED AVERAGE[f]	**7.3**	**4.7**	**8.5**

... Data not available.
( ) Negative.

a Unless otherwise indicated, data refer to changes in average consumer prices of the country.
b Preliminary estimates.
c Data refer to end of period.
d Data refer to capital city.
e Country figures are excluded from respective group and total weighted averages.
f Respective year GDP (in US dollars) is used as weights for 1996 and 1997. However, GDP in 1997 is used as weights to derive the averages for 1998.

Sources: Country sources and ADB data file.

Table 4
MERCHANDISE TRADE,[a] 1996–1998
($ million)

	Exports (FOB)[b]			Imports (FOB)[b]			Balance of Trade		
	1996	1997	1998[c]	1996	1997	1998[c]	1996	1997	1998[c]
NIEs	551,788	570,117	531,010	572,819	589,360	496,135	(21,031)	(19,243)	34,875
Hong Kong, China[d,e]	180,750	188,059	174,002	199,101	209,180	184,948	(18,351)	(21,121)	(10,946)
Korea, Rep. of	129,968	138,619	131,827	144,933	141,798	90,609	(14,965)	(3,179)	41,218
Singapore	125,608	121,714	114,898	130,891	131,022	119,230	(5,283)	(9,308)	(4,332)
Taipei,China	115,462	121,725	110,283	97,894	107,360	101,348	17,568	14,365	8,935
PRC and MONGOLIA	151,500	183,239	184,052	132,053	136,986	134,977	19,448	46,253	49,075
China, People's Rep. of	151,077	182,670	183,583	131,542	136,448	134,401	19,535	46,222	49,182
Mongolia[e]	423	569	469	511	538	576	(87)	31	(107)
CENTRAL ASIAN REPUBLICS	11,127	11,840	3,677	12,402	12,352	12,352	(1,275)	(512)	(1,275)
Kazakhstan	6,292	6,769	...	6,618	7,154	...	(326)	(385)	...
Kyrgyz Republic[e]	531	631	...	783	646	...	(252)	(15)	...
Tajikistan	770	746	714	761	785	783	9	(39)	(69)
Uzbekistan	3,534	3,695	2,963	4,240	3,767	2,739	(706)	(72)	225
SOUTHEAST ASIA	211,389	226,995	218,561	226,565	225,427	179,190	(15,176)	1,568	39,371
Cambodia	644	734	828	1,072	1,103	1,141	(428)	(369)	(312)
Indonesia	50,188	56,297	56,691	44,240	46,223	41,000	5,948	10,074	15,691
Lao PDR[e]	323	317	388	690	648	621	(368)	(331)	(233)
Malaysia	76,763	77,741	68,879	72,727	73,711	57,126	4,036	4,030	11,752
Myanmar	932	1,002	...	1,647	1,762	...	(715)	(760)	...
Philippines	20,543	25,228	29,493	31,885	36,355	31,780	(11,342)	(11,127)	(2,287)
Thailand	54,667	56,721	52,977	63,824	55,312	37,446	(9,157)	1,409	15,531
Viet Nam	7,330	8,955	9,304	10,480	10,313	10,076	(3,150)	(1,358)	(772)
SOUTH ASIA	50,960	52,591	52,240	74,316	76,720	76,840	(23,357)	(24,128)	(24,600)
Afghanistan	...	...	...	...	...	...	...	...	...
Bangladesh[f]	3,882	4,418	5,152	6,186	6,365	6,769	(2,304)	(1,947)	(1,617)
Bhutan[e,f]	98	99	111	111	131	136	(13)	(32)	(25)
India	34,133	34,849	33,072	48,948	51,126	51,586	(14,815)	(16,277)	(18,514)
Maldives	80	93	91	266	307	317	(186)	(215)	(226)
Nepal	361	397	444	1,350	1,685	1,436	(989)	(1,288)	(992)
Pakistan[f]	8,311	8,096	8,420	12,015	11,241	10,315	(3,704)	(3,145)	(1,895)
Sri Lanka[e]	4,095	4,639	4,950	5,441	5,864	6,280	(1,346)	(1,225)	(1,330)
PACIFIC DMCs	3,456	2,967	2,835	3,004	2,926	2,403	451	41	432
Cook Islands[d,e]	3	3	...	43	50	...	(40)	(47)	...
Fiji	649	533	438	840	819	682	(191)	(286)	(244)
Kiribati	6	...	...	36	...	...	(30)	...	...
Marshall Islands[f]	20	26	22	73	62	56	(53)	(36)	(34)
Micronesia, Fed. States of[f]	32	33	32	91	85	83	(59)	(52)	(51)
Nauru	...	...	...	...	...	...	...	...	...
Papua New Guinea	2,530	2,148	2,311	1,515	1,485	1,393	1,015	663	918
Samoa	10	14	21	99	100	110	(89)	(86)	(89)
Solomon Islands	162	163	...	152	188	...	11	(25)	...
Tonga[f]	13	13	12	67	60	79	(54)	(47)	(67)
Tuvalu[e]	0	...	...	8	...	...	(8)	...	...
Vanuatu	30	35	...	81	79	...	(51)	(43)	...
TOTAL	**980,219**	**1,047,750**	**992,375**	**1,021,159**	**1,043,771**	**893,065**	**(40,940)**	**3,979**	**99,310**

... Data not available.
( ) Negative.
0 Magnitude is less than half of the unit employed.

a Unless otherwise indicated, data are from the balance-of-payments statistics.
b FOB refers to free on board.
c Preliminary estimates.
d Refer to data from external trade.
e Refers to imports cost, insurance, and freight.
f Refers to fiscal year.

Sources: Country sources; ADB data file; and International Monetary Fund, *International Financial Statistics,* February 1999.

Table 5
INTERNATIONAL RESERVES AND RATIO OF RESERVES TO IMPORTS, 1996–1998

	International Reserves[a] ($ million)			Ratio to Imports[b] (months)		
	1996	1997	1998[c]	1996	1997	1998[c]
NIEs	268,347	272,703	306,845	5.6	5.6	7.4
Hong Kong, China	63,833	92,823	88,670	3.8	5.3	5.8
Korea, Rep. of	34,073	20,405	52,041	2.8	1.7	6.9
Singapore	76,847	71,289	74,859	7.0	6.5	7.5
Taipei,China	93,594	88,186	91,275	11.5	9.9	10.8
PRC and MONGOLIA	107,837	143,563	149,915	9.8	12.6	13.3
China, People's Rep. of	107,676	143,363	149,812	9.8	12.6	13.4
Mongolia	161	200	103	3.8	4.5	2.1
CENTRAL ASIAN REPUBLICS	4,282	3,612	1,775	4.1	3.5	1.4
Kazakhstan	2,244	2,221	1,496	4.1	3.7	...
Kyrgyz Republic[d]	123	194	188	1.9	3.6	...
Tajikistan	14	30	91	0.2	0.5	1.4
Uzbekistan[d]	1,901	1,167	...	5.4	3.7	...
SOUTHEAST ASIA	99,277	76,691	89,791	5.3	4.1	6.0
Cambodia[e]	266	299	324	3.0	3.2	3.4
Indonesia	19,281	17,396	23,516	5.2	4.5	6.9
Lao PDR	170	144	117	3.0	2.7	2.3
Malaysia	27,129	20,899	23,093	4.5	3.4	4.9
Myanmar	241	261	326	1.8	1.8	...
Philippines	11,745	8,738	10,781	4.4	2.9	4.1
Thailand	38,645	26,892	29,536	7.3	5.8	9.5
Viet Nam	1,801	2,063	2,097	2.1	2.4	2.5
SOUTH ASIA	29,754	33,996	36,513	4.8	5.3	5.7
Afghanistan[f]	7	7	7	...	...	...
Bangladesh	1,863	1,607	1,928	3.6	3.0	3.4
Bhutan[e]	184	181	221	...	...	...
India	23,784	27,568	29,833	5.8	6.5	6.9
Maldives	76	98	119	3.4	3.8	4.5
Nepal	637	676	780	5.7	4.8	6.5
Pakistan	1,237	1,830	1,642	1.2	2.0	1.9
Sri Lanka	1,967	2,029	1,984	4.3	4.2	3.8
PACIFIC DMCs	1,208	917	806	5.3	4.0	3.8
Cook Islands	...	...	...	...	...	...
Fiji	428	361	383	6.1	5.3	6.7
Kiribati	...	...	...	...	...	...
Marshall Islands	...	...	...	...	...	...
Micronesia, Fed. States of	...	...	...	...	...	...
Nauru	...	...	...	...	...	...
Papua New Guinea	612	391	239	4.9	3.2	2.1
Samoa[e]	61	64	61	7.4	7.7	6.7
Solomon Islands[e]	33	36	49	2.6	2.3	...
Tonga[e]	31	27	29	5.5	5.5	4.4
Tuvalu	...	...	...	...	...	...
Vanuatu[e]	44	37	45	6.5	5.7	...
TOTAL	**510,705**	**531,483**	**585,644**	**6.0**	**6.1**	**7.9**

... Data not available.

a Consists of gold, special drawing rights (SDRs), reserve position with International Monetary Fund (IMF) and foreign exchange holdings; year-end figures, unless otherwise specified.
b Merchandise imports from the balance-of-payments statistics were used for computing the ratio.
c Preliminary estimates.
d Refers to gross official reserves of the country.
e Refers to total reserves minus gold.
f Refers to reserve position in the IMF and SDRs only.

Sources: Country sources; and International Monetary Fund, *International Financial Statistics*, March 1999.

Table 6
NET FLOWS OF FINANCIAL RESOURCES, 1995–1997
($ million)

	Long-Term Debt			Foreign Direct Investment			Total Flows[a]		
	1995	1996	1997	1995	1996	1997	1995	1996	1997
NIEs	5,058	14,395	13,363	1,776	2,325	2,844	10,397	20,422	16,208
Hong Kong, China	--	--	--	--	--	--	--	--	--
Korea, Rep. of	5,058	14,395	13,363	1,776	2,325	2,844	10,397	20,422	16,208
Singapore	--	--	--	--	--	--	--	--	--
Taipei,China	--	--	--	--	--	--	--	--	--
PRC and MONGOLIA	12,982	10,907	12,668	35,859	40,185	44,243	52,051	54,868	65,653
China, People's Rep. of	12,915	10,854	12,449	35,849	40,180	44,236	51,900	54,749	65,370
Mongolia	67	53	219	10	5	7	151	119	283
CENTRAL ASIAN REPUBLICS	1,254	1,571	1,550	1,190	1,255	1,676	2,576	3,010	3,449
Kazakhstan	635	796	1,220	964	1,137	1,321	1,610	1,976	2,636
Kyrgyz Republic	118	135	143	96	47	50	268	227	236
Tajikistan	28	37	13	15	16	20	97	121	101
Uzbekistan	472	604	174	115	55	285	600	686	476
SOUTHEAST ASIA	14,371	21,517	20,776	13,779	16,545	15,232	41,197	50,036	36,578
Cambodia	81	73	36	151	294	203	544	572	415
Indonesia	3,432	6,081	6,423	4,348	6,194	4,677	12,901	15,564	11,581
Lao PDR	75	170	120	88	104	90	293	416	347
Malaysia	4,053	2,593	4,527	4,132	4,500	4,100	10,495	11,453	8,145
Myanmar	(95)	4	89	115	100	80	200	236	242
Philippines	114	2,132	2,975	1,478	1,517	1,253	3,830	5,228	4,490
Thailand	6,299	10,098	5,937	2,068	2,336	3,029	10,620	14,081	8,737
Viet Nam	412	366	669	1,400	1,500	1,800	2,313	2,486	2,621
SOUTH ASIA	2,023	2,839	5,265	2,936	3,278	4,383	9,127	13,077	13,652
Afghanistan	--	--	--	--	--	--	--	--	--
Bangladesh	117	751	299	2	15	20	830	1,415	889
Bhutan	(1)	2	5	0	0	0	38	30	36
India	220	37	2,528	2,144	2,426	3,100	4,438	7,473	8,255
Maldives	28	15	(2)	7	8	10	58	33	20
Nepal	119	119	162	8	19	23	297	284	323
Pakistan	1,207	1,668	1,935	719	690	800	2,842	3,259	3,145
Sri Lanka	333	247	338	56	120	430	624	584	984
PACIFIC DMCs	(315)	(17)	(83)	577	176	271	1,081	616	425
Cook Islands	--	--	--	--	--	--	--	--	--
Fiji	(37)	(26)	(19)	70	10	12	53	2	7
Kiribati	--	--	--	--	--	--	--	--	--
Marshall Islands	--	--	--	--	--	--	--	--	--
Micronesia, Fed. States of	--	--	--	--	--	--	--	--	--
Nauru	--	--	--	--	--	--	--	--	--
Papua New Guinea	(297)	9	(60)	453	111	200	875	502	325
Samoa	10	1	(1)	3	4	4	34	18	11
Solomon Islands	4	(2)	(2)	18	21	22	41	38	36
Tonga	4	2	(2)	2	2	3	24	16	9
Tuvalu	--	--	--	--	--	--	--	--	--
Vanuatu	1	0	0	31	28	30	54	41	37
TOTAL	**35,373**	**51,213**	**53,539**	**56,116**	**63,763**	**68,649**	**116,428**	**142,028**	**135,965**

-- Not reporting.
( ) Negative.
0 Magnitude is less than half of the unit employed.

a Refer to the sum of net resource flows on long-term debt (excluding the International Monetary Fund) plus net foreign direct investment, portfolio equity flows, and official grants (excluding technical cooperation).

Source: World Bank, *Global Development Finance 1999*.

Table 7
TOTAL EXTERNAL DEBT AND DEBT SERVICE RATIO, 1995–1997
($ million)

	Debt Outstanding[a]			Service Payment[b]			Debt Service Ratio[b] (%)		
	1995	1996	1997	1995	1996	1997	1995	1996	1997
NIEs	115,030	131,740	143,373	13,081	14,750	14,548	8.6	9.4	8.6
Hong Kong, China	--	--	--	--	--	--	--	--	--
Korea, Rep. of	115,030	131,740	143,373	13,081	14,750	14,548	8.6	9.4	8.6
Singapore	--	--	--	--	--	--	--	--	--
Taipei,China	--	--	--	--	--	--	--	--	--
PRC and MONGOLIA	118,602	129,342	147,415	15,113	15,803	18,505	9.9	8.7	8.6
China, People's Rep. of	118,090	128,817	146,697	15,066	15,756	18,445	9.9	8.7	8.6
Mongolia	512	524	718	47	48	60	9.1	9.9	11.7
CENTRAL ASIAN REPUBLICS	6,779	6,949	8,868	538	666	1,098	4.9	5.3	8.3
Kazakhstan	3,750	3,122	4,278	235	322	502	4.1	4.6	6.5
Kyrgyz Republic	608	764	928	60	51	43	13.2	8.9	6.3
Tajikistan	634	699	901	0.0	1	37	0.0	0.1	4.6
Uzbekistan	1,787	2,363	2,761	243	292	516	6.2	7.0	13.0
SOUTHEAST ASIA	315,050	335,184	353,403	37,048	45,407	44,163	14.3	16.2	14.7
Cambodia	2,035	2,100	2,129	6	10	10	0.6	1.2	1.1
Indonesia	124,398	128,941	136,174	16,416	21,539	19,736	29.9	36.6	30.0
Lao PDR	2,165	2,263	2,320	26	29	28	6.3	6.7	6.5
Malaysia	34,343	39,673	47,228	6,041	8,427	7,109	7.0	9.0	7.5
Myanmar[c]	5,771	5,184	5,074	250	158	116	19.3	12.1	8.0
Philippines	37,829	40,145	45,433	5,349	5,357	4,541	16.1	13.4	9.2
Thailand	83,082	90,622	93,416	8,596	9,493	11,716	11.6	12.6	15.4
Viet Nam	25,427	26,256	21,629	364	394	907	4.9	3.9	7.8
SOUTH ASIA	151,772	149,912	149,480	17,762	16,563	16,157	24.6	21.7	20.3
Afghanistan	--	--	--	--	--	--	--	--	--
Bangladesh	16,325	16,007	15,125	812	698	705	14.8	11.8	10.6
Bhutan	87	87	89	9	6	6	9.0	4.9	5.1
India[c]	94,387	93,435	94,404	13,244	12,058	10,832	27.9	23.6	20.4
Maldives	155	168	160	11	12	29	3.4	3.0	6.7
Nepal	2,418	2,411	2,398	84	78	98	7.0	7.0	6.8
Pakistan	30,169	29,802	29,665	3,183	3,289	4,059	26.6	27.6	36.1
Sri Lanka	8,231	8,003	7,638	419	422	428	7.4	7.2	6.4
PACIFIC DMCs	3,210	3,000	2,887	712	449	431	15.3	9.2	9.9
Cook Islands	--	--	--	--	--	--	--	--	--
Fiji	250	217	213	68	49	39	6.0	3.6	3.1
Kiribati	--	--	--	--	--	--	--	--	--
Marshall Islands	--	--	--	--	--	--	--	--	--
Micronesia, Fed. States of	--	--	--	--	--	--	--	--	--
Nauru	--	--	--	--	--	--	--	--	--
Papua New Guinea	2,513	2,354	2,273	626	381	374	20.8	12.7	15.0
Samoa	170	167	156	5	5	5	4.3	4.0	3.9
Solomon Islands	158	145	135	8	8	6	3.8	3.9	2.4
Tonga	70	70	61	3	4	6	5.2	5.0	7.0
Tuvalu	--	--	--	--	--	--	--	--	--
Vanuatu	48	47	48	2	2	2	1.5	1.4	1.5
TOTAL	**710,443**	**756,127**	**805,426**	**84,253**	**93,638**	**94,903**	**12.9**	**13.1**	**12.1**

-- Not reporting.
0.0 Magnitude is less than half of the unit employed.

a Debt outstanding is as of end of year, covering long- and short-term debt of public and private entities in the country, as well as the use of International Monetary Fund (IMF) credit.
b Service payments include yearly payments on principal and interest on long-term debt, IMF repurchases and charges, and interest payments on short-term debt. Debt service ratio is the percentage of service payments to exports of goods and services (including workers' remittances).
c Data on long-term debt are on fiscal year basis.

Source: World Bank, *Global Development Finance 1999*.

Table 8
ENVIRONMENT INDICATORS

	Average Annual Rate of Deforestation[a] (as % of forest area)	National Protected Areas[b] (as % of total land area)	Per Capita Carbon Dioxide Emissions[c] (metric ton)
	1990–1995	1994[d]	1995
NIEs			
Hong Kong, China	...	...	...
Korea, Rep. of	0.2	6.9	8.3
Singapore	0.0[d]	4.4	19.1
Taipei,China	...	...	...
PRC and MONGOLIA			
China, People's Rep. of	0.1	6.4	2.7
Mongolia	0.0[d]	10.3	3.4
CENTRAL ASIAN REPUBLICS			
Kazakhstan	(1.9)	2.7	13.2
Kyrgyz Republic	0.0[d]	3.6	1.2
Tajikistan	0.0[d]	4.2	0.7
Uzbekistan	(2.7)	2.1	4.4
SOUTHEAST ASIA			
Cambodia	1.6	16.2	0.0
Indonesia	1.0	9.7	1.5
Lao PDR	...	...	0.1
Malaysia	2.4	4.5	5.3
Myanmar	1.4	0.3	0.1
Philippines	3.5	4.9	0.9
Thailand	2.6	13.1	3.0
Viet Nam	1.4	3.1	0.4
SOUTH ASIA			
Afghanistan	...	0.3	0.1
Bangladesh	0.8	0.8	0.2
Bhutan	...	21.2	0.1
India	0.0[d]	4.8	1.0
Maldives	...	...	...
Nepal	1.1	7.8	0.1
Pakistan	2.9	4.8	0.6
Sri Lanka	1.1	13.3	0.3
PACIFIC DMCs			
Cook Islands	...	...	...
Fiji	...	1.0	1.0
Kiribati	...	...	...
Marshall Islands	...	...	...
Micronesia, Fed. States of	...	...	...
Nauru	...	...	...
Papua New Guinea	0.4	0.0[d]	0.6
Samoa	...	...	...
Solomon Islands	...	...	0.4
Tonga	...	...	...
Tuvalu	...	...	...
Vanuatu	...	...	...

( ) Negative.
... Data not available.

a Positive figures indicate deforestation rates while negative figures indicate reforestation rates.
b Refers to all protected areas at least 1,000 hectares listed in categories I-V of the International Union for Conservation of Nature and Natural Resources.
c Refers to carbon dioxide emissions from fossil fuel burning and cement manufacturing.
d The number 0.0 means the magnitude is zero or is less than half of the unit employed and not known more precisely.

Sources: World Bank, *World Development Indicators 1998*; World Bank, *World Bank Atlas 1998*; and World Resources Institute, *World Resources 1998/99*.

Table 9
HUMAN DEVELOPMENT INDICATORS

	Adult Literacy Rate[a] (%)				Gross Enrolment Ratio (%)							
					Primary School				Secondary School			
	1985[c]		1998[d]		1985[c]		1998[d]		1985[c]		1998[d]	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
NIEs												
Hong Kong, China	...	...	88	96	105	106	99	99	73	69	78	73
Korea, Rep. of	...	...	97	99	100	100	99	98	88	92	98	98
Singapore	78	93	89	97	114	120	98	99	95	89	110	113
Taipei,China	85	96	91	98	100	99	102	100	91	89	99	96
PRC and MONGOLIA												
China, People's Rep. of	51	79	73	90	114	132	116	120	33	45	51	60
Mongolia	77	89	...	...	107	107	87	82	97	85	70	50
CENTRAL ASIAN REPUBLICS												
Kazakhstan	96	99	100	100	...	...	86	86	...	...	92	89
Kyrgyz Republic	96	99	100	100	123	123	111	110	108	111	89	84
Tajikistan	97	99	100	100	...	...	88	91	...	...	75	83
Uzbekistan	96	99	100	100	85	88	76	78	97	117	87	99
SOUTHEAST ASIA												
Cambodia	...	...	53	80	...	...	106	130	...	...	18	31
Indonesia	58	78	78	90	114	120	113	117	41	50	41	49
Lao PDR	76[e]	92[e]	44	69	100	121	92	123	19	27	19	31
Malaysia	60	80	78	89	100	101	93	93	53	53	64	58
Myanmar	72	86	78	89	96	101	108	112	22	24	23	23
Philippines	83	84	94	95	107	108	116	117	65	64	83	78
Thailand	85	93	92	96	97	100	97	98	28	30	37	38
Viet Nam	83	93	91	97	100	106	...	...	41	44	...	...
SOUTH ASIA												
Afghanistan	...	...	15	47	13	27	32	63	5	11	11	32
Bangladesh	18	40	26	49	54	72	73	84	11	26	13	25
Bhutan	...	...	28	56	...	...	...	...	...	...	...	...
India	26	55	38	66	79	111	93	115	35	62	55	80
Maldives	92	92	93	93	...	...	133	136	...	...	49	49
Nepal	9	32	14	41	47	101	87	130	12	37	23	46
Pakistan	15	35	24	50	30	56	42	94	10	24	17	33
Sri Lanka	82	91	87	93	101	104	104	106	66	60	79	71
PACIFIC DMCs												
Cook Islands	...	...	...	...	...	...	...	...	...	...	...	...
Fiji	84	90	89	94	122	122	127	128	51	51	65	64
Kiribati	...	...	...	...	...	...	98	...	...	...	...	...
Marshall Islands	...	...	...	...	...	...	...	...	...	...	...	...
Micronesia, Fed. States of	...	...	93	95	...	...	94	94	...	...	85	78
Nauru	...	...	...	...	...	...	...	...	...	...	...	...
Papua New Guinea	...	...	63	81	51	66	75	88	8	15	11	17
Samoa	...	...	...	...	90	87	107	106	67	61	71	67
Solomon Islands	...	...	...	...	65	85	90	104	9	22	14	21
Tonga	...	...	...	...	...	...	100	...	...	...	91	...
Tuvalu	...	...	...	...	...	...	...	...	...	...	...	...
Vanuatu	...	...	...	...	106	112	107	105	14	18	18	23

... Data not available.

a Refers to population of 15 years old and over.
b Refers to the headcount ratio or proportion of the households (population) falling below the poverty line to total households (population).
c Data relate to years 1980 through 1989.
d Data relate to years 1990 through 1998.
e Refers to population 15–45 years old.

Sources: United Nations Educational, Scientific and Cultural Organization, *Statistical Yearbook 1996* and past issues; World Bank, *World Development Indicators 1998*; Economic and Social Commission for Asia and the Pacific, *Asia-Pacific in Figures 1997*; Directorate-General of Budget, Accounting and Statistics, *Statistical Yearbook*; and country sources.

Life Expectancy at Birth (years)				Maternal Mortality Ratio (per 100,000 live births)		Population in Poverty[b] (%)		
1985[c]		1998[d]						
Female	Male	Female	Male	1985[c]	1998[d]	1985[c]	1998[d]	
								NIEs
79	74	82	77	5	2	...	...	Hong Kong, China
73	65	77	69	...	20	...	...	Korea, Rep. of
76	72	79	75	5	4	...	...	Singapore
76	71	78	72	10	9	1	1	Taipei,China
								PRC and MONGOLIA
70	68	71	67	...	115	...	7	China, People's Rep. of
60	58	66	64	156	145	...	36	Mongolia
								CENTRAL ASIAN REPUBLICS
74	64	70	60	...	49	...	31	Kazakhstan
71	64	71	62	...	44	...	57	Kyrgyz Republic
70	70	71	66	...	74	...	...	Tajikistan
71	65	73	67	...	43	...	...	Uzbekistan
								SOUTHEAST ASIA
47	45	55	52	500	...	...	30	Cambodia
58	54	66	63	450	390	17	39	Indonesia
48	45	52	50	200	...	...	46	Lao PDR
72	68	74	69	40	34	16	10	Malaysia
55	51	63	60	460	518	...	...	Myanmar
65	61	69	64	209	180	49	38	Philippines
67	63	72	67	270	155	18	13	Thailand
66	62	69	66	110	105	...	51	Viet Nam
								SOUTH ASIA
41	40	45	44	600	...	...	...	Afghanistan
55	56	58	58	...	449	43	36	Bangladesh
49	46	66	66	...	380	...	...	Bhutan
56	55	65	62	460	437	44	36	India
56	58	72	70	...	202	...	40	Maldives
47	49	55	55	...	...	...	42	Nepal
54	54	62	63	...	340	...	34	Pakistan
71	67	75	70	90	30	41	35	Sri Lanka
								PACIFIC DMCs
68	68	74	71	...	...	...	...	Cook Islands
71	67	74	70	...	90	...	...	Fiji
54	52	67	62	56	80	...	...	Kiribati
62	59	64	61	...	...	...	...	Marshall Islands
64	62	67	64	...	...	...	...	Micronesia, Fed. States of
62	62	62	50	...	...	...	...	Nauru
53	51	58	57	...	370	...	22	Papua New Guinea
64	62	74	70	...	35	...	...	Samoa
62	60	64	62	...	...	...	...	Solomon Islands
64	61	72	67	...	...	...	...	Tonga
59	59	70	64	...	...	...	...	Tuvalu
57	55	69	65	...	...	...	...	Vanuatu

Table 10
1998 PUBLIC AND PRIVATE SECTOR LOAN APPROVALS, BY COUNTRY
($ million)

	OCR	ADF	Total	Total Project Cost[a]	Date Approved
BANGLADESH					
GrameenPhone Telecommunications[b]	16.70	–	16.70	153.80	20 Jan 98
Rural Livelihood	–	42.60	42.60	74.70	29 Sep 98
Sundarbans Biodiversity Conservation	–	37.00	37.00	82.20	27 Nov 98
Flood Damage Rehabilitation	–	104.00	104.00	130.00	18 Dec 98
Subtotal	16.70	183.60	200.30	440.70	
BHUTAN					
Urban Infrastructure Improvement	–	5.70	5.70	8.20	30 Jul 98
Subtotal	–	5.70	5.70	8.20	
CHINA, PEOPLE'S REPUBLIC OF					
Fujian Pacific Electric Co. Ltd.[b]	40.00	–	40.00	828.50	26 Feb 98
Hebei Roads Development	180.00	–	180.00	473.00	18 Jun 98
Guizhou-Shuibai Railway	140.00	–	140.00	381.00	18 Aug 98
Fuzhou Water Supply and Wastewater Treatment	102.00	–	102.00	192.20	30 Sep 98
Chengdu-Nanchong Expressway	250.00	–	250.00	667.20	10 Nov 98
Changchun-Harbin Expressway: Hashuang Expressway	170.00	–	170.00	397.50	27 Nov 98
Changchun-Harbin Expressway: Changyu Expressway	220.00	–	220.00	540.40	27 Nov 98
Yunnan Dachaoshan Power Transmission	100.00	–	100.00	309.40	27 Nov 98
Subtotal	1,202.00	–	1,202.00	3,789.20	
INDIA					
Rajasthan Urban Infrastructure Development	250.00	–	250.00	362.00	3 Dec 98
Subtotal	250.00	–	250.00	362.00	
INDONESIA					
Central Sulawesi Integrated Area Development and Conservation	32.00	–	32.00	53.65	27 Jan 98
Coral Reef Rehabilitation and Management	7.00	–	7.00	11.75	26 Mar 98
Financial Governance Reforms: Sector Development Program					
- Financial Governance Reforms Program Loan	1,400.00	–	1,400.00	1,400.00	25 Jun 98
- Financial Governance Reforms Support	47.00	–	47.00	50.00	
- Capacity Building for Financial Governance	50.00	–	50.00	50.00	
Social Protection Sector Development Program					
- Program Loan	100.00	–	100.00	100.00	9 Jul 98
- Project Loan	200.00	–	200.00	333.33	
Subtotal	1,836.00	–	1,836.00	1,998.73	
KIRIBATI					
Sanitation, Public Health, and Environment Improvement	–	10.24	10.24	12.80	8 Dec 98
Subtotal	–	10.24	10.24	12.80	
KYRGYZ REPUBLIC					
Second Road Rehabilitation	–	50.00	50.00	109.80	10 Sep 98
Flood Emergency Rehabilitation	–	5.00	5.00	6.34	24 Sep 98
Social Services Delivery and Finance	–	10.00	10.00	18.49	27 Nov 98
Subtotal	–	65.00	65.00	134.63	
LAO PEOPLE'S DEMOCRATIC REPUBLIC					
Basic Education (Girls)	–	20.00	20.00	33.00	25 Jun 98
Subtotal	–	20.00	20.00	33.00	
MALDIVES					
Postsecondary Education Development	–	6.30	6.30	10.50	30 Sep 98
Subtotal	–	6.30	6.30	10.50	

a Total project cost includes financing by Bank, 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[a]	Date Approved
NAURU					
Fiscal and Financial Reform Program	5.00	–	5.00	5.00	16 Dec 98
Subtotal	5.00	–	5.00	5.00	
NEPAL					
Second Agriculture Program	–	50.00	50.00	50.00	22 Jan 98
Community Groundwater Irrigation Sector	–	30.00	30.00	42.82	26 Feb 98
Melamchi Water Supply (Engineering)	–	5.00	5.00	6.75	10 Nov 98
Rural Microfinance	–	20.00	20.00	30.60	8 Dec 98
Subtotal	–	105.00	105.00	130.17	
PAPUA NEW GUINEA					
Smallholder Support Services Pilot Project	7.60	–	7.60	11.49	10 Dec 98
Fisheries Development	6.50	–	6.50	9.30	11 Dec 98
Subtotal	14.10	–	14.10	20.79	
PHILIPPINES					
Early Childhood Development	15.70	8.80	24.50	65.00	27 Jan 98
Primo Oleochemicals Inc.[b]	2.12	–	2.12		
	2.30	–	2.30	29.27	14 Apr 98
Secondary Education Development and Improvement	53.00	–	53.00	163.40	11 Dec 98
Clark Area Municipal Development	24.30	–	24.30	41.80	15 Dec 98
Power Sector Restructuring Program	300.00	–	300.00	600.00	16 Dec 98
Metro Manila Air Quality Improvement Sector Development Program					
- Policy Loan	200.00	–	200.00	370.00	
- Air Pollution Control Facility	25.00	–	25.00	25.00	16 Dec 98
- Investment Loan	71.00	–	71.00	122.30	
Southern Philippines Irrigation Sector	60.00	–	60.00	102.00	18 Dec 98
Agrarian Reform Communities	93.16	–	93.16	168.85	18 Dec 98
Subtotal	846.58	8.80	855.38	1,687.62	
SAMOA					
Financial Sector Program	–	7.50	7.50	7.50	19 Feb 98
Subtotal	–	7.50	7.50	7.50	
SOLOMON ISLANDS					
Public Sector Reform Program					
- Program Loan	–	25.00	25.00	25.00	
- Technical Assistance Loan for Privatization of State-Owned Enterprises	–	1.00	1.00	1.20	27 Aug 98
Subtotal	–	26.00	26.00	26.20	
SRI LANKA					
Credit Enhancement Facility for Private Enterprises[b]	5.00	–	5.00	70.00	8 Sep 98
Urban Development and Low-Income Housing (Sector)	–	70.00	70.00	100.00	24 Sep 98
Tea Development	–	35.00	35.00	93.80	10 Nov 98
Road Network Improvement	–	80.00	80.00	123.30	8 Dec 98
Subtotal	5.00	185.00	190.00	387.10	
TAJIKISTAN					
Postconflict Infrastructure Program	–	20.00	20.00	20.00	10 Dec 98
Subtotal	–	20.00	20.00	20.00	

a Total project cost includes financing by Bank, 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[a]	Date Approved
THAILAND					
Social Sector Program	500.00	–	500.00	500.00	12 Mar 98
Export Financing Facility	50.00	–	50.00	1,000.00	26 Mar 98
Samut Prakarn Wastewater Management (supplementary)	80.00	–	80.00	180.00	3 Dec 98
Subtotal	630.00	–	630.00	1,680.00	
UZBEKISTAN					
Railway Rehabilitation	70.00	–	70.00	126.00	15 Sep 98
Road Rehabilitation	50.00	–	50.00	83.50	15 Dec 98
Subtotal	120.00	–	120.00	209.50	
VANUATU					
Comprehensive Reform Program	–	20.00	20.00	20.00	16 Jul 98
Subtotal	–	20.00	20.00	20.00	
VIET NAM					
Third Road Improvement	–	130.00	130.00	238.70	10 Dec 98
Vocational and Technical Education	–	54.00	54.00	120.00	11 Dec 98
Subtotal	–	184.00	184.00[c]	358.70	
REGIONAL					
Asian Finance and Investment Corporation Ltd.[b] (Liquidity Facility)	30.00	–	30.00	30.00	21 Apr 98
Asian Finance and Investment Corporation Ltd.[b] (Credit Facility)	40.00	–	40.00	130.00	29 Sep 98
Greater Mekong Subregion:					
Phnom Penh to Ho Chi Minh City Highway					
- Cambodia Component	–	40.00	40.00	50.70	15 Dec 98
- Viet Nam Component	–	100.00	100.00	144.80	
Subtotal	70.00	140.00	210.00	355.50	
TOTAL	**4,995.38**	**987.14**	**5,982.52**	**11,697.84**	

a Total project cost includes financing by Bank, 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.

c In addition, Viet Nam received a $100 million loan as a component of a regional project to the Greater Mekong Subregion: Phnom Penh to Ho Chi Minh City Highway (see Regional).

Table 11
LOAN APPROVALS BY SECTOR: THREE-YEAR MOVING AVERAGES, 1968–1970 – 1996–1998

	Total Lending[a] ($ million)	Agriculture and Natural Resources	Energy	Financial	Industry and Nonfuel Minerals	Social Infra-structure	Transport and Commu-nications	Multi-sector/ Others
		(percent of total lending)						
Average during								
1968–1970	128.44	19.48	11.98	23.36	15.06	6.10	24.03	0.0
1969–1971	199.25	20.48	25.38	19.57	8.69	4.20	21.68	0.0
1970–1972	271.92	15.69	33.06	13.97	5.04	10.75	21.48	0.0
1971–1973	330.53	15.78	32.18	15.49	0.42	12.25	23.88	0.0
1972–1974	428.42	18.76	26.71	15.06	4.02	14.12	21.32	0.0
1973–1975	543.16	27.87	23.03	16.73	4.25	10.44	17.68	0.0
1974–1976	661.30	29.27	21.35	17.44	5.48	9.85	16.61	0.0
1975–1977	774.22	30.51	22.02	15.46	4.19	10.85	16.97	0.0
1976–1978	940.36	27.42	21.53	14.37	7.25	13.45	15.98	0.0
1977–1979	1,098.92	29.86	24.03	11.81	5.62	16.55	12.10	0.04
1978–1980	1,282.01	30.95	24.88	10.96	3.93	16.84	12.39	0.06
1979–1981	1,454.96	32.56	27.21	10.72	0.90	19.11	9.41	0.09
1980–1982	1,598.97	34.00	27.71	10.00	0.74	15.97	11.53	0.06
1981–1983	1,751.46	33.68	26.60	10.61	2.36	18.26	7.52	0.96
1982–1984	1,937.03	34.18	28.98	7.01	1.91	14.36	12.12	1.43
1983–1985	1,978.52	32.42	24.63	6.50	1.87	20.30	12.75	1.53
1984–1986	2,013.77	35.46	25.26	4.65	0.34	17.48	14.40	2.40
1985–1987	2,081.84	30.63	17.47	11.24	3.06	15.24	20.54	1.81
1986–1988	2,512.17	26.90	18.76	12.84	7.46	11.32	21.27	1.45
1987–1989	3,053.71	22.37	16.41	17.16	6.69	14.60	21.94	0.82
1988–1990	3,564.93	25.83	20.78	12.67	4.50	15.15	19.37	1.71
1989–1991	4,115.48	25.30	26.04	10.83	3.58	14.86	17.93	1.45
1990–1992	4,561.39	21.63	28.15	9.53	3.79	12.95	20.82	3.13
1991–1993	4,973.89	13.87	30.33	9.09	5.45	14.30	23.70	3.25
1992–1994	4,616.65	10.98	27.80	7.63	4.44	14.16	29.49	5.49
1993–1995	4,791.51	12.07	30.62	6.59	3.36	17.56	26.67	3.13
1994–1996	4,831.49	14.06	26.71	7.60	2.57	17.07	25.30	6.71
1995–1997	6,743.17	12.63	18.06	28.76	1.30	18.60	16.21	4.44
1996–1998	6,908.71	10.03	11.11	33.44	1.29	15.49	18.36	10.28
Cumulative (1968–1998)	77,334.99	19.40	21.91	16.42	3.09	15.48	19.45	4.24

0.00 Data negligible.

a Total column may not tally because of rounding.

Table 12
1998 LOAN APPROVALS BY SECTOR

		$ Million		
		OCR	ADF	Total
AGRICULTURE AND NATURAL RESOURCES				
BAN	Rural Livelihood	–	42.60	42.60
BAN	Sundarbans Biodiversity Conservation	–	37.00	37.00
INO	Central Sulawesi Integrated Area Development and Conservation	32.00	–	32.00
INO	Coral Reef Rehabilitation and Management	7.00	–	7.00
NEP	Community Groundwater Irrigation Sector	–	30.00	30.00
NEP	Rural Microfinance	–	20.00	20.00
NEP	Second Agriculture Program	–	50.00	50.00
PNG	Fisheries Development	6.50	–	6.50
PNG	Smallholder Support Services Pilot Project	7.60	–	7.60
PHI	Agrarian Reform Communities	93.16	–	93.16
PHI	Southern Philippines Irrigation Sector	60.00	–	60.00
SRI	Tea Development	–	35.00	35.00
	Subtotal	206.26	214.60	420.86
ENERGY				
PRC	Fujian Pacific Electric Co. Ltd.[a]	40.00	–	40.00
PRC	Yunnan Dachaoshan Power Transmission	100.00	–	100.00
PHI	Power Sector Restructuring Program	300.00	–	300.00
	Subtotal	440.00	–	440.00
FINANCIAL				
INO	Financial Governance Reforms: Sector Development Program			
	- Financial Governance Reforms Program Loan	1,400.00	–	1,400.00
	- Financial Governance Reforms Support	47.00	–	47.00
	- Capacity Building for Financial Governance	50.00	–	50.00
REG	Asian Finance and Investment Corporation Ltd.[a] (Liquidity Facility)	30.00	–	30.00
REG	Asian Finance and Investment Corporation Ltd.[a] (Credit Facility)	40.00	–	40.00
SAM	Financial Sector Program	–	7.50	7.50
SOL	Public Sector Reform Program			
	- Program Loan	–	25.00	25.00
	- Technical Assistance Loan for Privatization of State-Owned Enterprises	–	1.00	1.00
SRI	Credit Enhancement Facility for Private Enterprises[a]	5.00	–	5.00
THA	Export Financing Facility	50.00	–	50.00
VAN	Comprehensive Reform Program	–	20.00	20.00
	Subtotal	1,622.00	53.50	1,675.50
INDUSTRY AND NONFUEL MINERALS				
PHI	Primo Oleochemicals Inc.[a]	2.12	–	2.12
PHI	Primo Oleochemicals Inc.[a]	2.30	–	2.30
	Subtotal	4.42	–	4.42
SOCIAL INFRASTRUCTURE				
BHU	Urban Infrastructure Improvement	–	5.70	5.70
PRC	Fuzhou Water Supply and Wastewater Treatment	102.00	–	102.00
IND	Rajasthan Urban Infrastructure Development	250.00	–	250.00
KIR	Sanitation, Public Health, and Environment Improvement	–	10.24	10.24
LAO	Basic Education (Girls)	–	20.00	20.00
MLD	Postsecondary Education Development	–	6.30	6.30
NEP	Melamchi Water Supply (Engineering)	–	5.00	5.00
PHI	Clark Area Municipal Development	24.30	–	24.30
PHI	Early Childhood Development	15.70	8.80	24.50
PHI	Secondary Education Development and Improvement	53.00	–	53.00
SRI	Urban Development and Low-Income Housing (Sector)	–	70.00	70.00

a Private sector loan without government guarantee.

Key: BAN (Bangladesh), BHU (Bhutan), PRC (People's Republic of China), IND (India), INO (Indonesia), KIR (Kiribati), KGZ (Kyrgyz Republic), LAO (Lao People's Democratic Republic), MLD (Maldives), NAU (Nauru), NEP (Nepal), PNG (Papua New Guinea), PHI (Philippines), REG (Regional), SAM (Samoa), SOL (Solomon Islands), SRI (Sri Lanka), TAJ (Tajikistan), THA (Thailand), UZB (Uzbekistan), VAN (Vanuatu), and VIE (Viet Nam).

CONTINUED

		$ Million		
		OCR	ADF	Total
THA	Samut Prakarn Wastewater Management (supplementary)	80.00	–	80.00
VIE	Vocational and Technical Education	–	54.00	54.00
	Subtotal	525.00	180.04	705.04
TRANSPORT AND COMMUNICATIONS				
BAN	GrameenPhone Telecommunications[a]	16.70	–	16.70
PRC	Changchun-Harbin Expressway: Changyu Expressway	220.00	–	220.00
PRC	Changchun-Harbin Expressway: Hashuang Expressway	170.00	–	170.00
PRC	Chengdu-Nanchong Expressway	250.00	–	250.00
PRC	Guizhou-Shuibai Railway	140.00	–	140.00
PRC	Hebei Roads Development	180.00	–	180.00
KGZ	Second Road Rehabilitation	–	50.00	50.00
REG	Greater Mekong Subregion (GMS):			
	Phnom Penh to Ho Chi Minh City Highway			
	- Cambodia Component	–	40.00	40.00
	- Viet Nam Component	–	100.00	100.00
SRI	Road Network Improvement	–	80.00	80.00
UZB	Railway Rehabilitation	70.00	–	70.00
UZB	Road Rehabilitation	50.00	–	50.00
VIE	Third Road Improvement	–	130.00	130.00
	Subtotal	1,096.70	400.00	1,496.70
MULTISECTOR				
BAN	Flood Damage Rehabilitation	–	104.00	104.00
INO	Social Protection Sector Development Program			
	- Program Loan	100.00	–	100.00
	- Project Loan	200.00	–	200.00
KGZ	Flood Emergency Rehabilitation	–	5.00	5.00
KGZ	Social Services Delivery and Finance	–	10.00	10.00
TAJ	Postconflict Infrastructure Program	–	20.00	20.00
THA	Social Sector Program	500.00	–	500.00
	Subtotal	800.00	139.00	939.00
OTHERS				
NAU	Fiscal and Financial Reform Program	5.00	–	5.00
PHI	Metro Manila Air Quality Improvement Sector Development Program			
	- Policy Loan	200.00	–	200.00
	- Investment Loan	71.00	–	71.00
	- Air Pollution Control Facility	25.00	–	25.00
	Subtotal	301.00	–	301.00
TOTAL		**4,995.38**	**987.14**	**5,982.52**

a Private sector loan without government guarantee.

Key: BAN (Bangladesh), BHU (Bhutan), PRC (People's Republic of China), IND (India), INO (Indonesia), KIR (Kiribati), KGZ (Kyrgyz Republic), LAO (Lao People's Democratic Republic), MLD (Maldives), NAU (Nauru), NEP (Nepal), PNG (Papua New Guinea), PHI (Philippines), REG (Regional), SAM (Samoa), SOL (Solomon Islands), SRI (Sri Lanka), TAJ (Tajikistan), THA (Thailand), UZB (Uzbekistan), VAN (Vanuatu), and VIE (Viet Nam).

Table 13
DISTRIBUTION OF LENDING AMONG DEVELOPING MEMBERS, 1968–1998
Percentage of Value of Loans Approved in Period

	1968–1972		1973–1977		1978–1982	
	OCR	ADF	OCR	ADF	OCR	ADF
Afghanistan	–	2.6	–	7.1	–	0.9
Bangladesh	–	–	0.5	27.3	–	32.8
Bhutan	–	–	–	–	–	–
Cambodia	–	0.8	–	–	–	–
China, People's Rep. of	–	–	–	–	–	–
Cook Islands	–	–	–	–	–	0.1
Fiji	0.6	–	0.1	–	0.8	–
Hong Kong, China	2.9	–	1.7	–	0.8	–
India	–	–	–	–	–	–
Indonesia	–	34.6	17.2	4.5	28.4	2.1
Kazakhstan	–	–	–	–	–	–
Kiribati	–	–	–	0.2	–	–
Korea, Rep. of	26.2	1.8	20.9	–	18.4	–
Kyrgyz Republic	–	–	–	–	–	–
Lao PDR	–	2.2	–	0.8	–	1.1
Malaysia	10.6	1.6	10.9	–	9.6	–
Maldives	–	–	–	–	–	0.1
Marshall Islands	–	–	–	–	–	–
Micronesia, Fed. States of	–	–	–	–	–	–
Mongolia	–	–	–	–	–	–
Myanmar	–	–	0.3	13.6	–	11.4
Nauru	–	–	–	–	–	–
Nepal	0.3	17.7	–	9.1	–	7.3
Pakistan	8.9	9.0	12.8	19.2	5.1	27.1
Papua New Guinea	–	7.1	0.8	2.2	0.8	1.9
Philippines	13.5	1.7	21.2	1.2	19.1	2.7
Samoa	–	2.7	–	1.4	–	0.7
Singapore	12.1	1.5	1.4	–	1.1	–
Solomon Islands	–	–	–	1.0	–	0.2
Sri Lanka	1.7	11.1	0.1	8.4	–	8.6
Taipei,China	13.3	–	–	–	–	–
Tajikistan	–	–	–	–	–	–
Thailand	9.9	–	11.9	0.8	15.9	2.7
Tonga	–	–	–	0.2	–	0.2
Uzbekistan	–	–	–	–	–	–
Vanuatu	–	–	–	–	–	0.1
Viet Nam	–	5.6	0.2	3.0	–	–
Regional	–	–	–	–	–	–
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Lending ($ million)	**753.9**	**201.5**	**2,326.9**	**964.9**	**4,856.2**	**2,351.1**

– nil.
0.0 is equivalent to value less than 0.05.

1983–1987 OCR	1983–1987 ADF	1988–1992 OCR	1988–1992 ADF	1993–1997 OCR	1993–1997 ADF	1998 OCR	1998 ADF	
–	–	–	–	–	–	–	–	Afghanistan
–	31.7	–	25.4	0.2	21.0	0.3	18.6	Bangladesh
–	0.8	–	0.2	–	0.3	–	0.6	Bhutan
–	–	–	1.1	–	2.5	–	4.1	Cambodia
2.0	–	12.3	–	23.3	–	24.1	–	China, People's Rep. of
–	0.1	–	0.1	–	0.2	–	–	Cook Islands
0.2	–	0.4	–	0.2	–	–	–	Fiji
–	–	–	–	–	–	–	–	Hong Kong, China
9.5	–	24.9	–	13.2	–	5.0	–	India
33.7	3.7	31.0	5.7	22.2	3.6	36.8	–	Indonesia
–	–	–	–	1.6	0.8	–	–	Kazakhstan
–	0.0	–	0.0	–	–	–	1.0	Kiribati
9.2	–	0.9	–	18.3	–	–	–	Korea, Rep. of
–	–	–	–	–	3.4	–	6.6	Kyrgyz Republic
–	1.9	–	3.5	–	5.8	–	2.0	Lao PDR
8.3	–	3.1	–	0.9	–	–	–	Malaysia
–	0.2	–	0.2	–	0.2	–	0.7	Maldives
–	–	–	0.1	–	0.5	–	–	Marshall Islands
–	–	–	–	–	0.5	–	–	Micronesia, Fed. States of
–	–	–	0.5	–	4.8	–	–	Mongolia
–	3.5	–	–	–	–	–	–	Myanmar
–	–	–	–	–	–	0.1	–	Nauru
–	9.5	–	7.3	0.2	5.1	–	10.6	Nepal
15.9	34.3	10.1	29.0	4.1	21.2	–	–	Pakistan
1.3	1.6	0.6	2.4	0.2	0.6	0.3	–	Papua New Guinea
12.1	1.4	10.9	11.7	6.7	3.0	16.9	0.9	Philippines
–	0.4	–	0.6	–	0.0	–	0.8	Samoa
–	–	–	–	–	–	–	–	Singapore
–	0.6	–	0.1	–	0.0	–	2.6	Solomon Islands
–	9.8	–	11.7	0.0	7.8	0.1	18.7	Sri Lanka
–	–	–	–	–	–	–	–	Taipei,China
–	–	–	–	–	–	–	2.0	Tajikistan
7.8	–	5.5	–	8.5	–	12.6	–	Thailand
–	0.2	–	0.3	–	0.3	–	–	Tonga
–	–	–	–	0.3	0.3	2.4	–	Uzbekistan
–	0.3	–	0.1	–	0.1	–	2.0	Vanuatu
–	–	–	–	0.1	18.0	–	28.8	Viet Nam
–	–	0.3	–	–	–	1.4	–	Regional
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	**TOTAL**
6,755.7	3,617.3	13,978.5	6,428.3	21,903.8	7,214.4	4,995.4	987.1	**Lending ($ million)**

Table 14
SECTORAL DISTRIBUTION OF LOANS,[a] 1998

	OCR		ADF		Total		
	No.	$ Million	No.	$ Million	No. of Projects[b]	$ Million	%
Agriculture and Natural Resources	6	206.26	6	214.60	12	420.86	7.04
Energy	3	440.00	–	–	3	440.00	7.35
Financial	7	1,622.00	4	53.50	8	1,675.50	28.01
Industry and Nonfuel Minerals	2	4.42	–	–	1	4.42	0.07
Social Infrastructure	6	525.00	8	180.04	13	705.04	11.78
Transport and Communications	8	1,096.70	5	400.00	12	1,496.70	25.02
Multisector	3	800.00	4	139.00	6	939.00	15.70
Others	4	301.00	–	–	2	301.00	5.03
TOTAL	**39**	**4,995.38**	**27**	**987.14**	**57**	**5,982.52**	**100.00**

a Includes private sector loans.
b A project with multiple loans is counted as one project.

Table 15
LOAN APPROVALS, BY COUNTRY AND SOURCE OF FUNDS,[a] 1998
(amounts in $ million)

	OCR	ADF	Total	%
Bangladesh	16.70	183.60	200.30	3.35
Bhutan	–	5.70	5.70	0.10
China, People's Rep. of	1,202.00	–	1,202.00	20.09
India	250.00	–	250.00	4.18
Indonesia	1,836.00	–	1,836.00	30.69
Kiribati	–	10.24	10.24	0.17
Kyrgyz Republic	–	65.00	65.00	1.09
Lao PDR	–	20.00	20.00	0.33
Maldives	–	6.30	6.30	0.10
Nauru	5.00	–	5.00	0.08
Nepal	–	105.00	105.00	1.76
Papua New Guinea	14.10	–	14.10	0.24
Philippines	846.58	8.80	855.38	14.30
Samoa	–	7.50	7.50	0.12
Solomon Islands	–	26.00	26.00	0.43
Sri Lanka	5.00	185.00	190.00	3.18
Tajikistan	–	20.00	20.00	0.33
Thailand	630.00	–	630.00	10.53
Uzbekistan	120.00	–	120.00	2.01
Vanuatu	–	20.00	20.00	0.33
Viet Nam	–	184.00	184.00[b]	3.08
Regional[c]	70.00	140.00	210.00	3.51
TOTAL	**4,995.38**	**987.14**	**5,982.52**	**100.00**

a Includes loans to private sector without government guarantee.
b In addition, Viet Nam received a $100 million loan as a component of a regional project to the Greater Mekong Subregion: Phnom Penh to Ho Chi Minh City Highway (see Regional).
c Includes the Cambodia and Viet Nam loan components of a regional project to the Greater Mekong Subregion: Phnom Penh to Ho Chi Minh City Highway.

Table 16
PROJECTS INVOLVING COFINANCING, 1998
($ million)

	Member	Bank Loan OCR	Bank Loan ADF	Amount of Cofinancing	Source of Cofinancing
GrameenPhone Telecommunications	BAN	16.70	–	31.60	Commonwealth Development Corporation (CDC), United Kingdom
		–	–	31.60	International Finance Corporation (World Bank)
		–	–	11.00	Norwegian Agency for Development Cooperation (NORAD), Norway
Sundarbans Biodiversity Conservation	BAN	–	37.00	12.20[a]	Global Environment Facility (GEF)
Changchun-Harbin Expressway: Changyu Expressway	PRC	390.00	–	132.50	Domestic banks, People's Republic of China
Chengdu-Nanchong Expressway	PRC	250.00	–	60.00	State Development Bank, People's Republic of China
Fujian Pacific Electric Co. Ltd.	PRC	40.00	–	75.65	Compania Española de Seguros de Credito a la Exportacion, S. A. Cia de Seguros y Reaseguros (CESCE), Spain
		–	–	150.00	Complementary Financing Scheme (CFS)
		–	–	52.72	Compagnie Francaise d' Assurance pour le Commerce Exterieur (COFACE), France
		–	–	248.00	International commercial banks
Fuzhou Water Supply and Wastewater Treatment	PRC	102.00	–	6.00	Bond issue
		–	–	15.00	Industrial and Commercial Bank of China, People's Republic of China
Guizhou-Shuibai Railway	PRC	140.00	–	72.30	State Development Bank, People's Republic of China
Yunnan Dachaoshan Power Transmission	PRC	100.00	–	135.50	State Development Bank, People's Republic of China
Central Sulawesi Integrated Area Development and Conservation	INO	32.00	–	1.00[a]	The Nature Conservancy (TNC), United States
		–	–	2.20[a]	United States Agency for International Development (USAID), United States
Second Road Rehabilitation	KGZ	–	50.00	40.80	Overseas Economic Cooperation Fund (OECF), Japan
Social Services Delivery and Finance	KGZ	–	10.00	3.58	The OPEC Fund for International Development (OPEC Fund)
Basic Education (Girls)	LAO	–	20.00	4.30[a]	Australian Agency for International Development (AusAID), Australia
Power Transmission and Distribution (additional cofinancing)	LAO	–	–	1.41	Nordic Development Fund (NDF)
Postsecondary Education Development	MLD	–	6.30	1.00[a]	AusAID
Community Groundwater Irrigation Sector	NEP	–	30.00	2.80[a]	Canadian International Development Agency (CIDA), Canada
Early Childhood Development	PHI	15.70	8.80	22.40	International Bank for Reconstruction and Development (World Bank)
Metro Manila Air Quality Improvement Sector Development Program (investment loan)	PHI	71.00	–	0.60[a]	Swedish International Development Cooperation Agency (Sida), Sweden
		–	–	4.50	Sida
		–	–	0.89[a]	US Trade Development Agency (USTDA), United States
Metro Manila Air Quality Improvement Sector Development Program (policy loan)	PHI	200.00	–	300.00	OECF
Power Sector Restructuring Program	PHI	300.00	–	300.00	Export-Import Bank of Japan (JEXIM), Japan
Secondary Education Development and Improvement	PHI	53.00	–	54.30	OECF
Credit Enhancement Facility for Private Enterprises	SRI	5.00	–	65.00	Floating rate notes
Road Network Improvement	SRI	–	80.00	16.00	OECF
Export Financing Facility	THA	50.00	–	950.00	International commercial banks
Third Road Improvement	VIE	–	130.00	107.00	OECF
Vocational and Technical Education	VIE	–	54.00	24.00[a]	Japan International Cooperation Agency (JICA), Japan
		–	–	15.00	Agence Francaise de Developpement (AFD), France
		–	–	6.00	NDF
TOTAL		**1,765.40**	**426.10**	**2,956.85**	

a Refers to a grant.

Key: BAN (Bangladesh), PRC (People's Republic of China), INO (Indonesia), KGZ (Kyrgyz Republic), LAO (Lao People's Democratic Republic), MLD (Maldives), NEP (Nepal), PHI (Philippines), SRI (Sri Lanka), THA (Thailand), and VIE (Viet Nam).

Table 17
1998 PRIVATE SECTOR APPROVALS AND TOTAL PROJECT COSTS, BY COUNTRY
($ million)

	Loan	Equity Investment	Total Bank Funds	Complementary Loan	Total Bank Approvals	Total Project Cost
Bangladesh						
GrameenPhone Telecommunications	16.700 [a]	1.600	18.300	–	18.300	153.800
China, People's Rep. of						
Fujian Pacific Electric Co. Ltd.	40.000	10.000	50.000	150.000	200.000	828.500
Indonesia						
Secondary Mortgage Facility	–	3.000	3.000	–	3.000	500.000
Philippines						
Primo Oleochemicals Inc.[b]	2.120 [c]	2.842	4.962	1.077	6.039	29.270
Primo Oleochemicals Inc.[b]	2.301	–	2.301	–	2.301	
Sri Lanka						
Credit Enhancement Facility for Private Enterprises[d]	5.000	–	5.000	–	5.000	70.000
Regional						
Asian Finance and Investment Corp. Ltd.[b]	30.000	–	30.000	–	30.000	30.000 [e]
Asian Finance and Investment Corp. Ltd.[b]	40.000	25.000	65.000	–	65.000	130.000
Asian Securitization and Infrastructure Assurance Pte Ltd.[b]	–	20.000	20.000	–	20.000	150.000
TOTAL	**136.121**	**62.442**	**198.563**	**151.077**	**349.640**	**1,891.570**

a Cancellation of $13.3 million from the original approved amount of $30 million because of change in financing structure.
b Resulting from project restructuring/rescheduling.
c Loan amount updated to reflect the Bank's committed amount as stated in the Omnibus Agreement. The original loan amount of $2.3 million is the maximum amount committed.
d With partial credit guarantee of $65 million.
e Plus guarantee of $65 million.

Table 18
1998 PRIVATE SECTOR APPROVALS AND TOTAL PROJECT COSTS, BY SECTOR
($ million)

	Loan	Equity Investment	Total Bank Funds	Complementary Loan	Total Bank Approvals	Total Project Cost
Infrastructure	56.700	11.600	68.300	150.000	218.300	982.300
Investment Funds	70.000	25.000	95.000	–	95.000	160.000
Financial Institutions	5.000	23.000	28.000	–	28.000	720.000
Agriculture, Manufacturing, and Other Industries	4.421	2.842	7.263	1.077	8.340	29.270
TOTAL	**136.121**	**62.442**	**198.563**	**151.077**	**349.640**	**1,891.570**

Table 19
PRIVATE SECTOR LOAN AND EQUITY INVESTMENT APPROVALS, BY YEAR, 1987–1998
(amounts in $ million)

	No. of Projects [a]	Loan	Equity Investment [b]	Total Bank Funds	Complementary Loan	Total Bank Approvals [a]
1987	7	20.50	27.61	48.11	5.00	53.11
1988	12	58.00	35.67	93.67	–	93.67
1989	16	95.70	67.59	163.29	51.10	214.39
1990	17	78.85	35.94	114.79	24.00	138.79
1991	10	156.80	20.52	177.32	–	177.32
1992	4	50.00	5.42	55.42	81.50	136.92
1993	9	182.10	20.70	202.80	19.30	222.10
1994	9	–	48.60	48.60	–	48.60
1995	8	68.00	103.37	171.37	5.83	177.20
1996	9	123.50	99.15	222.65	191.50	414.15
1997	6	45.00	74.30	119.30	–	119.30
1998	8	136.12	62.44	198.56	151.08	349.64

a Net of cancellations.
b Includes equity investments, lines of equity, and equity underwritings.

Table 20
CUMULATIVE PRIVATE SECTOR APPROVALS, BY COUNTRY, 1983–1998
(amounts in $ million)

	No. of Projects [a]	Loan	Equity Investment [b]	Total Bank Funds	Complementary Loan	Total Bank Approvals [a]
Bangladesh	5	67.20	14.46	81.66	–	81.66
Bhutan	1	–	0.79	0.79	–	0.79
China, People's Rep. of	5	90.00	47.30	137.30	150.00	287.30
Fiji	1	–	0.25	0.25	–	0.25
India	14	160.70	124.54	285.24	105.00	390.24
Indonesia	12	82.00	26.65	108.65	63.50	172.15
Korea, Rep. of	3	–	8.96	8.96	–	8.96
Malaysia	1	–	2.00	2.00	–	2.00
Nepal	4	49.55	3.26	52.81	5.83	58.64
Pakistan	21	241.80	28.63	270.43	129.90	400.33
Philippines	20	152.32	36.85	189.17	48.58	237.74
Sri Lanka	8	11.00	5.82	16.82	–	16.82
Thailand	7	31.46	26.82	58.28	–	58.28
Viet Nam	2	30.00	2.00	32.00	26.50	58.50
Regional	18	105.00	286.37	391.37	–	391.37
TOTAL	**122**	**1,021.03**	**614.70**	**1,635.73**	**529.31**	**2,165.03**

a Net of cancellations.
b Includes equity investments, lines of equity, and equity underwritings.

Table 21
LOAN DISBURSEMENTS, 1997 AND 1998
(amounts in $ thousand)

	1997					
	OCR	% of Total OCR	ADF	% of Total ADF	Total	% of Total Disbursements
Project[a]						
Nondevelopment Finance Institution	1,842,209	35	815,195	70	2,657,404	41
Development Finance Institution	327,251	6	43,034	4	370,285	6
Total Project Loans	2,169,460	41	858,229	74	3,027,689	47
Sector[b]	632,653	12	126,895	11	759,548	12
Program[c]	2,435,324	46	168,990	15	2,604,314	40
Private Sector[d]	66,244	1	–	–	66,244	1
TOTAL	**5,303,681**	**100**	**1,154,114**	**100**	**6,457,795**	**100**

	1998						% Change (1998/1997)		
	OCR	% of Total OCR	ADF	% of Total ADF	Total	% of Total Disburse-ments	OCR	ADF	Total
Project[a]									
Nondevelopment Finance Institution	1,682,592	30	882,308	78	2,564,900	38	(9)	8	(3)
Development Finance Institution	300,923	5	14,653	1	315,576	5	(8)	(66)	(15)
Total Project Loans	1,983,515	35	896,961	79	2,880,476	43	(9)	5	(5)
Sector[b]	393,195	7	128,966	11	522,161	8	(38)	2	(31)
Program[c]	3,162,176	56	117,754	10	3,279,930	48	30	(30)	26
Private Sector[d]	83,717	2	–	–	83,717	1	26	–	26
TOTAL	**5,622,603**	**100**	**1,143,681**	**100**	**6,766,284**	**100**	**6**	**(1)**	**5**

( ) Negative.

a A project loan is a loan provided to finance specific projects. The Bank 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 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.

c 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.

d Excludes equity investments.

Table 22
PROGRAM LOAN DISBURSEMENTS, 1998
($ million)

	OCR	ADF	Total
Bangladesh	–	39.42	39.42
Bhutan	–	2.43	2.43
India	125.00	–	125.00
Indonesia	600.00	–	600.00
Kazakhstan	100.00	–	100.00
Korea, Rep. of	1,700.00	–	1,700.00
Kyrgyz Republic	–	9.42	9.42
Marshall Islands	–	3.29	3.29
Micronesia, Fed. States of	–	4.00	4.00
Mongolia	–	5.06	5.06
Nepal	–	24.54	24.54
Pakistan	125.00	–	125.00
Papua New Guinea	12.18	–	12.18
Philippines	200.00	–	200.00
Samoa	–	3.98	3.98
Solomon Islands	–	15.67	15.67
Thailand	300.00	–	300.00
Vanuatu	–	9.96	9.96
TOTAL	**3,162.18**	**117.75**	**3,279.93**

Table 23
CONTRACTS AWARDED AND DISBURSEMENTS UNDER EFFECTIVE LOANS,[a] 1968–1998
(as of 31 December 1998)

	Cumulative Effective Loans[b]		Cumulative Contracts Awarded[c,d]		Cumulative Disbursements[b]	
	No.	$ Million[e]	$ Million	Percentage of Cumulative Effective Loans	$ Million[f]	Percentage of Cumulative Effective Loans
1968	4	20	5	23	2	9
1969	13	67	14	20	9	14
1970	28	137	54	40	26	19
1971	67	404	115	28	75	19
1972	93	696	272	39	136	20
1973	130	998	453	45	283	28
1974	187	1,612	836	52	470	29
1975	221	2,052	1,150	56	832	41
1976	264	2,846	1,506	53	1,159	41
1977	294	3,461	1,862	54	1,515	44
1978	340	4,289	2,433	57	1,977	46
1979	391	5,274	2,942	56	2,463	47
1980	451	6,592	3,820	58	3,042	46
1981	510	7,953	4,504	57	3,710	47
1982	570	9,672	5,571	58	4,505	47
1983	621	11,100	6,296	57	5,442	49
1984	675	13,027	7,300	56	6,442	49
1985	727	14,793	8,279	56	7,452	50
1986	771	16,135	9,443	59	8,476	53
1987	815	17,807	10,883	61	9,708	55
1988	887	20,589	12,812	62	11,357	55
1989	958	23,727	14,859	63	13,592	57
1990	1,016	27,630	17,667	64	16,344	59
1991	1,078	31,360	20,507	65	19,447	62
1992	1,149	35,909	23,176	65	22,214	62
1993	1,221	40,099	26,756	67	25,156	63
1994	1,282	44,030	30,569	69	28,844	66
1995	1,345	47,901	34,058	71	32,431	68
1996	1,413	52,484	37,538	72	36,227	69
1997	1,502	60,990	43,315	71	42,685	70
1998	1,590	65,882	49,656	75	49,451	75

a After the signing of the loan agreement, certain requirements must be complied with for the loan to become effective.
b Includes private sector loans without government guarantee.
c Excludes private sector loans without government guarantee.
d Procurement totals include those for project and program loans. Procurement under program loans is inputted using the trade patterns of the borrowing members. For details, refer to the *Quarterly Procurement Statistics* as of 31 December 1998.
e Net of cancellations and amounts transferred to subsequent loans.
f Includes interest and other charges financed during construction.

Table 24
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 1998)

	Cumulative No. of Loans Approved[a]	Cumulative No. of Effective Loans	Cumulative No. of Projects Approved[b]	Cumulative No. of Blended Loans	Cumulative No. of Supplementary Projects	Cumulative No. of Cofinanced Projects
Afghanistan	9	8	8	–	1	2
Bangladesh	133	127	125	3	5	58
Bhutan	14	13	13	–	–	5
Cambodia	11	10	10	–	–	3
China, People's Rep. of	71	62	71	–	–	23
Cook Islands	11	11	11	–	–	1
Fiji	13	13	13	–	–	5
Hong Kong, China	5	5	5	–	–	–
India	52	46	47	1	–	19
Indonesia	241	241	219	16	2	53
Kazakhstan	10	10	7	2	–	–
Kiribati	6	5	6	–	–	1
Korea, Rep. of	81	81	80	–	–	8
Kyrgyz Republic	12	10	10	–	–	5
Lao PDR	43	42	40	–	3	24
Malaysia	76	76	74	1	1	9
Maldives	8	7	8	–	–	4
Marshall Islands	7	7	7	–	–	–
Micronesia, Fed. States of	3	3	3	–	–	–
Mongolia	19	19	16	–	–	4
Myanmar	32	32	28	2	2	12
Nauru	1	–	1	–	–	–
Nepal	94	91	83	1	9	38
Pakistan	179	175	152	22	5	71
Papua New Guinea	47	45	36	10	–	6
Philippines	172	168	146	17	4	57
Samoa	26	25	22	–	4	9
Singapore	14	14	14	–	–	2
Solomon Islands	15	15	14	–	–	5
Sri Lanka	88	84	82	1	5	25
Taipei,China	12	12	12	–	–	–
Tajikistan	1	–	1	–	–	–
Thailand	80	79	76	2	2	35
Tonga	14	13	14	–	–	3
Uzbekistan	5	3	4	1	–	–
Vanuatu	8	8	7	–	1	3
Viet Nam	34	28	31	2	–	9
Regional	3	2	4[f]	–	–	–
TOTAL	**1,650**	**1,590**	**1,500**	**81**	**44**	**499**

a Includes special implementation assistance loans, special assistance, and private sector loans; excludes loans withdrawn by borrowers before loan signing.
b Blended loans and multi-loan projects are counted as one project; supplementary loans and special implementation assistance loans are not counted as separate projects.
c Includes projects/loans which have been approved but still awaiting effectivity, inactive loans, fully disbursed private sector loans without government guarantee but still under administration; excludes projects/loans exclusively financed from other sources.
d Projects that were physically completed in 1998.
e Excludes three loans withdrawn.
f Includes a regional project to the Greater Mekong Subregion: Phnom Penh to Ho Chi Minh City Highway (Loan No. 1659-Cambodia and Loan No. 1660-Viet Nam).

No. of Projects Under Administration[a, c]	No. of Loans Under Administration[c]	Cumulative No. of PCRs Circulated/ Prepared	No. of Projects Completed in 1998[d]	No. of Loans Closed in 1998[e]	No. of PCRs Circulated in 1998	No. of PPARs Circulated in 1998	
–	–	–	–	–	–	–	Afghanistan
41	41	77	7	2	3	1	Bangladesh
4	5	7	–	1	1	2	Bhutan
9[e]	9	1	–	–	–	–	Cambodia
48	48	18	9	5	4	2	China, People's Rep. of
4	4	6	2	1	–	1	Cook Islands
2	2	9	1	–	–	–	Fiji
–	–	5	–	–	–	–	Hong Kong, China
25	32	13	6	2	2	–	India
71	79	123	14	8	8	1	Indonesia
5	7	–	–	1	–	–	Kazakhstan
1	1	4	–	–	–	–	Kiribati
1	2	58	–	–	–	–	Korea, Rep. of
9	11	–	–	1	–	–	Kyrgyz Republic
16	16	17	3	4	3	–	Lao PDR
9	9	46	3	1	2	–	Malaysia
2	2	6	1	1	2	–	Maldives
4	4	2	–	1	–	–	Marshall Islands
3	3	–	–	–	–	–	Micronesia, Fed. States of
12	15	2	2	1	1	–	Mongolia
–	–	26	–	1	–	–	Myanmar
1	1	–	–	–	–	–	Nauru
25	26	52	3	5	6	4	Nepal
62	66	84	6	5	6	5	Pakistan
8	11	26	1	–	–	2	Papua New Guinea
47	58	86	7	7	5	2	Philippines
1	1	19	–	1	1	–	Samoa
–	–	7	–	–	–	–	Singapore
1	2	13	–	–	–	–	Solomon Islands
27	27	45	7	3	1	1	Sri Lanka
–	–	1	–	–	–	–	Taipei,China
1	1	–	–	–	–	–	Tajikistan
15	16	43	5	5	2	–	Thailand
4	4	12	1	–	1	–	Tonga
4	5	–	–	–	–	–	Uzbekistan
2	2	3	1	1	–	–	Vanuatu
22[e]	22	5	–	1	–	–	Viet Nam
3	3	–	–	–	–	–	Regional
489	**535**	**816**	**79**	**58**	**48**	**21**	**TOTAL**

Table 25
AMOUNT OF LOANS APPROVED, CONTRACTS AWARDED, AND DISBURSEMENTS
(as of 31 December 1998)
(amounts in $ million)

	Cumulative Loan Amounts Approved[a]	Cumulative Net Effective Loans[b,c]	Contracts Awarded in 1998[c,d,e]	Cumulative Contracts Awarded[c,d,e]
Afghanistan	95.10	27.90	0.00	34.21
Bangladesh	5,583.61	4,935.96	282.74	3,935.72
Bhutan	65.16	54.14	3.20	45.92
Cambodia	287.67	238.13	29.12	158.46
China, People's Rep. of	8,166.70	6,587.34	538.62	4,517.55
Cook Islands	24.47	23.65	1.78	22.61
Fiji	161.10	153.47	0.23	109.22
Hong Kong, China	101.50	94.50	0.00	94.50
India	7,253.30	5,725.79	487.70	4,666.47
Indonesia	16,008.99	13,795.28	880.11	8,625.17
Kazakhstan	415.00	412.48	116.92	314.67
Kiribati	15.14	3.77	0.00	4.57
Korea, Rep. of	6,338.33	5,867.46	1,700.00	5,564.68
Kyrgyz Republic	314.20	249.03	29.42	185.73
Lao PDR	769.44	733.29	56.11	597.07
Malaysia	1,987.54	1,481.39	47.13	1,317.23
Maldives	47.18	41.20	0.95	34.94
Marshall Islands	43.05	38.17	6.44	29.29
Micronesia, Fed. States of	35.10	34.45	6.87	18.93
Mongolia	377.52	373.25	18.46	276.83
Myanmar	530.86	411.83	0.00	418.77
Nauru	5.00	0.00	0.00	0.00
Nepal	1,632.38	1,374.60	75.29	1,132.02
Pakistan	9,471.44	8,480.82	315.94	6,700.87
Papua New Guinea	619.83	544.75	15.94	467.36
Philippines	7,286.26	6,264.77	324.30	4,355.70
Samoa	97.42	94.35	4.28	94.45
Singapore	181.08	144.44	0.00	130.22
Solomon Islands	69.31	64.94	15.67	52.87
Sri Lanka	2,178.95	1,875.20	105.10	1,592.66
Taipei,China	100.39	91.14	0.00	90.28
Tajikistan	20.00	0.00	0.00	0.00
Thailand	4,984.25	4,191.98	500.71	3,426.32
Tonga	47.79	41.74	3.31	44.92
Uzbekistan	210.00	90.35	1.43	1.43
Vanuatu	49.25	48.33	10.81	28.04
Viet Nam	1,655.68	1,217.34	212.22	565.96
Regional[g]	105.00	75.00	0.00	0.00
TOTAL	**77,335.00**	**65,882.23**	**5,790.79**	**49,655.62**

a Includes special assistance loans and private sector loans but excludes loans withdrawn before loan signing. The US dollar equivalent is in accordance with the exchange rate prevailing in the Bank at the time of loan signing.
b Net refers to cancellation and refund of unused loan amounts.
c The US dollar equivalent is in accordance with the exchange rate prevailing in the Bank on 31 December 1998. The cumulative contracts awarded exceed the net effective loan amounts due to the following reasons:
(i) for countries without active loans, the base contract amount of loans that were closed prior to computerization does not reflect the adjustment with regard to procurement data, e.g., Afghanistan; and
(ii) for countries with active loans, the contract amount inputted is basically the percentage of Bank-financed portion and each contract amount was adjusted upon completion of disbursement.

% of Cumulative Contracts Awarded to Cumulative Net Effective Loans	Disbursements in 1998	Cumulative Disbursements[f]	% of Cumulative Disbursements to Cumulative Net Effective Loans	
122.6	0.00	27.90	100.0	Afghanistan
79.7	230.53	3,914.38	79.3	Bangladesh
84.8	4.29	45.15	83.4	Bhutan
66.5	29.33	126.09	53.0	Cambodia
68.6	831.33	4,186.30	63.6	China, People's Rep. of
95.6	1.99	20.91	88.4	Cook Islands
71.2	0.99	112.92	73.6	Fiji
100.0	0.00	94.50	100.0	Hong Kong, China
81.5	620.40	4,448.15	77.7	India
62.5	1,079.01	9,297.25	67.4	Indonesia
76.3	127.32	294.88	71.5	Kazakhstan
121.2	0.00	3.77	100.0	Kiribati
94.8	1,700.00	5,552.45	94.6	Korea, Rep. of
74.6	43.28	155.40	62.4	Kyrgyz Republic
81.4	65.97	517.83	70.6	Lao PDR
88.9	60.69	1,273.30	86.0	Malaysia
84.8	0.40	34.20	83.0	Maldives
76.7	7.93	26.17	68.6	Marshall Islands
54.9	6.25	18.01	52.3	Micronesia, Fed. States of
74.2	31.91	242.08	64.9	Mongolia
101.7	0.00	411.83	100.0	Myanmar
0.0	0.00	0.00	0.0	Nauru
82.4	120.28	1,074.20	78.1	Nepal
79.0	523.04	6,850.09	80.8	Pakistan
85.8	23.97	472.68	86.8	Papua New Guinea
69.5	368.10	4,561.17	72.8	Philippines
100.1	4.28	90.66	96.1	Samoa
90.2	0.00	144.44	100.0	Singapore
81.4	15.67	53.29	82.1	Solomon Islands
84.9	120.14	1,497.81	79.7	Sri Lanka
99.1	0.00	91.14	100.0	Taipei,China
0.0	0.00	0.00	0.0	Tajikistan
81.7	563.66	3,288.96	78.5	Thailand
107.6	4.88	35.83	85.8	Tonga
1.6	1.89	1.89	2.1	Uzbekistan
58.0	11.41	28.73	59.4	Vanuatu
46.5	127.82	382.48	31.4	Viet Nam
0.0	39.52	74.52	99.4	Regional
75.4	**6,766.28**	**49,451.36**	**75.1**	**TOTAL**

d Excluding private sector loans without government guarantee.

e Procurement totals include those for project and program loans. Procurement under program loans is inputted using the trade patterns of the borrowing members. For details, refer to the *Quarterly Procurement Statistics* as of 31 December 1998.

f The cumulative disbursements may exceed the cumulative contracts awarded because of interest during construction amounts and private sector loans that do not require procurements.

g A private sector loan to Asian Finance and Investment Corporation Ltd. (AFIC).

Table 26
DISTRIBUTION OF CONTRACTS AWARDED, BY COUNTRY OF ORIGIN[a,b]
ORDINARY CAPITAL RESOURCES

	1967–1976		1977–1986		1987–1996		1997–1998	
	Goods, Related Services, and Civil Works %	Consulting Services %	Goods, Related Services, and Civil Works %	Consulting Services %	Goods, Related Services, and Civil Works %	Consulting Services %	Goods, Related Services, and Civil Works %	Consulting Services %
Afghanistan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Australia	1.15	3.91	1.43	2.46	1.90	4.09	1.90	3.99
Austria	2.38	0.84	0.57	0.30	0.28	0.31	0.25	5.01
Bangladesh	0.00	0.00	0.00	0.03	0.00	0.00	0.00	0.00
Belgium	0.22	0.53	0.49	0.04	0.48	0.00	0.23	0.00
Bhutan	0.00	0.00	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	0.00	0.00
Canada	2.19	2.29	0.91	6.79	0.81	4.48	0.66	2.59
China, People's Rep. of	0.00	0.00	0.00	0.00	9.39	0.00	11.52	0.00
Cook Islands	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Denmark	0.13	1.94	0.29	2.91	0.15	1.89	0.30	0.93
Fiji	0.09	0.00	0.24	0.00	0.16	0.03	0.00	0.00
Finland	0.05	0.00	0.04	0.31	0.47	0.32	0.17	0.35
France	3.78	6.05	2.02	2.98	2.27	4.39	1.02	6.67
Germany	7.57	10.36	4.79	4.34	5.66	6.21	2.70	4.70
Hong Kong, China	0.60	0.00	1.65	0.47	1.17	0.08	0.35	1.13
India	1.45	3.35	0.67	0.34	9.97	1.29	8.88	0.12
Indonesia	0.00	0.00	8.54	9.58	17.36	29.08	10.97	15.51
Italy	3.36	11.06	1.35	4.08	3.82	2.27	0.88	4.25
Japan	42.33	7.33	22.82	12.58	11.63	7.31	5.84	2.15
Kazakhstan	0.00	0.00	0.00	0.00	0.00	0.00	0.70	0.00
Kiribati	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Korea, Rep. of	9.67	1.31	16.74	4.06	6.40	0.79	22.67	0.00
Kyrgyz Republic	0.00	0.00	0.00	0.00	0.01	0.00	0.03	0.00
Lao PDR	0.00	0.00	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	0.00	0.00
Malaysia	3.32	0.17	4.86	0.88	3.42	1.20	3.05	0.00
Maldives	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Marshall Islands	0.00	0.00	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	0.00	0.00
Mongolia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Myanmar	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Nepal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Netherlands	2.17	2.20	0.90	2.60	0.61	5.60	0.46	5.46
New Zealand	0.17	1.42	0.42	1.46	0.09	0.17	0.05	1.13
Norway	0.15	0.00	0.03	0.25	0.06	0.00	0.00	2.73
Pakistan	0.01	0.00	0.57	0.04	3.02	0.37	0.24	0.00
Papua New Guinea	0.00	0.00	0.25	0.07	0.27	0.19	0.09	0.03
Philippines	1.14	0.94	8.43	1.59	3.36	4.14	0.67	8.74
Samoa	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Singapore	0.56	0.00	1.53	0.32	1.56	0.12	2.22	0.70
Solomon Islands	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Spain	0.00	0.00	0.00	0.00	0.19	0.00	0.06	0.00
Sri Lanka	0.00	0.00	0.00	0.03	0.01	0.02	0.00	0.02
Sweden	0.57	0.13	0.54	0.04	0.81	0.15	0.14	0.61
Switzerland	1.91	1.07	1.51	5.86	1.69	6.19	0.53	5.25
Taipei,China	1.77	0.09	1.70	3.20	0.75	1.01	0.59	3.04
Thailand	2.28	0.00	6.94	0.09	3.48	1.64	4.13	4.35
Tonga	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Turkey	0.00	0.00	0.00	0.00	0.19	0.00	0.13	0.00
United Kingdom	4.03	3.61	2.76	11.08	1.53	6.90	1.85	6.51
United States	6.94	41.40	7.01	21.26	6.55	9.76	7.43	14.04
Uzbekistan	0.00	0.00	0.00	0.00	0.02	0.00	0.56	0.00
Vanuatu	0.00	0.00	0.00	0.00	0.40	0.00	0.00	0.00
Viet Nam	0.00	0.00	0.00	0.00	0.04	0.00	0.00	0.00
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Regional	0.00	0.00	0.00	0.00	0.00	0.00	8.73	0.00
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
TOTAL VALUE ($ million)	**1,151.814**	**65.585**	**5,006.384**	**327.457**	**17,780.479**	**825.743**	**9,166.369**	**172.146**

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.
b Procurement totals include those for project and program loans. Procurement under program loans is inputted using the trade patterns of the borrowing members. For details, refer to the *Quarterly Procurement Statistics* as of 31 December 1998.

Table 27
DISTRIBUTION OF CONTRACTS AWARDED, BY COUNTRY OF ORIGIN[a,b]
ASIAN DEVELOPMENT FUND

	1967–1976		1977–1986		1987–1996		1997–1998	
	Goods, Related Services, and Civil Works %	Consulting Services %	Goods, Related Services, and Civil Works %	Consulting Services %	Goods, Related Services, and Civil Works %	Consulting Services %	Goods, Related Services, and Civil Works %	Consulting Services %
Afghanistan	0.00	0.00	0.37	0.00	0.00	0.00	0.00	0.00
Australia	4.89	6.10	0.83	3.75	1.18	5.64	0.57	6.28
Austria	0.12	0.00	0.34	0.00	0.16	0.00	0.36	0.00
Bangladesh	0.20	0.00	5.80	0.94	14.03	3.73	11.60	6.07
Belgium	0.18	0.00	0.58	0.05	0.36	0.00	0.04	0.06
Bhutan	0.00	0.00	0.00	0.00	0.18	0.01	0.18	0.00
Cambodia	0.00	0.00	0.00	0.00	0.31	0.00	0.81	0.01
Canada	0.61	18.30	0.51	7.39	0.40	3.11	0.22	12.02
China, People's Rep. of	0.00	0.00	0.00	0.00	5.68	0.00	6.65	0.00
Cook Islands	0.00	0.00	0.04	0.00	0.05	0.01	0.04	0.03
Denmark	0.02	0.93	0.79	0.00	0.33	1.68	0.14	1.94
Fiji	0.12	0.00	0.05	0.00	0.02	0.02	0.14	0.00
Finland	0.01	0.00	0.07	1.34	0.18	0.20	0.36	3.92
France	0.13	0.00	1.37	2.57	1.43	4.01	2.95	10.85
Germany	14.61	22.63	5.08	1.68	3.69	5.35	2.12	5.74
Hong Kong, China	0.27	0.00	0.74	0.00	0.83	0.00	0.34	0.00
India	4.42	1.63	6.30	9.30	2.27	1.84	1.93	0.13
Indonesia	0.00	0.00	1.14	1.85	3.49	4.70	1.87	1.48
Italy	5.68	5.49	2.75	0.82	1.68	2.94	3.88	0.03
Japan	38.73	21.17	25.35	15.18	5.47	3.56	3.91	5.59
Kazakhstan	0.00	0.00	0.00	0.00	0.32	0.00	0.81	0.26
Kiribati	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Korea, Rep. of	5.66	1.84	5.31	2.01	6.79	1.70	5.31	0.00
Kyrgyz Republic	0.00	0.00	0.00	0.00	0.44	0.00	1.08	0.07
Lao PDR	0.00	0.00	0.05	0.00	0.79	0.08	0.76	0.19
Luxembourg	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	0.57	2.56	0.36	0.54	1.02	0.00	1.15	0.00
Maldives	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00
Marshall Islands	0.00	0.00	0.00	0.00	0.06	0.00	0.18	0.05
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00	0.19	0.00
Mongolia	0.00	0.00	0.00	0.00	0.14	0.00	0.30	0.32
Myanmar	0.00	0.00	0.78	0.00	0.13	0.00	0.01	0.00
Nepal	0.82	0.00	2.28	0.50	3.27	1.16	3.23	2.72
Netherlands	1.68	5.57	1.22	2.22	1.61	5.22	0.20	3.15
New Zealand	0.56	2.46	0.81	2.00	0.46	3.48	0.63	1.28
Norway	0.05	0.00	0.02	0.57	0.36	0.28	0.02	1.08
Pakistan	0.00	0.00	4.76	0.47	15.57	9.91	14.40	4.30
Papua New Guinea	2.60	0.00	1.52	0.19	1.16	0.39	0.18	0.22
Philippines	0.14	1.10	2.74	2.83	4.85	5.04	2.33	3.58
Samoa	0.09	0.00	0.28	0.07	0.06	0.07	0.03	0.00
Singapore	4.83	0.00	1.85	0.11	4.02	0.16	3.70	0.43
Solomon Islands	0.00	0.00	0.28	0.09	0.10	0.00	0.70	0.00
Spain	0.00	0.00	0.00	0.00	0.06	0.00	0.10	0.00
Sri Lanka	0.00	0.12	3.11	0.26	4.38	1.39	5.39	0.54
Sweden	0.01	0.14	1.64	0.04	0.57	2.19	0.19	1.23
Switzerland	0.33	0.00	2.64	6.18	0.93	2.58	0.24	0.78
Taipei,China	0.74	0.11	0.20	0.04	0.76	0.00	0.30	0.68
Thailand	1.66	0.20	2.35	0.05	0.94	0.01	0.84	0.00
Tonga	0.00	0.00	0.15	0.00	0.07	0.06	0.11	0.00
Turkey	0.00	0.00	0.00	0.00	0.30	0.00	7.57	0.00
United Kingdom	6.96	2.83	6.44	21.11	2.02	17.81	0.58	7.61
United States	3.30	6.82	8.98	15.96	6.28	11.68	2.80	15.97
Uzbekistan	0.00	0.00	0.00	0.00	0.05	0.00	0.37	0.00
Vanuatu	0.00	0.00	0.01	0.00	0.04	0.00	0.00	0.00
Viet Nam	0.00	0.00	0.08	0.00	0.68	0.00	7.61	1.42
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Regional	0.00	0.00	0.00	0.00	0.00	0.00	0.59	0.00
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
TOTAL VALUE ($ million)	**260.832**	**27.689**	**2,447.946**	**155.369**	**9,288.558**	**568.073**	**2,224.641**	**176.117**

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.
b Procurement totals include those for project and program loans. Procurement under program loans is inputted using the trade patterns of the borrowing members. For details, refer to the *Quarterly Procurement Statistics* as of 31 December 1998.

Table 28
DISTRIBUTION OF CONTRACTS AWARDED, BY COUNTRY OF ORIGIN[a,b]
ORDINARY CAPITAL RESOURCES AND ASIAN DEVELOPMENT FUND COMBINED

	1967–1976		1977–1986		1987–1996		1997–1998	
	Goods, Related Services, and Civil Works %	Consulting Services %	Goods, Related Services, and Civil Works %	Consulting Services %	Goods, Related Services, and Civil Works %	Consulting Services %	Goods, Related Services, and Civil Works %	Consulting Services %
Afghanistan	0.00	0.00	0.12	0.00	0.00	0.00	0.00	0.00
Australia	1.84	4.56	1.23	2.87	1.65	4.72	1.64	7.62
Austria	1.96	0.59	0.49	0.21	0.24	0.18	0.27	0.00
Bangladesh	0.04	0.00	1.91	0.32	4.82	1.52	2.27	3.07
Belgium	0.21	0.38	0.52	0.04	0.44	0.00	0.19	0.03
Bhutan	0.00	0.00	0.00	0.00	0.06	0.00	0.03	0.00
Cambodia	0.00	0.00	0.00	0.00	0.11	0.00	0.16	0.00
Canada	1.90	7.04	0.78	6.98	0.67	3.92	0.57	7.36
China, People's Rep. of	0.00	0.00	0.00	0.00	8.12	0.00	10.57	0.00
Cook Islands	0.00	0.00	0.01	0.00	0.02	0.00	0.01	0.02
Denmark	0.11	1.64	0.45	1.97	0.21	1.81	0.27	1.44
Fiji	0.10	0.00	0.18	0.00	0.11	0.02	0.03	0.00
Finland	0.04	0.00	0.05	0.64	0.37	0.27	0.21	2.15
France	3.11	4.25	1.80	2.85	1.98	4.24	1.39	8.79
Germany	8.87	14.00	4.89	3.49	4.98	5.86	2.59	5.23
Hong Kong, China	0.54	0.00	1.31	0.32	1.06	0.05	0.35	0.56
India	2.00	2.84	2.52	3.22	7.33	1.51	7.52	0.12
Indonesia	0.00	0.00	5.93	7.09	12.60	19.15	9.19	8.42
Italy	3.79	9.41	1.81	3.03	3.09	2.54	1.47	2.12
Japan	41.67	11.44	23.65	13.41	9.51	5.78	5.46	3.89
Kazakhstan	0.00	0.00	0.00	0.00	0.11	0.00	0.72	0.13
Kiribati	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Korea, Rep. of	8.93	1.46	13.32	3.40	6.53	1.16	19.28	0.00
Kyrgyz Republic	0.00	0.00	0.00	0.00	0.16	0.00	0.23	0.04
Lao PDR	0.00	0.00	0.02	0.00	0.27	0.03	0.15	0.09
Luxembourg	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	2.81	0.88	3.29	0.77	2.60	0.71	2.68	0.00
Maldives	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00
Marshall Islands	0.00	0.00	0.00	0.00	0.02	0.00	0.04	0.02
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.00
Mongolia	0.00	0.00	0.00	0.00	0.05	0.00	0.06	0.16
Myanmar	0.00	0.00	0.26	0.00	0.05	0.00	0.00	0.00
Nepal	0.15	0.00	0.75	0.16	1.12	0.47	0.63	1.37
Netherlands	2.08	3.20	1.01	2.48	0.95	5.45	0.41	4.29
New Zealand	0.24	1.73	0.55	1.63	0.22	1.52	0.16	1.20
Norway	0.13	0.00	0.03	0.35	0.17	0.10	0.01	1.90
Pakistan	0.01	0.00	1.95	0.18	7.32	4.26	3.00	2.18
Papua New Guinea	0.48	0.00	0.66	0.11	0.58	0.27	0.11	0.13
Philippines	0.95	0.99	6.54	1.99	3.87	4.51	0.99	6.13
Samoa	0.02	0.00	0.09	0.02	0.02	0.03	0.01	0.00
Singapore	1.34	0.00	1.65	0.25	2.40	0.14	2.51	0.56
Solomon Islands	0.00	0.00	0.09	0.03	0.04	0.00	0.14	0.00
Spain	0.00	0.00	0.00	0.00	0.14	0.00	0.07	0.00
Sri Lanka	0.00	0.04	1.02	0.11	1.51	0.58	1.05	0.28
Sweden	0.46	0.13	0.90	0.04	0.73	0.98	0.15	0.92
Switzerland	1.62	0.75	1.88	5.96	1.43	4.72	0.47	2.99
Taipei,China	1.58	0.10	1.21	2.18	0.75	0.60	0.53	1.85
Thailand	2.17	0.06	5.41	0.08	2.61	0.97	3.49	2.15
Tonga	0.00	0.00	0.05	0.00	0.03	0.02	0.02	0.00
Turkey	0.00	0.00	0.00	0.00	0.23	0.00	1.58	0.00
United Kingdom	4.57	3.38	3.97	14.31	1.70	11.35	1.60	7.07
United States	6.27	31.13	7.66	19.55	6.46	10.54	6.53	15.01
Uzbekistan	0.00	0.00	0.00	0.00	0.03	0.00	0.52	0.00
Vanuatu	0.00	0.00	0.00	0.00	0.27	0.00	0.00	0.00
Viet Nam	0.00	0.00	0.03	0.00	0.26	0.00	1.49	0.72
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Regional	0.00	0.00	0.00	0.00	0.00	0.00	7.14	0.00
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
TOTAL VALUE ($ million)	1,412.646	93.274	7,454.330	482.826	27,069.037	1,393.464	11,391.010	348.263

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.
b Procurement totals include those for project and program loans. Procurement under program loans is inputted using the trade patterns of the borrowing members. For details, refer to the *Quarterly Procurement Statistics* as of 31 December 1998.

Table 29
CONTRACTS AWARDED, BY COUNTRY OF ORIGIN,[a,b] 1998
ORDINARY CAPITAL RESOURCES
(amounts in $ million)

	Goods, Related Services, and Civil Works	% Distribution	Consulting Services	% Distribution	Total Contracts Awarded	% Distribution
Afghanistan	0.000	0.00	0.000	0.00	0.000	0.00
Australia	128.115	2.77	6.861	9.93	134.976	2.87
Austria	0.591	0.01	0.000	0.00	0.591	0.01
Bangladesh	0.394	0.01	0.000	0.00	0.394	0.01
Belgium	0.760	0.02	0.000	0.00	0.760	0.02
Bhutan	0.000	0.00	0.000	0.00	0.000	0.00
Cambodia	0.000	0.00	0.000	0.00	0.000	0.00
Canada	40.009	0.86	1.905	2.76	41.914	0.89
China, People's Rep. of	451.223	9.75	0.000	0.00	451.223	9.60
Cook Islands	0.000	0.00	0.000	0.00	0.000	0.00
Denmark	0.942	0.02	0.000	0.00	0.942	0.02
Fiji	0.230	0.00	0.000	0.00	0.230	0.00
Finland	1.563	0.03	0.605	0.88	2.168	0.05
France	47.878	1.03	5.880	8.51	53.758	1.14
Germany	132.813	2.87	0.696	1.01	133.509	2.84
Hong Kong, China	18.942	0.41	1.947	2.82	20.889	0.44
India	363.171	7.84	0.000	0.00	363.171	7.73
Indonesia	761.739	16.45	6.172	8.93	767.911	16.34
Italy	52.061	1.12	4.925	7.13	56.986	1.21
Japan	434.151	9.38	0.000	0.00	434.151	9.24
Kazakhstan	56.253	1.22	0.000	0.00	56.253	1.20
Kiribati	0.000	0.00	0.000	0.00	0.000	0.00
Korea, Rep. of	38.433	0.83	0.000	0.00	38.433	0.82
Kyrgyz Republic	0.000	0.00	0.000	0.00	0.000	0.00
Lao PDR	0.000	0.00	0.000	0.00	0.000	0.00
Malaysia	138.223	2.99	0.000	0.00	138.223	2.94
Maldives	0.000	0.00	0.000	0.00	0.000	0.00
Marshall Islands	0.000	0.00	0.000	0.00	0.000	0.00
Micronesia, Fed. States of	0.000	0.00	0.000	0.00	0.000	0.00
Mongolia	0.000	0.00	0.000	0.00	0.000	0.00
Myanmar	0.000	0.00	0.000	0.00	0.000	0.00
Nepal	0.000	0.00	0.000	0.00	0.000	0.00
Netherlands	5.068	0.11	2.061	2.98	7.129	0.15
New Zealand	1.271	0.03	0.385	0.56	1.656	0.04
Norway	0.000	0.00	0.017	0.02	0.017	0.00
Pakistan	0.834	0.02	0.000	0.00	0.834	0.02
Papua New Guinea	2.776	0.06	0.051	0.07	2.827	0.06
Philippines	20.097	0.43	10.183	14.74	30.280	0.64
Samoa	0.000	0.00	0.000	0.00	0.000	0.00
Singapore	89.399	1.93	0.000	0.00	89.399	1.90
Solomon Islands	0.000	0.00	0.000	0.00	0.000	0.00
Spain	4.111	0.09	0.000	0.00	4.111	0.09
Sri Lanka	0.118	0.00	0.026	0.04	0.144	0.00
Sweden	2.880	0.06	1.057	1.53	3.937	0.08
Switzerland	34.153	0.74	6.485	9.39	40.638	0.86
Taipei,China	43.619	0.94	0.000	0.00	43.619	0.93
Thailand	229.301	4.95	1.476	2.14	230.777	4.91
Tonga	0.000	0.00	0.000	0.00	0.000	0.00
Turkey	0.000	0.00	0.000	0.00	0.000	0.00
United Kingdom	79.691	1.72	7.244	10.48	86.935	1.85
United States	597.995	12.92	11.122	16.10	609.117	12.96
Uzbekistan	50.803	1.10	0.000	0.00	50.803	1.08
Vanuatu	0.000	0.00	0.000	0.00	0.000	0.00
Viet Nam	0.137	0.00	0.000	0.00	0.137	0.00
International Organizations	0.000	0.00	0.000	0.00	0.000	0.00
Regional	800.043	17.28	0.000	0.00	800.043	17.03
TOTAL	**4,629.787**	**100.00**	**69.098**	**100.00**	**4,698.885**	**100.00**

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.
b Procurement totals include those for project and program loans. Procurement under program loans is inputted using the trade patterns of the borrowing members. For details, refer to the *Quarterly Procurement Statistics* as of 31 December 1998.

Table 30
CONTRACTS AWARDED, BY COUNTRY OF ORIGIN,[a,b] 1998
ASIAN DEVELOPMENT FUND
(amounts in $ million)

	Goods, Related Services, and Civil Works	% Distribution	Consulting Services	% Distribution	Total Contracts Awarded	% Distribution
Afghanistan	0.000	0.00	0.000	0.00	0.000	0.00
Australia	6.126	0.61	7.666	8.82	13.792	1.26
Austria	2.530	0.25	0.000	0.00	2.530	0.23
Bangladesh	114.874	11.43	9.119	10.49	123.993	11.36
Belgium	0.209	0.02	0.106	0.12	0.315	0.03
Bhutan	3.195	0.32	0.000	0.00	3.195	0.29
Cambodia	14.392	1.43	0.009	0.01	14.401	1.32
Canada	0.699	0.07	12.797	14.73	13.496	1.24
China, People's Rep. of	43.843	4.36	0.000	0.00	43.843	4.02
Cook Islands	0.602	0.06	0.047	0.05	0.649	0.06
Denmark	1.139	0.11	1.796	2.07	2.935	0.27
Fiji	0.000	0.00	0.000	0.00	0.000	0.00
Finland	5.612	0.56	3.207	3.69	8.819	0.81
France	32.969	3.28	9.498	10.93	42.467	3.89
Germany	31.890	3.17	5.668	6.52	37.558	3.44
Hong Kong, China	3.189	0.32	0.000	0.00	3.189	0.29
India	31.179	3.10	0.226	0.26	31.405	2.88
Indonesia	10.042	1.00	0.000	0.00	10.042	0.92
Italy	10.674	1.06	0.000	0.00	10.674	0.98
Japan	45.946	4.57	4.788	5.51	50.734	4.65
Kazakhstan	5.026	0.50	0.000	0.00	5.026	0.46
Kiribati	0.000	0.00	0.000	0.00	0.000	0.00
Korea, Rep. of	73.150	7.28	0.000	0.00	73.150	6.70
Kyrgyz Republic	1.362	0.14	0.130	0.15	1.492	0.14
Lao PDR	5.932	0.59	0.055	0.06	5.987	0.55
Malaysia	16.972	1.69	0.000	0.00	16.972	1.55
Maldives	0.000	0.00	0.000	0.00	0.000	0.00
Marshall Islands	2.819	0.28	0.010	0.01	2.829	0.26
Micronesia, Fed. States of	4.056	0.40	0.000	0.00	4.056	0.37
Mongolia	6.013	0.60	0.558	0.64	6.571	0.60
Myanmar	0.289	0.03	0.000	0.00	0.289	0.03
Nepal	35.081	3.49	1.580	1.82	36.661	3.36
Netherlands	1.536	0.15	2.307	2.65	3.843	0.35
New Zealand	6.072	0.60	0.628	0.72	6.700	0.61
Norway	0.060	0.01	1.062	1.22	1.122	0.10
Pakistan	169.808	16.90	3.454	3.97	173.262	15.87
Papua New Guinea	2.540	0.25	0.391	0.45	2.931	0.27
Philippines	29.262	2.91	5.592	6.44	34.854	3.19
Samoa	0.278	0.03	0.000	0.00	0.278	0.03
Singapore	28.052	2.79	0.749	0.86	28.801	2.64
Solomon Islands	15.673	1.56	0.000	0.00	15.673	1.44
Spain	1.749	0.17	0.000	0.00	1.749	0.16
Sri Lanka	58.915	5.86	0.372	0.43	59.287	5.43
Sweden	4.103	0.41	0.977	1.12	5.080	0.47
Switzerland	2.015	0.20	1.237	1.42	3.252	0.30
Taipei,China	2.450	0.24	1.199	1.38	3.649	0.33
Thailand	4.521	0.45	0.000	0.00	4.521	0.41
Tonga	1.250	0.12	0.000	0.00	1.250	0.11
Turkey	0.401	0.04	0.000	0.00	0.401	0.04
United Kingdom	4.574	0.46	1.050	1.21	5.624	0.52
United States	24.539	2.44	10.220	11.76	34.759	3.18
Uzbekistan	4.696	0.47	0.000	0.00	4.696	0.43
Vanuatu	0.000	0.00	0.000	0.00	0.000	0.00
Viet Nam	119.521	11.89	0.399	0.46	119.920	10.98
International Organizations	0.000	0.00	0.000	0.00	0.000	0.00
Regional	13.184	1.31	0.000	0.00	13.184	1.21
TOTAL	1,005.009	100.00	86.897	100.00	1,091.906	100.00

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

b Procurement totals include those for project and program loans. Procurement under program loans is inputted using the trade patterns of the borrowing members. For details, refer to the *Quarterly Procurement Statistics* as of 31 December 1998.

Table 31
CONTRACTS AWARDED, BY COUNTRY OF ORIGIN,[a,b] 1998
ORDINARY CAPITAL RESOURCES AND ASIAN DEVELOPMENT FUND COMBINED
(amounts in $ million)

	Goods, Related Services, and Civil Works	% Distribution	Consulting Services	% Distribution	Total Contracts Awarded	% Distribution
Afghanistan	0.000	0.00	0.000	0.00	0.000	0.00
Australia	134.241	2.38	14.527	9.31	148.768	2.57
Austria	3.121	0.06	0.000	0.00	3.121	0.05
Bangladesh	115.268	2.05	9.119	5.85	124.387	2.15
Belgium	0.969	0.02	0.106	0.07	1.075	0.02
Bhutan	3.195	0.06	0.000	0.00	3.195	0.06
Cambodia	14.392	0.26	0.009	0.01	14.401	0.25
Canada	40.708	0.72	14.702	9.42	55.410	0.96
China, People's Rep. of	495.066	8.79	0.000	0.00	495.066	8.55
Cook Islands	0.602	0.01	0.047	0.03	0.649	0.01
Denmark	2.081	0.04	1.796	1.15	3.877	0.07
Fiji	0.230	0.00	0.000	0.00	0.230	0.00
Finland	7.175	0.13	3.812	2.44	10.987	0.19
France	80.847	1.43	15.378	9.86	96.225	1.66
Germany	164.703	2.92	6.364	4.08	171.067	2.95
Hong Kong, China	22.131	0.39	1.947	1.25	24.078	0.42
India	394.350	7.00	0.226	0.14	394.576	6.81
Indonesia	771.781	13.70	6.172	3.96	777.953	13.43
Italy	62.735	1.11	4.925	3.16	67.660	1.17
Japan	480.097	8.52	4.788	3.07	484.885	8.37
Kazakhstan	61.279	1.09	0.000	0.00	61.279	1.06
Kiribati	0.000	0.00	0.000	0.00	0.000	0.00
Korea, Rep. of	111.583	1.98	0.000	0.00	111.583	1.93
Kyrgyz Republic	1.362	0.02	0.130	0.08	1.492	0.03
Lao PDR	5.932	0.11	0.055	0.04	5.987	0.10
Malaysia	155.195	2.75	0.000	0.00	155.195	2.68
Maldvies	0.000	0.00	0.000	0.00	0.000	0.00
Marshall Islands	2.819	0.05	0.010	0.01	2.829	0.05
Micronesia, Fed. States of	4.056	0.07	0.000	0.00	4.056	0.07
Mongolia	6.013	0.11	0.558	0.36	6.571	0.11
Myanmar	0.289	0.01	0.000	0.00	0.289	0.00
Nepal	35.081	0.62	1.580	1.01	36.661	0.63
Netherlands	6.604	0.12	4.368	2.80	10.972	0.19
New Zealand	7.343	0.13	1.013	0.65	8.356	0.14
Norway	0.060	0.00	1.079	0.69	1.139	0.02
Pakistan	170.642	3.03	3.454	2.21	174.096	3.01
Papua New Guinea	5.316	0.09	0.442	0.28	5.758	0.10
Philippines	49.359	0.88	15.775	10.11	65.134	1.12
Samoa	0.278	0.00	0.000	0.00	0.278	0.00
Singapore	117.451	2.08	0.749	0.48	118.200	2.04
Solomon Islands	15.673	0.28	0.000	0.00	15.673	0.27
Spain	5.860	0.10	0.000	0.00	5.860	0.10
Sri Lanka	59.033	1.05	0.398	0.26	59.431	1.03
Sweden	6.983	0.12	2.034	1.30	9.017	0.16
Switzerland	36.168	0.64	7.722	4.95	43.890	0.76
Taipei,China	46.069	0.82	1.199	0.77	47.268	0.82
Thailand	233.822	4.15	1.476	0.95	235.298	4.06
Tonga	1.250	0.02	0.000	0.00	1.250	0.02
Turkey	0.401	0.01	0.000	0.00	0.401	0.01
United Kingdom	84.265	1.50	8.294	5.32	92.559	1.60
United States	622.534	11.05	21.342	13.68	643.876	11.12
Uzbekistan	55.499	0.98	0.000	0.00	55.499	0.96
Vanuatu	0.000	0.00	0.000	0.00	0.000	0.00
Viet Nam	119.658	2.12	0.399	0.26	120.057	2.07
International Organizations	0.000	0.00	0.000	0.00	0.000	0.00
Regional	813.227	14.43	0.000	0.00	813.227	14.04
TOTAL	**5,634.796**	**100.00**	**155.995**	**100.00**	**5,790.791**	**100.00**

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

b Procurement totals include those for project and program loans. Procurement under program loans is inputted using the trade patterns of the borrowing members. For details, refer to the *Quarterly Procurement Statistics* as of 31 December 1998.

Table 32
CUMULATIVE CONTRACTS AWARDED, BY COUNTRY OF ORIGIN[a]
TECHNICAL ASSISTANCE OPERATIONS
(as of 31 December 1998)
(amounts in $ million)

	Bank's Own Resources	% Distri-bution	Administered Trust Funds	% Distri-bution	Japan Special Fund	% Distri-bution	Total Contracts Awarded	% Distri-bution
Afghanistan	0.000	0.00	0.000	0.00	0.023	0.01	0.023	0.00
Australia	69.157	11.66	16.186	8.42	58.175	12.72	143.518	11.55
Austria	0.148	0.02	0.000	0.00	0.000	0.00	0.148	0.01
Bangladesh	4.820	0.81	0.775	0.40	2.988	0.65	8.583	0.69
Belgium	2.637	0.44	0.309	0.16	0.378	0.08	3.324	0.27
Bhutan	0.018	0.00	0.017	0.01	0.000	0.00	0.035	0.00
Cambodia	0.297	0.05	0.000	0.00	0.005	0.00	0.302	0.02
Canada	43.174	7.28	25.179	13.10	37.167	8.13	105.520	8.49
China, People's Rep. of	3.816	0.64	0.840	0.44	2.203	0.48	6.859	0.55
Cook Islands	0.003	0.00	0.000	0.00	0.000	0.00	0.003	0.00
Denmark	8.152	1.37	1.816	0.94	12.980	2.84	22.948	1.85
Fiji	0.371	0.06	0.000	0.00	0.007	0.00	0.378	0.03
Finland	3.177	0.54	4.593	2.39	5.413	1.18	13.183	1.06
France	13.369	2.25	10.521	5.47	10.954	2.40	34.844	2.80
Germany	8.402	1.42	4.755	2.47	15.305	3.35	28.462	2.29
Hong Kong, China	9.644	1.63	1.248	0.65	10.598	2.32	21.490	1.73
India	19.704	3.32	3.894	2.03	10.159	2.22	33.757	2.72
Indonesia	9.011	1.52	1.257	0.65	4.476	0.98	14.744	1.19
Italy	3.583	0.60	0.643	0.33	1.756	0.38	5.982	0.48
Japan	15.237	2.57	5.662	2.95	12.133	2.65	33.032	2.66
Kazakhstan	0.121	0.02	0.000	0.00	0.002	0.00	0.123	0.01
Kiribati	0.000	0.00	0.000	0.00	0.000	0.00	0.000	0.00
Korea, Rep. of	3.989	0.67	0.985	0.51	2.839	0.62	7.813	0.63
Kyrgyz Republic	0.074	0.01	0.000	0.00	0.000	0.00	0.074	0.01
Lao PDR	0.194	0.03	0.000	0.00	0.444	0.10	0.638	0.05
Luxembourg	0.000	0.00	0.000	0.00	0.000	0.00	0.000	0.00
Malaysia	5.217	0.88	0.083	0.04	2.317	0.51	7.617	0.61
Maldives	0.018	0.00	0.000	0.00	0.000	0.00	0.018	0.00
Marshall Islands	0.059	0.01	0.000	0.00	0.000	0.00	0.059	0.00
Micronesia, Fed. States of	0.000	0.00	0.000	0.00	0.000	0.00	0.000	0.00
Mongolia	0.119	0.02	0.000	0.00	0.306	0.07	0.425	0.03
Myanmar	0.422	0.07	0.482	0.25	0.000	0.00	0.904	0.07
Nauru	0.000	0.00	0.000	0.00	0.000	0.00	0.000	0.00
Nepal	3.447	0.58	0.856	0.45	1.133	0.25	5.436	0.44
Netherlands	16.431	2.77	9.774	5.09	17.617	3.85	43.822	3.53
New Zealand	31.572	5.32	3.597	1.87	29.523	6.46	64.692	5.21
Norway	2.079	0.35	2.528	1.32	3.193	0.70	7.800	0.63
Pakistan	5.798	0.98	0.103	0.05	1.386	0.30	7.287	0.59
Papua New Guinea	0.566	0.10	0.000	0.00	0.000	0.00	0.566	0.05
Philippines	33.263	5.61	8.545	4.45	15.086	3.30	56.894	4.58
Regional	0.000	0.00	0.000	0.00	0.000	0.00	0.000	0.00
Samoa	0.491	0.08	0.000	0.00	0.557	0.12	1.048	0.08
Singapore	7.692	1.30	0.000	0.00	4.897	1.07	12.589	1.01
Solomon Islands	0.024	0.00	0.000	0.00	0.000	0.00	0.024	0.00
Spain	0.470	0.08	1.289	0.67	0.715	0.16	2.474	0.20
Sri Lanka	5.307	0.89	1.064	0.55	2.394	0.52	8.765	0.71
Sweden	4.424	0.75	2.853	1.48	4.417	0.97	11.694	0.94
Switzerland	6.680	1.13	4.646	2.42	6.114	1.34	17.440	1.40
Taipei,China	1.030	0.17	0.069	0.04	2.033	0.44	3.132	0.25
Tajikistan	0.011	0.00	0.000	0.00	0.000	0.00	0.011	0.00
Thailand	5.296	0.89	1.891	0.98	6.238	1.36	13.425	1.08
Tonga	0.180	0.03	0.000	0.00	0.000	0.00	0.180	0.01
Turkey	0.094	0.02	0.082	0.04	0.000	0.00	0.176	0.01
Tuvalu	0.000	0.00	0.000	0.00	0.000	0.00	0.000	0.00
United Kingdom	94.494	15.93	31.372	16.32	71.685	15.67	197.551	15.89
United States	125.111	21.09	40.218	20.93	94.672	20.70	260.001	20.92
Uzbekistan	0.036	0.01	0.000	0.00	0.000	0.00	0.036	0.00
Vanuatu	0.345	0.06	0.000	0.00	0.000	0.00	0.345	0.03
Viet Nam	0.364	0.06	0.000	0.00	0.160	0.03	0.524	0.04
International Organizations	23.182	3.91	4.067	2.12	4.899	1.07	32.148	2.59
TOTAL	**593.320**	**100.00**	**192.199**	**100.00**	**457.347**	**100.00**	**1,242.866**	**100.00**

0.000 Data negligible.

a Country of origin is the country of business registration of the consulting firm/organization or the country of citizenship of an individual consultant.

Table 33
CONTRACTS AWARDED, BY COUNTRY OF ORIGIN,[a] 1996–1998
TECHNICAL ASSISTANCE OPERATIONS
($ million)

	1996		1997		1998[a]	
	Value	%	Value	%	Value	%
Afghanistan	0.000	0.00	0.000	0.00	0.000	0.00
Australia	14.895	11.47	24.000	17.15	16.681	12.32
Austria	0.028	0.02	0.000	0.00	0.000	0.00
Bangladesh	0.708	0.55	1.205	0.86	0.939	0.69
Belgium	0.485	0.37	0.534	0.38	0.005	0.00
Bhutan	0.002	0.00	0.000	0.00	0.015	0.01
Cambodia	0.156	0.12	0.102	0.07	0.029	0.02
Canada	15.710	12.10	19.020	13.59	9.761	7.21
China, People's Rep. of	0.417	0.32	2.065	1.48	2.763	2.04
Cook Islands	0.001	0.00	0.000	0.00	0.000	0.00
Denmark	2.824	2.18	1.356	0.97	3.219	2.38
Fiji	0.054	0.04	0.045	0.03	0.014	0.01
Finland	0.410	0.32	1.024	0.73	2.152	1.59
France	4.261	3.28	1.634	1.17	0.588	0.43
Germany	1.989	1.53	3.484	2.49	2.563	1.89
Hong Kong, China	1.257	0.97	3.668	2.62	3.382	2.50
India	1.419	1.09	4.138	2.96	3.257	2.40
Indonesia	0.996	0.77	1.131	0.81	0.554	0.41
Italy	0.121	0.09	0.451	0.32	1.185	0.87
Japan	1.519	1.17	2.166	1.55	2.794	2.06
Kazakhstan	0.022	0.02	0.017	0.01	0.012	0.01
Kiribati	0.000	0.00	0.000	0.00	0.000	0.00
Korea, Rep. of	0.000	0.00	0.199	0.14	0.345	0.25
Kyrgyz Republic	0.010	0.01	0.032	0.02	0.013	0.01
Lao PDR	0.157	0.12	0.005	0.00	0.052	0.04
Luxembourg	0.000	0.00	0.000	0.00	0.000	0.00
Malaysia	0.220	0.17	0.435	0.31	0.297	0.22
Maldives	0.000	0.00	0.010	0.01	0.008	0.01
Marshall Islands	0.000	0.00	0.000	0.00	0.059	0.04
Micronesia	0.000	0.00	0.000	0.00	0.000	0.00
Mongolia	0.123	0.09	0.238	0.17	0.042	0.03
Myanmar	0.024	0.02	0.169	0.12	0.014	0.01
Nauru	0.000	0.00	0.000	0.00	0.000	0.00
Nepal	0.099	0.08	0.264	0.19	0.392	0.29
Netherlands	4.718	3.63	4.688	3.35	8.604	6.35
New Zealand	7.896	6.08	4.657	3.33	9.035	6.67
Norway	0.700	0.54	2.197	1.57	0.132	0.10
Pakistan	1.463	1.13	0.786	0.56	0.372	0.27
Papua New Guinea	0.000	0.00	0.028	0.02	0.186	0.14
Philippines	8.251	6.36	5.098	3.64	8.647	6.38
Regional	0.000	0.00	0.000	0.00	0.000	0.00
Samoa	0.268	0.21	0.021	0.02	0.002	0.00
Singapore	1.322	1.02	2.881	2.06	0.564	0.42
Solomon Islands	0.003	0.00	0.000	0.00	0.009	0.01
Spain	0.812	0.63	0.000	0.00	0.000	0.00
Sri Lanka	0.211	0.16	1.891	1.35	0.804	0.59
Sweden	1.693	1.30	0.890	0.64	1.210	0.89
Switzerland	1.891	1.46	1.398	1.00	0.990	0.73
Taipei,China	0.005	0.00	0.026	0.02	0.040	0.03
Tajikistan	0.000	0.00	0.000	0.00	0.011	0.01
Thailand	1.583	1.22	1.150	0.82	2.133	1.57
Tonga	0.000	0.00	0.000	0.00	0.000	0.00
Turkey	0.000	0.00	0.000	0.00	0.000	0.00
Tuvalu	0.000	0.00	0.000	0.00	0.000	0.00
United Kingdom	26.073	20.08	15.301	10.93	15.545	11.48
United States	24.406	18.80	31.404	22.44	33.357	24.63
Uzbekistan	0.005	0.00	0.009	0.01	0.022	0.02
Vanuatu	0.021	0.02	0.000	0.00	0.172	0.13
Viet Nam	0.005	0.00	0.123	0.09	0.130	0.10
International Organizations	0.583	0.45	0.000	0.00	2.347	1.73
TOTAL	129.816	100.00	139.940	100.00	135.447	100.00

0.000 Data negligible.
a Country of origin is the country of business registration of the consulting firm/organization or the country of citizenship of an individual consultant.

Table 34
GRANT-FINANCED TECHNICAL ASSISTANCE APPROVALS, 1998
($ thousand)

	Project Preparatory	Advisory and Operational
BANGLADESH		
Land Administration Reform	880.00[a]	–
Developing a Policy on Private Sector Participation in Gas Transmission	150.00	–
Solicitation for Private Sector Implementation of the Meghnaghat Power (Supplementary)	–	165.00
Organizational Reform of Bangladesh Railway, Phase II (Supplementary)	–	100.00
Assessing Load Impacts on the Jamuna Bridge	–	75.00
Institutional Strengthening of Water Management Associations	–	150.00
Promoting Good Urban Governance in Dhaka	–	150.00
Efficiency Enhancement of Fiscal Management	–	700.00
Establishment of a Framework for Sustainable Microfinance	–	800.00
Institutional Reforms in the Gas Sector	150.00	–
Study of Future Options for the Khulna Newsprint Mills	–	570.00
Sundarbans Biodiversity Conservation	–	12,200.00[b]
Support to the Energy Regulatory Authority	–	900.00[a]
BHUTAN		
Road Transport Network Development	650.00[a]	–
Capacity Building in the Urban Sector	–	500.00[a]
Upgrading the Royal Insurance Corporation of Bhutan, Restructuring the Government Employees Provident Fund and Introducing a Pension Scheme	–	500.00[a]
Policy and Legal Framework for Power Sector Development	–	500.00[a]
CAMBODIA		
Transport Network Improvement (Supplementary)	385.00[a]	–
Sustainable Forest Management	980.00[a]	–
CHINA, PEOPLE'S REPUBLIC OF		
Market-Based Energy Conservation and Environmental Improvement (Supplementary)	150.00	–
Suzhou Creek Environmental Rehabilitation	965.00[a]	–
Shanxi Expressway	570.00[a]	–
Power Rehabilitation and Environmental Improvement	1,000.00[a]	–
Yunnan Road Environmental and Social Analysis	150.00	–
Zhejiang-Shanxi Water Supply (Phase II)	540.00[a]	–
Renewable Energy Development	656.00[a]	–
Wind Power Development	600.00[a]	–
Coalbed Methane Demonstration	600.00[a]	–
Chongquing-Guizhou Expressway	900.00[a]	–
Water Quality Management Planning for Suzhou Creek (Supplementary)	–	400.00[a]
Hohhot Urban Development (Supplementary)	–	150.00
Strengthening of the Legal Information System	–	630.00
Country Assistance Program Evaluation	–	150.00
Policies and Regulatory Framework for the Construction Industry	–	570.00
Strengthening Risk Management of the Agriculture Bank of China	–	1,800.00[c]
Legislation Drafting Support for the PRC Securities Law	–	150.00
Soil and Water Conservation in the Upper Yangtze River Basin	–	99.00
Technical Assistance Cluster to the PRC for the Promotion of Clean Technology	–	3,500.00[d]
Regional Road Sector Study	–	1,185.00[a]
Hai River Basin Wastewater Management and Pollution Control	–	570.00[a]
Urban Policy Workshop	–	150.00
Strengthening the Banking Supervision and Liquidity Risk Management System	–	825.00
Institutional Strengthening of the China Huaneng Group	–	750.00

a To be financed from Japan Special Fund (JSF).
b To be financed by the Global Environment Facility.
c Of this amount, $1 million is to be financed from JSF and $800,000 by the Government of France with the Bank acting as executing agency.
d Of this amount, $686,000 is to be financed from JSF.

CONTINUED

	Project Preparatory	Advisory and Operational
CHINA, PEOPLE'S REPUBLIC OF		
Capacity Building in Loan Administration and Accounting Procedures	–	40.00
Strengthening the Government Auditing System	–	700.00
Institutional Reform of Yunnan Electric Power Group Corporation	–	785.00[a]
Provincial Legislation on Environmental Protection and Natural Resources Conservation	–	300.00[b]
Regulatory Framework for the Engagement of Consultants	–	700.00[a]
Policies and Strategies for Sustainable Development of the Lancang River Basin	–	660.00
International Symposium on Microfinance and Urban Unemployment in PRC	–	150.00
Pension Reform	–	2,400.00
Study on Ways to Support Rural Poverty Reduction Projects	–	715.00
COOK ISLANDS		
Urban Infrastructure	750.00[a]	–
FIJI		
Suva-Nausori Water Supply and Sewerage	800.00[a]	–
INDIA		
Western Transport Corridor-Facilitating Private Participation	1,000.00[a]	–
Calcutta Environmental Improvement	1,000.00	–
North-South Corridor Development in West Bengal	1,000.00	–
Madhya Pradesh Power Sector Development	–	1,000.00
Restructuring State-Level Housing Institutions	–	500.00
INDONESIA		
Coral Reef Rehabilitation and Management (Phase II)	250.00	–
Social Protection Sector Development Program	150.00	–
Basic Education in Bali and Nusa Tenggara Barat	150.00[a]	–
Development of Rural-Urban Linkages	890.00[a]	–
Water Supply and Sanitation Sector	600.00[c]	–
Planning for Fire Prevention and Drought Management	–	1,000.00[a]
Revaluation of the Operating Assets of P.T. Perusahaan Listrik Negara (Persero)	–	938.00
Monitoring and Evaluating the Social Protection Sector Development Program	–	1,500.00[a]
Capacity Building for Decentralized Social Services Delivery	–	900.00[a]
Capacity Building for Planning and Evaluating Programs for Street Children	–	500.00[a]
Development of Power Sector Restructuring Policy	–	150.00
Developing Policy Framework to Rationalize Power Purchase from Independent Power Producers	–	1,000.00
Reform of Pension and Provident Funds	–	870.00
Regulatory Reforms in the Insurance Industry	–	800.00
Trade and Industry Planning and Strategy Formulation for REPELITA VII (Supplementary)	–	140.00
Corporate Governance and Enterprise Restructuring	–	2,470.00[a]
KAZAKHSTAN		
Public Information and Education in Support of Pension Reform	–	840.00
KIRIBATI		
Strengthening Institutional Capacity for Financial and Economic Management (Supplementary)	–	380.00
Management and Financial Advisory Services for the Public Utilities Board	–	1,200.00
Community Development and Participation Initiatives	–	300.00
KYRGYZ REPUBLIC		
Agriculture Area Development	900.00[a]	–

a To be financed from JSF.
b To be financed by the Government of Norway with the Bank acting as executing agency.
c To be financed by the Government of Denmark with the Bank acting as executing agency.

CONTINUED

	Project Preparatory	Advisory and Operational
KYRGYZ REPUBLIC		
Community-Based Infrastructure Services Sector	600.00[a]	–
Skills and Entrepreneurship Development	600.00[a]	–
Seminars on Bank Operational Policies and Procedures-Phase II in 1998 and 2000	–	114.00
Capacity Building in the Ministry of Agriculture and Water Resources	–	470.00[a]
Policy Support in the Transport Sector	–	600.00[a]
Institutional Strengthening for Social Services Delivery and Finance	–	634.00[a]
LAO PDR		
Primary Health Care Expansion	700.00[a]	–
Northern Area Rural Power Distribution	510.00[a]	–
Establishing the National Audit Office	–	400.00
Institutional Strengthening of the Water Resources Coordination Committee	–	260.00[a]
Education Sector Development Plan	–	530.00[b]
Road Infrastructure for Rural Development	–	720.00[a]
Strengthening Social and Environmental Management	–	950.00[a]
Commercial Banking Capacity and Efficiency Enhancement	–	550.00[a]
Development and Application of the Secured Transactions Law and Bankruptcy Law	–	150.00
MALDIVES		
Further Development of the System of National Accounts	–	950.00
Postsecondary Education Management Development Study	–	150.00
Private Sector Participation in the Maldives Ports	–	400.00[a]
MARSHALL ISLANDS		
Coconut Sector Development Study	–	130.00[c]
MICRONESIA, FEDERATED STATES OF		
Performance-Based Public Resource Management	–	988.00[a]
Economic Policy Reform and Management	–	3,876.00[d]
MONGOLIA		
Energy Rehabilitation	900.00[a]	–
Housing Sector Policy (Supplementary)	–	60.00[a]
Analyzing Development Issues in Mongolia	–	150.00
Capacity Building in Project Accounting	–	150.00
Improving Energy Authority's Billing and Collection System	–	450.00[a]
Development of Procurement Legislation and Guidelines	–	550.00
Institutional Strengthening of the Housing Sector	–	800.00[a]
NAURU		
Capacity Building for Financial and Economic Management	–	600.00
NEPAL		
Small Towns Water Supply and Sanitation	600.00[a]	–
Crop Diversification	500.00[a]	–
Watershed Rehabilitation and Management	600.00[a]	–
Technical Assistance to Improve Project Implementation	–	65.00
Urban Water Supply Reforms in Kathmandu Valley	–	800.00[a]
Institutional Reforms in the Agriculture Sector	–	900.00[a]
Formulating an Action Plan on Civil Service Reforms	–	630.00
Financial Sector Regulation and Governance	–	150.00
Improvement of Disclosures and Corporate Governance	–	150.00

a To be financed from JSF.
b Of this amount, $500,000 is to be financed by the Government of Belgium with the Bank acting as executing agency.
c Of this amount, $60,000 is to be financed by the Government of New Zealand with the Bank acting as executing agency.
d Of this amount, $1.5 million is to be financed from JSF and $999,000 by the Government of the United States with the Bank acting as executing agency.

CONTINUED

	Project Preparatory	Advisory and Operational
PAKISTAN		
Sindh Rural Development	800.00	–
Primary School Quality Improvement	500.00	–
North West Frontier Province Barani Area Development-Phase II	500.00	–
Legal and Judicial Reform	–	995.00
Technical Education Facilities Rehabilitation Plan	–	150.00
Urban Sector Strategy Study	–	150.00
Water Resources Strategy Study	–	650.00
Strengthening Farmers' Capacity in Small Dams Operations	–	150.00
PAPUA NEW GUINEA		
Financial Management (Supplementary)	72.50[a]	–
Skills Development	500.00[a]	–
Social and Environmental Studies	150.00	–
Road Upgrading and Maintenance	750.00[a]	–
Road Asset Management System	–	1,000.00[a]
Review of Foreign Aid Management	–	115.00
Consultative Implementation and Monitoring Council	–	50.00
PHILIPPINES		
Mindanao Urban Planning and Basic Services Sector	1,000.00[a]	–
Education Sector Study	–	150.00
Capacity Building in the Special Zone for Peace and Development	–	150.00
Health Sector Strategy Study	–	150.00
Decentralization of Basic Education Management	–	798.00[a]
Institutional Strengthening of the Philippine Insurance Commission	–	600.00
Study on Electricity Pricing and Regulatory Practice in a Competitive Environment	–	600.00[a]
Consumer Impact Assessment	–	720.00[a]
Air Emission Policy Studies	–	1,500.00[a]
Strengthening Public Finance and Planning of Local Government Units	–	870.00
Capacity Building in the International Finance Group of the Department of Finance	–	150.00
SAMOA		
Strengthening Capacity for Macroeconomic Analysis, Planning and Policy Formulation (Phase III)	–	960.00[a]
Institutional Strengthening of Government Financial Institutions	–	950.00[a]
Evaluation of Sewage Treatment Options	–	115.00
SOLOMON ISLANDS		
Public Sector Management Reforms	150.00	–
Privatization of State-Owned Enterprises	–	150.00
Strengthening of Public Sector Management	–	600.00
SRI LANKA		
Western River Basins Sector	1,500.00[a]	–
Coastal Resource Management	850.00[a]	–
Forest Resource Management	800.00[a]	–
Skills Development	600.00[a]	–
Private Sector Development Program	830.00[a]	–
Power Sector Restructuring	1,000.00[a]	–
Institutional Modernization of the Ministry of Finance	–	148.00
Improving Education Planning	–	800.00[a]
Reengineering of Road Sector Institutions	–	640.00[a]

a To be financed from JSF.

CONTINUED

	Project Preparatory	Advisory and Operational
TAJIKISTAN		
Seminars on Bank Operational Policies and Procedures	–	150.00
Institutional Strengthening of the Transport and Energy Sectors	–	1,500.00[a]
THAILAND		
Capacity Building for Social Sector Reform	–	700.00[a]
Education Management and Financing Study	–	700.00[a]
Health Management and Financing Study	–	700.00[a]
Agriculture Sector Needs Assessment Study	–	165.00
Promotion of Market-Based Instruments for Environmental Management	–	605.00[a]
TUVALU		
Technical Assistance to Establish a Trust Fund for Island Development	–	150.00
UZBEKISTAN		
Grain Productivity Improvement	800.00[a]	–
Building Project Implementation Capacity of Uzbekistan Railways	–	150.00
Developing Commercial Banking Skills	–	1,000.00
Institutional Strengthening of Uzbekistan Temir Yullari	–	850.00[a]
Institutional Strengthening and Policy Support to the Road Sector	–	1,000.00[a]
Pension Reform	–	850.00
VANUATU		
Institutional Support to Central Agencies for the Comprehensive Reform Program	–	630.00
Institutional Support to Central Agencies for the Comprehensive Reform Program (Phase II)	–	1,200.00
VIET NAM		
Second Rural Credit	150.00[a]	–
Second Red River Basin Water Resources Sector	600.00[a]	–
Rural Health	600.00[a]	–
Financial Markets Development Program	980.00[a]	–
Strengthening Capacity for Public Administration Reform, Phase II	–	995.00
Capacity Building in Project Financial Management	–	500.00
Capacity Building at the State Auditor-General's Office (Phase II)	–	787.00
Capacity Building in Vocational and Technical Education	–	600.00[a]
Strengthening of Resettlement Management Capacity in the Ministry of Agriculture and Rural Development	–	150.00
Lower Secondary Education Development	–	505.00[b]
Energy Sector Profile Study	–	60.00
TOTAL	**34,958.50**	**93,762.00**

a To be financed from JSF.
b To be financed by the Government of Belgium with the Bank acting as executing agency.

Table 35
1998 LOANS RESULTING FROM EARLIER BANK TECHNICAL ASSISTANCE
(amounts in $ million)

	Amount of Bank Financing			Year of Technical Assistance Approval	Amount of Technical Assistance
	OCR	ADF	Total		
BANGLADESH					
Rural Livelihood	0.00	42.60	42.60	1996	0.287
Sundarbans Biodiversity Conservation	0.00	37.00	37.00	1996	0.500
BHUTAN					
Urban Infrastructure Improvement	0.00	5.70	5.70	1996	0.400
				1997	0.100
CHINA, PEOPLE'S REPUBLIC OF					
Hebei Roads Development	180.00	0.00	180.00	1996	0.600
Guizhou-Shuibai Railway	140.00	0.00	140.00	1997	0.400
Fuzhou Water Supply and Wastewater Treatment	102.00	0.00	102.00	1997	0.598
Chengdu-Nanchong Expressway	250.00	0.00	250.00	1997	0.600
Changchun-Harbin Expressway	390.00	0.00	390.00	1997	0.600
Yunnan Dachaoshan Power Transmission	100.00	0.00	100.00	1996	0.550
INDIA					
Rajasthan Urban Infrastructure Development	250.00	0.00	250.00	1995	0.600
INDONESIA					
Central Sulawesi Integrated Area Development and Conservation	32.00	0.00	32.00	1995	0.850
Coral Reef Rehabilitation and Management	7.00	0.00	7.00	1996	0.600
Social Protection Sector Development Program					
- Program Loan	100.00	0.00	100.00	1998	0.150
- Project Loan	200.00	0.00	200.00		
KIRIBATI					
Sanitation, Public Health, and Environment Improvement	–	10.24	10.24	1995	0.577
KYRGYZ REPUBLIC					
Second Road Rehabilitation	–	50.00	50.00	1997	0.600
Social Services Delivery and Finance	0.00	10.00	10.00	1996	1.100
LAO PEOPLE'S DEMOCRATIC REPUBLIC					
Basic Education (Girls)	0.00	20.00	20.00	1996	0.380
MALDIVES					
Postsecondary Education Development	0.00	6.30	6.30	1995	0.300
				1997	0.150
NAURU					
Fiscal and Financial Reform Program	5.00	–	5.00	1996	0.100
NEPAL					
Second Agriculture Program	0.00	50.00	50.00	1991	0.094
Community Groundwater Irrigation Sector	0.00	30.00	30.00	1996	0.600
Rural Microfinance	0.00	20.00	20.00	1997	0.500
PAPUA NEW GUINEA					
Smallholder Support Service Pilot Project	7.60	0.00	7.60	1997	0.150
PHILIPPINES					
Early Childhood Development	15.70	8.80	24.50	1995	0.600
Secondary Education Development and Improvement	53.00	0.00	53.00	1994	0.400
				1995	0.200
Clark Area Municipal Development	24.30	0.00	24.30	1997	0.600
Metro Manila Air Quality Improvement Sector Development Program	296.00	0.00	296.00	1990	0.830
				1992	0.100
				1997	0.150

CONTINUED

	Amount of Bank Financing			Year of Technical Assistance Approval	Amount of Technical Assistance
	OCR	ADF	Total		
PHILIPPINES					
Agrarian Reform Communities	93.16	0.00	93.16	1997	0.253
Southern Philippines Irrigation Sector	60.00	0.00	60.00	1997	0.600
SOLOMON ISLANDS					
Public Sector Reform Program					
- Program Loan	0.00	25.00	25.00	1998	0.150
- Technical Assistance Loan for Privatization of State-Owned Enterprises	0.00	1.00	1.00	1998	0.150
SRI LANKA					
Urban Development and Low-Income Housing (Sector)	0.00	70.00	70.00	1997	1.100
Tea Development	0.00	35.00	35.00	1997	0.600
Road Network Improvement	0.00	80.00	80.00	1994	0.700
THAILAND					
Social Sector Program	500.00	0.00	500.00	1997	0.050
UZBEKISTAN					
Railway Rehabilitation	70.00	0.00	70.00	1997	0.600
Road Rehabilitation	50.00	0.00	50.00	1996	0.600
VIET NAM					
Third Road Improvement	0.00	130.00	130.00	1996	1.300
Vocational and Technical Education	0.00	54.00	54.00	1996	0.800
REGIONAL					
Greater Mekong Subregion:					
Phnom Penh to Ho Chi Minh City Highway					
- Cambodia Component	0.00	40.00	40.00	1993	4.000
- Viet Nam Component	0.00	100.00	100.00	1995	3.000
TOTAL	**2,925.76**	**825.64**	**3,751.40**		**28.169**

Table 36
GRANT-FINANCED TECHNICAL ASSISTANCE APPROVALS, BY SECTOR,[a] 1997, 1998, 1967–1998

	1997			1998			1967–1998[b]		
	No.	$ Thousand	%	No.	$ Thousand	%	No.	$ Thousand	%
Agriculture and Natural Resources	36	28,555.66	21.22	31	30,424.00	23.64	934	440,549.14	33.04
Energy	23	11,899.70	8.84	22	13,584.00	10.55	356	144,736.05	10.86
Financial	30	13,321.55	9.90	17	14,225.00	11.05	256	86,933.36	6.52
Industry and Nonfuel Minerals	1	421.00	0.31	2	290.00	0.22	114	35,894.70	2.69
Social Infrastructure	51	29,780.00	22.13	41	21,518.00	16.72	576	234,618.47	17.60
Transport and Communications	25	15,448.00	11.48	19	12,125.00	9.42	395	170,388.95	12.78
Multisector	1	600.00	0.45	2	2,134.00	1.66	25	18,478.00	1.39
Others	75	34,518.30	25.66	52	34,420.50	26.74	445	201,600.90	15.12
TOTAL	**242**	**134,544.21**	**100.00**	**186**	**128,720.50**	**100.00**	**3,101**	**1,333,199.56**	**100.00**

a Excludes loan-financed technical assistance activities (which are included in loan data) and regional activities.
b Cumulative data adjusted to exclude technical assistance grants withdrawn by governments.

Table 37
REGIONAL TECHNICAL ASSISTANCE ACTIVITIES, 1998

	$ Thousand
Study of Financial Markets in Selected Member Countries	973.00 [a]
Secured Transactions Law Reform	300.00
Regional Training Course on Solid Waste Management in Developing Member Countries (DMCs)	75.00
Asia Development Forum	200.00
High-Level Regional Seminar on the Recent Financial Crises in East and Southeast Asia and their Possible Impact on South Asian Economies	90.00
Financial Markets in Asia: An Engine of Growth or a Source of Instability?	150.00
Strengthening the Capacity of the Association of Southeast Asian Nations to Prevent and Mitigate Transboundary Atmospheric Pollution	1,000.00 [a]
Seminar on Promotion of Foreign Direct Investment	150.00 [a]
Third Asian Development Bank-International Monetary Fund Institute Course on Macroeconomic and Structural Policies	300.00
Joint ADB-World Trade Organization Seminar on Asia and the Challenge of Globalization	100.00
Review of National Resettlement Policies and Experience with Involuntary Resettlement Projects	831.00
1998 Seminars on Project Implementation and Administration	800.00 [b]
Strategic Environmental Framework for the Greater Mekong Subregion	1,600.00 [c]
Appropriate Technology for Soil-Conserving Farming Systems (Phase II)	600.00 [a]
Dissemination of the Study on the Role of Law and Legal Institutions in Asian Economic Development, 1960–1995	150.00
Regional Workshop on Involuntary Resettlement	105.00 [d]
A Joint ADB-Organisation for Economic Co-operation and Development Conference on Financial Liberalization in Asia: Analysis and Prospects	120.00
Translation of Asian Development Bank Documents into Local Languages	450.00 [a]
Loan Disbursements Seminars in 1998	150.00
Second ADB-Colombo Plan Training Program	210.00
Joint ADB-International Monetary Fund-World Bank-Economic and Social Commission for Asia and the Pacific High-Level Seminar on Managing Capital Flows: National and International Dimensions	50.00
Training Workshops in Economic Analysis of Projects for Selected DMCs	330.00
Impact Evaluation and Special Studies in the Bank's DMCs	910.00
A Study of a Least-Cost Greenhouse Gas Abatement Strategy for Asia (Supplementary)	133.36 [e]
Study of the Health and Education Needs of Ethnic Minorities in the Greater Mekong Subregion	800.00 [f]
Insolvency Law Reform	550.00 [a]
Eighth ADB Tax Conference	200.00 [a]
Training of Journalists in Management of Environmental Information Resources	40.00
Consultations on Strategies for Reducing Poverty	200.00 [g]
Social Impact Assessment of the Financial Crisis in Selected DMCs	500.00 [a]
Measurement of Environmental Performance	441.00 [a]
1998 Orientation Program for Officials of the Bank's DMCs	250.00
A Study of Corporate Governance and Financing in Selected DMCs	250.00 [a]
Technical Assistance to the International Board for Soil Research and Management for the Catchment Approach to Managing Soil Erosion in Asia	1,300.00 [a]
Trans-Pacific Business Network	60.00
Eleventh Workshop on Asian Economic Outlook	170.00
Eighth Seminar on International Finance	106.00 [a]
Tourism Skills Development in the Greater Mekong Subregion	125.00 [a]
Policy Options for Pension Reform in Asia: Challenges in Design and Implementation	375.00
Study on the Development of Government Bond Markets in Selected DMCs	740.00 [a]

a To be financed from Japan Special Fund (JSF).
b Of this amount, $650,000 is to be financed from JSF.
c Of this amount, $600,000 is to be financed from JSF and $1 million by the Government of Switzerland with the Bank acting as executing agency.
d Of this amount, $45,000 is to be financed by World Bank-Economic Development Institute.
e To be financed by Global Environment Facility/United Nations Development Programme.
f Of this amount, $300,000 is to be financed from JSF and $500,000 by the Government of the United Kingdom with the Bank acting as executing agency.
g Of this amount, $50,000 is to be financed by the Government of Denmark with the Bank acting as executing agency.

	$ Thousand
Regional Training Course in Financial Management for Water Supply and Sanitation Utilities in DMCs	50.00
Workshop on the Enhancement of DMC Participation in the Bank's Operational Business Processes	125.00
Third Agriculture and Natural Resources Research at Consultative Group on International Agricultural Research Centers	5,600.00 [a]
Public Expenditure Management and Public Administration	500.00
Enhancing Municipal Service Delivery Capability in Selected DMCs (Supplementary)	50.00 [b]
First Asia-Europe Summit Meeting Seminar on Simplification and Harmonization of Customs Procedures	148.00 [a]
Development of an International Fisheries Agreement for the Conservation and Management of the Tuna Resources in the Western and Central Pacific Region	698.00
Mayors' Asia-Pacific Environmental Summit	85.00
Highway Development and Management Model-4 Training and Dissemination in the Asian and Pacific Region	700.00
Regional Community Forestry Training Center, Kasetsart University (Supplementary)	700.00 [c]
Pacific Financial Technical Assistance Center	433.00
Regional Economic Cooperation in Central Asia (Phase II)	1,350.00 [a]
Development of the Internet for Asian Law	600.00
Strengthening Commercial Banking Skills in Transition Economies in Asia	970.00 [a]
Protection and Management of Critical Wetlands in the Lower Mekong Basin	1,650.00 [d]
Preparation of Transport Sector Policy	580.00
Regional Study of Nutrition Trends, Policies, and Strategies in Asia and the Pacific	750.00 [a]
Strengthening Safe Motherhood Programs	700.00 [a]
Technical Training and Capacity Building in Support of the Association of Southeast Asian Nations Economic Surveillance Process	707.00
Asian Environmental Outlook	900.00 [e]
Study of Large Dams and Recommended Practices	800.00 [a]
Accountability Mechanisms in the Asian and Pacific Region	500.00
TOTAL	**34,480.36**

a To be financed from JSF.
b To be financed by the ADB Institute.
c To be financed by the Government of Switzerland with the Bank acting as executing agency.
d Of this amount, $1 million is to be financed from JSF and $650,000 by the Government of Finland with the Bank acting as executing agency.
e Of this amount, $700,000 is to be financed from JSF and $200,000 by the Government of Sweden with the Bank acting as executing agency.

Table 38
GRANT-FINANCED TECHNICAL ASSISTANCE APPROVALS, BY COUNTRY AND REGIONAL ACTIVITIES,[a] 1997, 1998, 1967–1998
(amounts in $ thousand)

	1997							
	No.	Bank Financing	JSF Financing	Other Sources	Total	%	No.	Bank Financing
Afghanistan	–	–	–	–	–	–	–	–
Bangladesh	15	1,822.00	5,270.00	1,000.00	8,092.00	5.00	13	3,010.00
Bhutan	6	400.00	1,900.00	–	2,300.00	1.42	4	–
Cambodia	3	910.00	1,000.00	–	1,910.00	1.18	2	–
China, People's Rep. of	36	6,598.00	11,435.70	1,498.00	19,531.70	12.06	33	11,103.00
Cook Islands	1	600.00	–	–	600.00	0.37	1	–
Fiji	3	170.00	1,400.00	–	1,570.00	0.97	1	–
India	10	2,388.00	3,880.00	–	6,268.00	3.87	5	3,500.00
Indonesia	20	2,174.00	7,485.00	500.00	10,159.00	6.27	16	4,298.00
Kazakhstan	7	1,880.00	1,970.00	–	3,850.00	2.38	1	840.00
Kiribati	2	100.00	–	175.00	275.00	0.17	3	1,880.00
Korea, Rep. of	–	–	–	–	–	–	–	–
Kyrgyz Republic	5	800.00	2,808.00	–	3,608.00	2.23	7	114.00
Lao PDR	9	1,500.00	3,580.00	–	5,080.00	3.14	9	580.00
Malaysia	4	210.00	1,088.00	–	1,298.00	0.80	–	–
Maldives	4	900.00	625.00	–	1,525.00	0.94	3	1,100.00
Marshall Islands	7	2,090.00	663.00	–	2,753.00	1.70	1	70.00
Micronesia, Fed. States of	4	1,470.00	934.00	–	2,404.00	1.48	2	1,377.00
Mongolia	14	2,194.00	5,207.30	–	7,401.30	4.57	7	850.00
Myanmar	–	–	–	–	–	–	–	–
Nauru	–	–	–	–	–	–	1	600.00
Nepal	12	1,350.00	3,221.00	1,750.00	6,321.00	3.90	9	995.00
Pakistan	14	1,965.55	5,350.00	–	7,315.55	4.52	8	3,895.00
Papua New Guinea	5	962.00	150.00	–	1,112.00	0.69	7	315.00
Philippines	15	2,492.00	4,792.00	300.00	7,584.00	4.68	11	2,070.00
Samoa	1	–	600.00	–	600.00	0.37	3	115.00
Singapore	–	–	–	–	–	–	–	–
Solomon Islands	–	–	–	–	–	–	3	900.00
Sri Lanka	11	495.00	6,650.00	–	7,145.00	4.41	9	148.00
Taipei,China	–	–	–	–	–	–	–	–
Tajikistan	–	–	–	–	–	–	2	150.00
Thailand	9	150.00	4,300.00	–	4,450.00	2.75	5	165.00
Tonga	1	280.00	–	–	280.00	0.17	–	–
Tuvalu	1	100.00	–	–	100.00	0.06	1	150.00
Uzbekistan	6	–	4,350.00	–	4,350.00	2.69	6	2,000.00
Vanuatu	1	150.00	–	–	150.00	0.09	2	1,830.00
Viet Nam	16	3,249.00	5,650.00	7,612.66	16,511.66	10.19	11	2,492.00
Subtotal	242	37,399.55	84,309.00	12,835.66	134,544.21	83.05	186	44,547.00
Regional	55	18,977.30	6,035.15	2,439.80	27,452.25	16.95	62	10,199.00
TOTAL	**297**	**56,376.85**	**90,344.15**	**15,275.46**	**161,996.46**	**100.00**	**248**	**54,746.00**

a Excludes technical assistance financed under loans, which are included in the Bank's loan data.
b Cumulative data are adjusted to exclude technical assistance projects withdrawn by the government.

1998				1967–1998[b]			
JSF Financing	Other Sources	Total	%	No.	Amount	%	
–	–	–	–	16	2,565.70	0.16	Afghanistan
1,780.00	12,200.00	16,990.00	10.41	241	145,004.32	8.99	Bangladesh
2,150.00	–	2,150.00	1.32	61	22,271.15	1.38	Bhutan
1,365.00	–	1,365.00	0.84	52	42,171.60	2.61	Cambodia
11,307.00	1,100.00	23,510.00	14.41	303	146,670.65	9.09	China, People's Rep. of
750.00	–	750.00	0.46	21	7,215.00	0.45	Cook Islands
800.00	–	800.00	0.49	52	15,860.30	0.98	Fiji
1,000.00	–	4,500.00	2.76	103	49,626.86	3.08	India
7,410.00	600.00	12,308.00	7.54	360	142,391.27	8.83	Indonesia
–	–	840.00	0.51	27	14,494.00	0.90	Kazakhstan
–	–	1,880.00	1.15	26	7,679.00	0.48	Kiribati
–	–	–	–	33	5,010.15	0.31	Korea, Rep. of
3,804.00	–	3,918.00	2.40	28	18,193.00	1.13	Kyrgyz Republic
3,690.00	500.00	4,770.00	2.92	152	70,556.78	4.37	Lao PDR
–	–	–	–	92	25,202.30	1.56	Malaysia
400.00	–	1,500.00	0.92	32	10,223.00	0.63	Maldives
–	60.00	130.00	0.08	30	13,039.00	0.81	Marshall Islands
2,488.00	999.00	4,864.00	2.98	22	16,252.00	1.01	Micronesia, Fed. States of
2,210.00	–	3,060.00	1.87	81	41,164.65	2.55	Mongolia
–	–	–	–	38	10,716.00	0.66	Myanmar
–	–	600.00	0.37	2	700.00	0.04	Nauru
3,400.00	–	4,395.00	2.69	198	85,494.70	5.30	Nepal
–	–	3,895.00	2.39	199	91,267.40	5.66	Pakistan
2,322.50	–	2,637.50	1.62	96	28,075.60	1.74	Papua New Guinea
4,618.00	–	6,688.00	4.10	253	103,658.05	6.42	Philippines
1,910.00	–	2,025.00	1.24	58	14,691.50	0.91	Samoa
–	–	–	–	2	577.42	0.04	Singapore
–	–	900.00	0.55	42	8,960.24	0.56	Solomon Islands
7,020.00	–	7,168.00	4.39	159	55,669.60	3.45	Sri Lanka
–	–	–	–	1	100.00	0.01	Taipei,China
1,500.00	–	1,650.00	1.01	2	1,650.00	0.10	Tajikistan
2,705.00	–	2,870.00	1.76	122	40,228.60	2.49	Thailand
–	–	–	–	42	10,805.50	0.67	Tonga
–	–	150.00	0.09	10	2,186.00	0.14	Tuvalu
2,650.00	–	4,650.00	2.85	17	10,730.00	0.67	Uzbekistan
–	–	1,830.00	1.12	33	8,639.76	0.54	Vanuatu
2,930.00	505.00	5,927.00	3.63	94	63,058.46	3.91	Viet Nam
68,209.50	15,964.00	128,720.50	78.87	3,100	1,332,799.56	82.63	Subtotal
20,953.00	3,328.36	34,480.36	21.13	821	280,195.16	17.37	Regional
89,162.50	**19,292.36**	**163,200.86**	**100.00**	**3,921**	**1,612,994.72**	**100.00**	**TOTAL**

Table 39
NET TRANSFER OF RESOURCES (ORDINARY CAPITAL RESOURCES),[a] 1989–1998
($ million)

	1989–1993 Average	1994	1995	1996	1997	1998
Afghanistan	–	–	–	–	–	–
Bangladesh	0.10	(0.36)	(0.30)	(0.32)	(0.30)	(0.30)
Bhutan	–	–	–	–	–	–
Cambodia	–	–	–	–	–	–
China, People's Rep. of	155.23	390.38	399.69	547.49	375.44	515.56
Cook Islands	–	–	–	–	–	–
Fiji	(6.35)	(9.49)	(3.71)	(4.44)	(4.39)	(4.85)
Hong Kong, China	–	–	–	–	–	–
India	215.78	339.05	207.02	279.97	364.38	293.70
Indonesia	217.55	(442.00)	(97.68)	(1,213.76)	(126.04)	590.69
Kazakhstan	–	–	62.58	20.90	47.03	102.01
Kiribati	–	–	–	–	–	–
Korea, Rep. of	(94.89)	(73.54)	(83.67)	(141.51)	1,912.16	1,498.26
Kyrgyz Republic	–	–	–	–	–	–
Lao PDR	–	–	–	–	–	–
Malaysia	(72.76)	(40.06)	(59.08)	(59.08)	(8.45)	(30.86)
Maldives	–	–	–	–	–	–
Marshall Islands	–	–	–	–	–	–
Micronesia, Fed. States of	–	–	–	–	–	–
Mongolia	–	–	–	–	–	–
Myanmar	(0.77)	(1.04)	(1.18)	(1.06)	(0.96)	–
Nauru	–	–	–	–	–	–
Nepal	0.72	(0.04)	(0.07)	6.42	5.37	13.16
Pakistan	105.09	2.88	(187.85)	(185.43)	(100.20)	(21.02)
Papua New Guinea	2.77	(15.79)	(23.63)	(15.25)	(6.33)	(1.33)
Philippines	(37.10)	(60.35)	(280.48)	(160.83)	(34.50)	(31.73)
Samoa	–	–	–	–	–	–
Singapore	(11.53)	–	–	–	–	–
Solomon Islands	–	–	–	–	–	–
Sri Lanka	0.48	0.71	–	(0.15)	4.66	(0.72)
Taipei,China	(2.54)	–	–	–	–	–
Tajikistan	–	–	–	–	–	–
Thailand	(100.70)	18.44	(60.02)	(18.55)	459.00	384.13
Tonga	–	–	–	–	–	–
Tuvalu	–	–	–	–	–	–
Uzbekistan	–	–	–	–	–	–
Vanuatu	–	–	–	–	–	1.36
Viet Nam	(0.26)	–	–	–	–	(0.03)
Regional	10.64	15.24	21.63	2.48	(17.54)	48.68
TOTAL	**381.46**	**124.03**	**(106.75)**	**(943.12)**	**2,869.33**	**3,356.71**

( ) Negative.

a Net transfer of resources defined as disbursements less repayments and interest/charges received. Includes private sector loans and net equity investments.

Table 40
NET TRANSFER OF RESOURCES (ASIAN DEVELOPMENT FUND),[a] 1989–1998
($ million)

	1989–1993 Average	1994	1995	1996	1997	1998
Afghanistan	(0.79)	–	–	–	–	–
Bangladesh	258.92	322.42	208.30	227.07	112.95	146.21
Bhutan	2.86	2.01	2.90	2.09	6.34	3.39
Cambodia	0.79	11.86	35.61	31.71	9.75	28.42
China, People's Rep. of	–	–	–	–	–	–
Cook Islands	1.62	0.98	0.23	3.78	2.20	1.72
Fiji	–	–	–	–	–	–
Hong Kong, China	–	–	–	–	–	–
India	–	–	–	–	–	–
Indonesia	50.94	28.59	32.59	15.50	10.39	(7.43)
Kazakhstan	–	–	–	6.00	16.84	12.54
Kiribati	0.27	0.15	0.19	(0.14)	(0.08)	(0.07)
Korea, Rep. of	(0.19)	–	–	–	–	–
Kyrgyz Republic	–	–	33.94	25.80	51.24	42.10
Lao PDR	28.88	19.61	53.33	80.50	81.67	59.16
Malaysia	(0.27)	(0.66)	(0.39)	–	–	–
Maldives	3.01	1.12	4.28	5.68	2.50	(0.08)
Marshall Islands	0.23	1.22	2.76	2.96	9.99	7.75
Micronesia, Fed. States of	–	–	0.34	0.11	11.31	6.14
Mongolia	7.37	20.99	49.11	33.00	65.91	29.94
Myanmar	1.27	(15.58)	(16.07)	(15.64)	(16.21)	(0.31)
Nauru	–	–	–	–	–	–
Nepal	57.06	51.75	37.75	49.37	78.08	84.09
Pakistan	203.97	389.37	287.44	318.67	185.70	202.21
Papua New Guinea	24.70	20.31	8.96	0.36	5.15	0.28
Philippines	82.71	43.12	41.70	38.10	41.22	13.77
Samoa	5.88	2.53	2.60	(0.97)	(1.48)	2.38
Singapore	(0.34)	–	–	–	–	–
Solomon Islands	1.53	(0.17)	(0.38)	(0.35)	(0.02)	13.12
Sri Lanka	107.65	73.86	66.52	126.88	65.95	92.94
Taipei,China	–	–	–	–	–	–
Tajikistan	–	–	–	–	–	–
Thailand	(1.39)	(2.23)	(2.37)	(2.14)	(2.31)	(2.25)
Tonga	0.93	4.79	5.12	2.40	1.58	4.31
Tuvalu	–	–	–	–	–	–
Uzbekistan	–	–	–	–	–	0.46
Vanuatu	2.28	0.86	0.80	0.15	0.01	11.02
Viet Nam	(2.41)	(0.11)	45.30	25.81	145.89	124.07
Regional	–	–	–	–	–	–
TOTAL	**837.48**	**976.80**	**900.56**	**976.67**	**884.57**	**875.88**

( ) Negative.

a Net transfer of resources defined as disbursements less repayments and interest/charges received. Includes private sector loans.

Table 41
NET TRANSFER OF RESOURCES
(ORDINARY CAPITAL RESOURCES AND ASIAN DEVELOPMENT FUND),[a] 1989–1998
($ million)

	1989–1993 Average	1994	1995	1996	1997	1998
Afghanistan	(0.79)	–	–	–	–	–
Bangladesh	259.02	322.06	208.00	226.75	112.65	145.91
Bhutan	2.86	2.01	2.90	2.09	6.34	3.39
Cambodia	0.79	11.86	35.61	31.71	9.75	28.42
China, People's Rep. of	155.23	390.38	399.69	547.49	375.44	515.56
Cook Islands	1.62	0.98	0.23	3.78	2.20	1.72
Fiji	(6.35)	(9.49)	(3.71)	(4.44)	(4.39)	(4.85)
Hong Kong, China	–	–	–	–	–	–
India	215.78	339.05	207.02	279.97	364.38	293.70
Indonesia	268.49	(413.41)	(65.08)	(1,198.26)	(115.65)	583.26
Kazakhstan	–	–	62.58	26.90	63.87	114.55
Kiribati	0.27	0.15	0.19	(0.14)	(0.08)	(0.07)
Korea, Rep. of	(95.08)	(73.54)	(83.67)	(141.51)	1,912.16	1,498.26
Kyrgyz Republic	–	–	33.94	25.80	51.24	42.10
Lao PDR	28.88	19.61	53.33	80.50	81.67	59.16
Malaysia	(73.03)	(40.72)	(59.48)	(59.08)	(8.45)	(30.86)
Maldives	3.01	1.12	4.28	5.68	2.50	(0.08)
Marshall Islands	0.23	1.22	2.76	2.96	9.99	7.75
Micronesia, Fed. States of	–	–	0.34	0.11	11.31	6.14
Mongolia	7.37	20.99	49.11	33.00	65.91	29.94
Myanmar	0.50	(16.62)	(17.25)	(16.70)	(17.17)	(0.31)
Nauru	–	–	–	–	–	–
Nepal	57.78	51.71	37.68	55.79	83.45	97.25
Pakistan	309.06	392.25	99.59	133.24	85.50	181.19
Papua New Guinea	27.47	4.51	(14.67)	(14.89)	(1.18)	(1.05)
Philippines	45.61	(17.23)	(238.79)	(122.73)	6.72	(17.96)
Samoa	5.88	2.53	2.60	(0.97)	(1.48)	2.38
Singapore	(11.87)	–	–	–	–	–
Solomon Islands	1.53	(0.17)	(0.38)	(0.35)	(0.02)	13.12
Sri Lanka	108.13	74.57	66.52	126.73	70.61	92.22
Taipei,China	(2.54)	–	–	–	–	–
Tajikistan	–	–	–	–	–	–
Thailand	(102.09)	16.21	(62.39)	(20.69)	456.69	381.88
Tonga	0.93	4.79	5.12	2.40	1.58	4.31
Tuvalu	–	–	–	–	–	–
Uzbekistan	–	–	–	–	–	1.82
Vanuatu	2.28	0.86	0.80	0.15	0.01	11.02
Viet Nam	(2.67)	(0.11)	45.30	25.81	145.89	124.04
Regional	10.64	15.24	21.63	2.48	(17.54)	48.68
TOTAL	**1,218.94**	**1,100.83**	**793.81**	**33.55**	**3,753.90**	**4,232.59**

( ) Negative.

a Net transfer of resources defined as disbursements less repayments and interest/charges received. Includes private sector loans and net equity investments.

Table 42
ASIAN DEVELOPMENT FUND (ADF) RESOURCES AND COMMITMENT AUTHORITY

ADF-CONTRIBUTED RESOURCES
($ million; as of 31 December 1998)

	Valued as of 31 December 1997 (US$ equiv.)	Change in 1998 Addition (US$ equiv.)	Change in 1998 Exchange Rate Adjustment (US$ equiv.)	Change in 1998 Net Change (US$ equiv.)	Valued as of 31 December 1998 (US$ equiv.)	Valued as of 31 December 1998 (SDR[a] equiv.)
Australia	760.24	33.91	(43.43)	(9.52)	750.72	533.17
Austria	131.68	9.47	11.10	20.57	152.25	108.13
Belgium	124.08	7.95	9.67	17.62	141.70	100.64
Canada	1,013.45	29.38	(79.71)	(50.33)	963.12	684.02
Denmark	137.14	4.98	9.47	14.45	151.59	107.66
Finland	73.30	3.66	5.35	9.01	82.31	58.46
France	663.02	29.25	49.02	78.27	741.29	526.47
Germany	1,072.28	36.19	83.87	120.06	1,192.34	846.82
Hong Kong, China	8.73	3.85	–	3.85	12.58	8.93
Indonesia	7.46	2.50	–	2.50	9.96	7.07
Italy	352.11	106.41	30.91	137.32	489.43	347.60
Japan	8,546.54	190.39	1,188.43	1,378.82	9,925.36	7,049.11
Korea, Rep. of	22.90	14.61	3.16	17.77	40.67	28.88
Malaysia	1.64	1.58	0.13	1.71	3.35	2.38
Nauru	1.43	–	–	–	1.43	1.02
Netherlands	409.20	13.31	31.09	44.40	453.60	322.16
New Zealand	43.38	4.17	(3.62)	0.55	43.93	31.20
Norway	101.09	5.13	(4.12)	1.01	102.10	72.51
Spain	76.30	5.48	5.75	11.23	87.53	62.17
Sweden	165.22	8.41	(5.14)	3.27	168.49	119.66
Switzerland	217.40	7.16	11.98	19.14	236.54	167.99
Taipei,China	16.50	6.19	0.01	6.20	22.70	16.12
Thailand	–	1.21	0.17	1.38	1.38	0.98
Turkey	72.61	8.06	–	8.06	80.67	57.29
United Kingdom	596.86	27.29	3.32	30.61	627.47	445.63
United States	2,287.91	250.00	–	250.00	2,537.91	1,802.46
Total ADF-Contributed Resources	**16,902.47**	**810.54**	**1,307.41**	**2,117.95**	**19,020.42**	**13,508.53**

ADF COMMITMENT AUTHORITY
($ million; as of 31 December 1998)

	1997	1998
ADF VII Contributions	424.48	1,085.03
ADF VI Arrears and Prorata Releases	5.43	118.62
Expanded Advance Commitment Authority[b]	500.00	1,000.00
Total ADF Resources[c]	929.91	2,203.65
Less: Loans Committed[c]	777.38 [d]	2,114.73 [e]
Provision for Disbursement Risk	27.94	78.24
Total ADF Commitment Authority	**124.59**	**10.68**

( ) Negative.

Note: Figures may not add because of rounding.

a Refers to special drawing rights (SDR) valued at the rate of $1.40803 per SDR as of 31 December 1998.
b Incorporates additional resources.
c Excludes pre-ADF VII amounts for the determination of ADF commitment authority under the new financial planning framework for the management of ADF resources as approved by the Board on 15 April 1997.
d Excludes loans that were conditionally approved after 29 September 1997 and Loan No. 1513 to the Marshall Islands which was a commitment of ADF VI resources, but includes Loan No. 1588 to the Cook Islands which was unconditionally approved on 8 December 1997.
e Excludes loans that were conditionally approved after 30 September 1998, but includes Loan No. 1666 to Bangladesh which was unconditionally approved on 18 December 1998.

Table 43
TECHNICAL ASSISTANCE SPECIAL FUND
(US dollar equivalent; as of 31 December 1998)[a]

	Total Contributions	Amount Utilized
Direct Voluntary Contributions		
Australia	2,484,371	2,484,371
Austria	159,170	159,170
Bangladesh	47,352	47,352
Belgium	1,394,195	1,394,195
Canada	3,345,751	3,345,751
China, People's Rep. of	600,000	600,000
Denmark	1,962,529	1,962,529
Finland	237,201	237,201
France	1,697,451	1,697,451
Germany	3,314,813	3,314,813
Hong Kong, China	100,000	100,000
India	2,659,426	2,659,426
Indonesia	250,000	250,000
Italy	774,147	774,147
Japan	47,710,427	47,710,427
Korea, Rep. of	1,900,000	1,900,000
Malaysia	909,129	909,129
Netherlands	1,337,478	1,337,478
New Zealand	1,095,632	1,095,632
Norway	3,278,953	3,278,953
Pakistan	1,316,002	1,316,002
Singapore	1,100,000	1,100,000
Spain	189,580	189,580
Sri Lanka	6,309	6,309
Sweden	861,358	861,358
Switzerland	1,035,043	1,035,043
Taipei,China	200,000	200,000
United Kingdom	5,616,741	5,616,741
United States	1,500,000	1,500,000
Subtotal	87,083,058	87,083,058
Regularized Replenishment Contributions[b]	238,039,356	238,039,356
Transfer to Asian Development Fund	(3,471,564)	(3,471,564)
Allocation from OCR Net Income	341,000,000	285,873,510
Other Resources[c]	59,078,404	17,017,082
TOTAL	**721,729,254**	**624,541,442**

a The amount of contribution is valued as the sum of the amount utilized, translated at the exchange rates used by the Bank on the respective dates of utilization, and the amount unutilized, translated at the exchange rates used by the Bank on 31 December 1998.
b 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.
c Represents income, repayments, and reimbursements accruing to TASF since 1980.

Table 44
JAPAN SPECIAL FUND
Statement of Activities and Changes in Net Assets
($ million)

	1988–1992	1993[a]	1994[a]	1995	1996	1997	1998	Total
Contributions committed	260.4	88.6	100.1	104.9	79.9	–	62.5	696.4
Revenue	29.2	7.8	7.3	6.4	2.5	2.4	16.5	72.1
Total	289.6	96.4	107.4	111.3	82.4	2.4	79.0	768.5
Expenses	77.5	89.8	56.9	75.3	77.3	73.8	96.8	547.4
Exchange gain (loss)	(0.6)	(0.1)	0.2	(0.1)	(11.7)	(10.1)	(1.6)	(24.0)
Translation adjustments	10.1	17.7	35.7	(8.9)	(37.7)	(29.0)	(1.8)	(13.9)
Change in net assets	221.6	24.2	86.4	27.0	(44.3)	(110.5)	(21.2)	183.2

( ) Negative.

a Prior years' amounts have been restated to conform with the 1995 presentation.

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Appendix 1

RESOLUTIONS OF THE BOARD OF GOVERNORS ADOPTED IN 1998

Resolution No.	Subject	Date Adopted
253	Membership of Tajikistan	1 April 1998
254	Place and Date of Forthcoming Annual Meetings	30 April 1998
255	Financial Statements and Independent Auditors' Reports	1 May 1998
256	Allocation of Net Income	1 May 1998
257	Membership of Turkmenistan	26 October 1998
258	Election of President	31 October 1998
259	Decisions Relating to Section 5 of the By-Laws	16 December 1998
260	Retirement Benefits for Incoming President	16 December 1998
261	Amendment to Section 7(B)(a) of the By-Laws	16 December 1998

Appendix 2

BOARD OF GOVERNORS
(as of 31 December 1998)

EDGARDO B. ESPIRITU
(Philippines)
(Chairperson)

J. UNENBAT
(Mongolia)
(Vice-Chairperson)

ANTONIO FAZIO
(Italy)
(Vice-Chairperson)

MEMBER	GOVERNOR	ALTERNATE GOVERNOR
AFGHANISTAN	Vacant	Vacant
AUSTRALIA	Peter Costello	Kathy Sullivan
AUSTRIA	Rudolf Edlinger	Hans Dietmar Schweisgut
BANGLADESH	Shah A.M.S. Kibria	Masihur Rahman
BELGIUM	J. J. Viseur[1]	Gino Alzetta
BHUTAN	Lyonpo Yeshey Zimba	Sonam Wangchuk
CAMBODIA	Keat Chhon	Chanthol Sun
CANADA	Lloyd Axworthy	James A. J. Judd
CHINA, PEOPLE'S REPUBLIC OF	Xiang Huaicheng[2]	Jin Liqun[3]
COOK ISLANDS	Papamama Pokino[4]	Kevin Carr[5]
DENMARK	Ellen Margrethe Loj	Torben Brylle[6]
FIJI	James Ah Koy	Jone Y. Kubuabola
FINLAND	Pekka Haavisto	Kirsti Lintonen
FRANCE	Dominique Strauss-Kahn	Jean Lemierre
GERMANY	Uschi Eid[7]	Klaus Regling
HONG KONG, CHINA	Donald Tsang	Joseph Yam
INDIA	Yashwant Sinha[8]	Vijay Kelkar[9]
INDONESIA	Bambang Subianto[10]	Syahril Sabirin[11]
ITALY	Antonio Fazio	Mario Draghi
JAPAN	Kiichi Miyazawa[12]	Masaru Hayami[13]
KAZAKHSTAN	Erhan A. Utembayev[14]	Zhannat D. Ertlesova[15]
KIRIBATI	Beniamina Tinga	Taneti Maamau
KOREA, REPUBLIC OF	Kyu Sung Lee[16]	Chol-Hwan Chon[17]
KYRGYZ REPUBLIC	Talaibek Koichumanov	Urkaly Toktomovich Isaev[18]
LAO PEOPLE'S DEMOCRATIC REPUBLIC	Khamphoui Keoboualapha[19]	Phiane Philakone
MALAYSIA	Mustapa Mohamed[20]	Aris Othman[21]

1 Succeeded Ph. Maystadt in June.
2 Succeeded Dai Xianglong in August.
3 Succeeded Yin Jieyan in August.
4 Succeeded G. A. Henry in January.
5 Succeeded Edward Drollet in October. Edward Drollet succeeded Lloyd Powell in January.
6 Succeeded Peter Bruckner in February.
7 Succeeded Klaus-Jürgen Hedrich in December.
8 Succeeded P. Chidambaram in March.
9 Succeeded M. S. Ahluwalia in August.
10 Succeeded Fuad Bawazier in May. Fuad Bawazier succeeded Mar'ie Muhammad in March.
11 Succeeded J. Soedradjad Djiwandono in February.
12 Succeeded Hikaru Matsunaga in August. Hikaru Matsunaga succeeded Hiroshi Mitsuzuka in February.
13 Succeeded Yasuo Matsushita in March.
14 Succeeded U. Shukeev in June.
15 Succeeded S. Mynbayev in June.
16 Succeeded Chang-Yuel Lim in March.
17 Succeeded Kyung Shik Lee in March.
18 Succeeded Askar Sarygulov in April.
19 Succeeded Cheuang Sombounkhanh in August. Cheuang Sombounkhanh succeeded Xaysomphone Phomvihane in March.
20 Succeeded Anwar Ibrahim in September.
21 Succeeded Clifford F. Herbert in January.

CONTINUED

MEMBER	GOVERNOR	ALTERNATE GOVERNOR
MALDIVES	Ismail Shafeeu	Adam Maniku
MARSHALL ISLANDS	Tony de Brum[22]	Amon Tibon
MICRONESIA, FEDERATED STATES OF	John Ehsa	Lorin Robert
MONGOLIA	J. Unenbat	D. Makhval
MYANMAR	Khin Maung Thein[23]	Soe Lin
NAURU	Kinza Clodumar	Ludwig Keke
NEPAL	Ram Sharan Mahat[24]	R. B. Bhattarai
NETHERLANDS	Gerrit Zalm	Eveline L. Herfkens[25]
NEW ZEALAND	William F. Birch	Alan Bollard[26]
NORWAY	Leif Lunde[27]	Kjell Halvorsen[28]
PAKISTAN	M. Ishaq Dar[29]	Zaheer Sajjad[30]
PAPUA NEW GUINEA	Iairo Lasaro	Brown Bai[31]
PHILIPPINES	Edgardo B. Espiritu[32]	Gabriel Singson
SAMOA	Tuilaepa S. Malielegaoi	Epa Tuioti
SINGAPORE	Richard Hu Tsu Tau	Ngiam Tong Dow
SOLOMON ISLANDS	Manasseh Sogavare	Gordon Darcy Lilo
SPAIN	Rodrigo de Rato y Figaredo	Elena Pisonero Ruiz[33]
SRI LANKA	Chandrika Bandaranaike Kumaratunga	Dixon Nilaweera[34]
SWEDEN	Mats Karlsson	Lennart Bage
SWITZERLAND	Nicolas Imboden	Rudolph Dannecker
TAIPEI,CHINA	Fai-nan Perng[35]	Chun Chen[36]
TAJIKISTAN	Anvarsho Muzafarov[37]	Sharif Rahimov[38]
THAILAND	Tarrin Nimmanahaeminda	Suphachai Phisitvanich
TONGA	K. Tutoatasi Fakafanua	Aisake Eke
TURKEY	Yener Dinçmen	Cüneyt Sel
TUVALU	Alesana K. Seluka	Lutelu Faavae
UNITED KINGDOM	Clare Short	George Foulkes
UNITED STATES	Robert E. Rubin	Stuart E. Eizenstat[39]
UZBEKISTAN	Bakhtier S. Khamidov	Rustam Sadikovich Azimov
VANUATU	Sela Molisa[40]	Jeffery Wilfred[41]
VIET NAM	Nguyen Tan Dung[42]	Le Duc Thuy

22 Succeeded Ruben R. Zackhras in September.
23 Succeeded Win Tin in January.
24 Succeeded Rabindra Nath Sharma in April.
25 Succeeded J. P. Pronk in September.
26 Succeeded Mark Prebble in February.
27 Succeeded Frode Forfang in April.
28 Succeeded Knut Vollebaek in April.
29 Succeeded Hafiz A. Pasha in November. Hafiz A. Pasha succeeded Sartaj Aziz in September.
30 Succeeded Aftab Ahmad Khan in April.
31 Succeeded Morea Vele in August. Morea Vele succeeded Isaac Lupari in March.
32 Succeeded Salvador M. Enriquez, Jr. in July. Salvador M. Enriquez, Jr. succeeded Roberto F. de Ocampo in February.
33 Succeeded Jose Manuel Fernandez Norniella in July.
34 Succeeded B. C. Perera in March.
35 Succeeded Yuan-Dong Sheu in March.
36 Succceeded Mu-tsai Chen in September.
37 Appointed in April.
38 Appointed in April.
39 Succeeded Joan E. Spero in October.
40 Succeeded Vincent Boulekone in July.
41 Succeeded R. P. Gerard Leymang in September.
42 Succeeded Do Que Luong in May.

Appendix 3

BOARD OF DIRECTORS AND VOTING GROUPS
(as of 31 December 1998)

DIRECTOR	ALTERNATE DIRECTOR	MEMBERS REPRESENTED[1]
Rafiq A. Akhund	Patricia Z. Riingen[2]	Kazakhstan; Maldives; Marshall Islands; Mongolia; Pakistan; Philippines
Li Ruogu	Liu Liange	People's Republic of China
Jin-Gyu Park	Ruey-song Huang	Republic of Korea; Papua New Guinea; Sri Lanka; Taipei,China; Uzbekistan; Vanuatu; Viet Nam
Julian H. Payne	Berend W. van Gorkom[3]	Canada; Denmark; Finland; Netherlands; Norway; Sweden
Francesco Pittore	Manuel Sánchez Melero[4]	Belgium; France; Italy; Spain; Switzerland
C. Ramachandran[5]	Muhammad Faizur Razzaque	Bangladesh; Bhutan; India; Lao People's Democratic Republic
Soegito Sastromidjojo	John Austin	Cook Islands; Fiji; Indonesia; Kyrgyz Republic; New Zealand; Samoa; Tonga
Naoyuki Shinohara[6]	Tetsuji Nagatomo	Japan
Hans-Jürgen Stryk	John Millett[7]	Austria; Germany; Turkey; United Kingdom
Eric Thorn	Stephen Baker[8]	Australia; Cambodia; Hong Kong, China; Kiribati; Federated States of Micronesia; Nauru; Solomon Islands; Tuvalu
Prasit Ujjin	Sim Cheng Huat	Malaysia; Myanmar; Nepal; Singapore; Thailand
Linda Tsao Yang	N. Cinnamon Dornsife	United States

1 In alphabetical order within each group.
2 Succeeded Romeo L. Bernardo on 1 August.
3 Succeeded Jens Haarlov on 1 September.
4 Succeeded Thomas Eggenberger on 1 August.
5 Succeeded K. Venkatesan on 1 July.
6 Succeeded Makoto Hosomi on 6 June.
7 Succeeded Leander Treppel on 1 July.
8 Succeeded John Russell on 12 March.

Appendix 4

COMMITTEES OF THE BOARD OF DIRECTORS
(as of 31 December 1998)

STANDING COMMITTEES

AUDIT COMMITTEE	BUDGET REVIEW COMMITTEE	INSPECTION COMMITTEE
Julian H. Payne (Chairperson)	Li Ruogu (Chairperson)	Francesco Pittore (Chairperson)
Rafiq A. Akhund	Jin-Gyu Park	Li Ruogu
Soegito Sastromidjojo	Francesco Pittore	Julian H. Payne
Hans-Jürgen Stryk	C. Ramachandran	John Austin
Eric Thorn	Naoyuki Shinohara	Muhammad Faizur Razzaque
Prasit Ujjin	Linda Tsao Yang	Patricia Z. Riingen

WORKING COMMITTEE

WORKING GROUP ON THE 1998 ANNUAL REPORT

Francesco Pittore (Chairperson)

Rafiq A. Akhund

John Austin

N. Cinnamon Dornsife

Tetsuji Nagatomo

Muhammad Faizur Razzaque

Appendix 5

ADVISORY COUNCIL MEMBERS OF THE ADB INSTITUTE
(as of 31 December 1998)

Chandi Chanmugam	(Sri Lanka)
Riccardo Faini	(Italy)
Yonosuke Hara	(Japan)
Helen Hughes	(Australia)
Justin Yifu Lin	(People's Republic of China)
Jeffrey R. Shafer	(United States)
Chief Economist	(ADB)

Masaru Yoshitomi succeeded Jesus Estanislao as the Dean of ADB Institute on 16 January 1999.

Appendix 6

MANAGEMENT, SENIOR STAFF, AND REGIONAL AND RESIDENT REPRESENTATIVES
(as of 31 December 1998)

OFFICE OF THE PRESIDENT
President .... Mitsuo Sato[1]

OFFICES OF THE VICE-PRESIDENTS
Vice-President (Region East) .... Peter H. Sullivan
Vice-President (Region West) .... Myoung-Ho Shin
Vice-President (Finance and Administration) .... Vacant[2]

OFFICE OF THE SECRETARY
Secretary .... R. Swaminathan
Assistant Secretary .... Ferdinand P. Mesch

OFFICE OF THE GENERAL COUNSEL
General Counsel .... Barry Metzger
Deputy General Counsel .... Eisuke Suzuki
Assistant General Counsel .... Richard Eyre
Assistant General Counsel .... Bruce A. Purdue
Assistant General Counsel .... Vacant
Special Advisor to the General Counsel .... Zhang Yuejiao

OFFICE OF THE GENERAL AUDITOR
General Auditor .... Louis Wong
Manager .... Rakesh Gupta

POSTEVALUATION OFFICE[3]
Chief .... A. Timothy Peterson
Manager (Evaluation Division East) .... Peter C. Darjes
Manager (Evaluation Division West) .... Atsutake Hashida

STRATEGY AND POLICY OFFICE
Chief .... Yoshihiro Iwasaki
Assistant Chief .... H. Satish Rao

OFFICE OF ENVIRONMENT AND SOCIAL DEVELOPMENT
Chief .... Kazi F. Jalal
Manager (Environment Division) .... J. Warren Evans
Manager (Social Development Division) .... Anita Kelles-Viitanen

PROGRAMS DEPARTMENT (EAST)
Director .... Shoji Nishimoto
Deputy Director .... Werner M. Schelzig
Programs Manager (Division East 1–Hong Kong, China; Korea, Republic of; China, People's Republic of; Taipei,China) .... Bruce Murray
Programs Manager (Division East 2–Indonesia; Malaysia; Philippines; Singapore) .... K. H. Moinuddin
Programs Manager (Division East 3–Kazakhstan; Kyrgyz Republic; Mongolia; Tajikistan; Uzbekistan) .... Thomas Crouch
Resident Representative, Indonesia Resident Mission .... Robert C. May
Resident Representative, Kazakhstan Resident Mission .... Peter W.B. Choynowski
Resident Representative, Uzbekistan Resident Mission .... V.N. Gnanathurai

AGRICULTURE AND SOCIAL SECTORS DEPARTMENT (EAST)
Director .... Yang Weimin
Deputy Director .... Hans-Jüergen Springer
Manager (Agriculture and Rural Development Division) .... Bradford R. Philips

1 Tadao Chino succeeded Mitsuo Sato on 16 January 1999.
2 John Lintjer succeeded Pierre Uhel on 16 January 1999.
3 The Postevaluation Office was renamed as the Operations Evaluation Office on 12 January 1999.

CONTINUED

Manager (Education, Health and Population Division)	William M. Fraser
Manager (Forestry and Natural Resources Division)	Muhammad A. Mannan
Manager (Water Supply, Urban Development and Housing Division)	Asad Ali Shah
INFRASTRUCTURE, ENERGY AND FINANCIAL SECTORS DEPARTMENT (EAST)	
Director	Paul M. Dickie
Deputy Director	Devinder Singh
Manager (Energy Division)	P.N. Fernando
Manager (Financial Sector and Industry Division)	Shamshad Akhtar
Manager (Transport and Communications Division)	Jin Koo Lee
OFFICE OF PACIFIC OPERATIONS (Cook Islands; Fiji; Kiribati; Marshall Islands; Micronesia, Federated States of; Nauru; Papua New Guinea; Samoa; Solomon Islands; Tonga; Tuvalu; Vanuatu)	
Director	Basudev Dahal
Manager (Pacific Operations Division 1)	T.L. de Jonghe
Manager (Pacific Operations Division 2)	Cedric D. Saldanha
Regional Representative, South Pacific Regional Mission	Jeffry R. Stubbs
OFFICE OF COFINANCING OPERATIONS	
Acting Chief	Jeremy H. Hovland
Assistant Chief	Woo Chull Chung
CENTRAL OPERATIONS SERVICES OFFICE	
Chief	Vladimir Bohun
Manager (Consulting Services Division)	Peter E. Pedersen
Manager (Project Coordination and Procurement Division)	Francis Sharpley
PROGRAMS DEPARTMENT (WEST)	
Director	G.H.P.B. van der Linden
Deputy Director	Nihal Amerasinghe
Programs Manager (Division West 1–Afghanistan; Maldives; Pakistan; Sri Lanka)	Frank J. Polman
Programs Manager (Division West 2–Bangladesh; Bhutan; India; Nepal)	Filologo Pante, Jr.
Programs Manager (Division West 3–Cambodia; Lao People's Democratic Republic; Myanmar; Thailand; Viet Nam)	Kazu Sakai
Resident Representative, Bangladesh Resident Mission	Phiphit Suphaphiphat
Resident Representative, Cambodia Resident Mission	Someth Suos
Resident Representative, India Resident Mission	Vacant
Resident Representative, Nepal Resident Mission	Marshuk Ali Shah
Resident Representative, Pakistan Resident Mission	M.F.W. Zijsvelt
Resident Representative, Sri Lanka Resident Mission	Tadashi Kondo
Resident Representative, Viet Nam Resident Mission	Jean-Pierre A. Verbiest
AGRICULTURE AND SOCIAL SECTORS DEPARTMENT (WEST)	
Director	Akira Seki
Deputy Director	M.E. Tusneem
Manager (Agriculture and Rural Development Division)	Jan P.M. van Heeswijk
Manager (Education, Health and Population Division)	Edward Haugh, Jr.
Manager (Forestry and Natural Resources Division)	Toru Shibuichi
Manager (Water Supply, Urban Development and Housing Division)	Preben Nielsen
INFRASTRUCTURE, ENERGY AND FINANCIAL SECTORS DEPARTMENT (WEST)	
Director	Vacant
Deputy Director	B.N. Lohani
Manager (Energy Division)	James E. Rockett

CONTINUED

Manager (Financial Sector and Industry Division) .... Rajat Nag
Manager (Transport and Communications Division) .... Günter Hecker

PRIVATE SECTOR GROUP
Head .... Vacant
Manager .... J. Antonio M. Quila

ECONOMICS AND DEVELOPMENT RESOURCE CENTER
Chief Economist .... Jungsoo Lee
Resident Scholar .... S. Ghon Rhee
Assistant Chief Economist (Economic Analysis and Research Division) .... M.G. Quibria
Assistant Chief Economist (Project Economic Evaluation Division) .... David Edwards
Assistant Chief Economist (Statistics and Data Systems Division) .... Isidoro P. David

BUDGET, PERSONNEL AND MANAGEMENT SYSTEMS DEPARTMENT
Director .... Mamoru Umemoto
Deputy Director (Budget and Compensation) .... Sandra A. Lawrence
Deputy Director (Personnel) .... Vacant
Manager (Budget and Management Services Division) .... Kunio Senga
Manager (Compensation and Benefits Division) .... Amarjit Singh Wasan
Manager (Human Resources Division) .... Robert L.T. Dawson

OFFICE OF ADMINISTRATIVE SERVICES
Director .... Guo Xianzhi
Manager (Facilities Management Division) .... Farrokh Kapadia
Manager (General Services Division) .... Normin S. Pakpahan

CONTROLLER'S DEPARTMENT
Controller .... Charles F. Coe
Acting Assistant Controller (Accounting Division) .... Ronny E. Budiman
Assistant Controller (Disbursement Operations Division) .... Yoong-Soo Seo

TREASURER'S DEPARTMENT
Treasurer .... Shinji Ichishima
Deputy Treasurer .... Ifzal Ali
Assistant Treasurer (Funding Division) .... Peter Balon
Assistant Treasurer (Investment Division) .... Jelle C. Mann
Assistant Treasurer (Risk Management Division) .... Philip C. Erquiaga
Assistant Treasurer (Treasury Services Division) .... David R. Parker

INFORMATION OFFICE[4]
Chief .... Robert H. Salamon
Assistant Chief .... Karti Sandilya

OFFICE OF COMPUTER SERVICES[5]
Director .... Suresh A. Seshan

NORTH AMERICAN REPRESENTATIVE OFFICE
Director .... D.C. Amerasinghe

EUROPEAN REPRESENTATIVE OFFICE
Regional Representative .... Keon-Woo Lee

JAPANESE REPRESENTATIVE OFFICE
Resident Representative .... Nalin P. Samarasinghe

4 The Information Office was renamed as the Office of External Relations on 12 January 1999.
5 The Office of Computer Services was renamed as the Office of Information Systems and Technology on 12 January 1999.

Appendix 7

FORMER ADB PRESIDENTS AND VICE-PRESIDENTS
(as of 31 December 1998)

PRESIDENTS

Mr. Takeshi Watanabe	—	24 November 1966 – 24 November 1972
Mr. Shiro Inoue	—	25 November 1972 – 23 November 1976
Mr. Taroichi Yoshida	—	24 November 1976 – 23 November 1981
Mr. Masao Fujioka	—	24 November 1981 – 23 November 1989
Mr. Kimimasa Tarumizu	—	24 November 1989 – 24 November 1993

VICE-PRESIDENTS

Mr. C. S. Krishna Moorthi	—	19 December 1966 – 31 March 1978
Mr. A. T. Bambawale	—	1 April 1978 – 28 October 1985
Mr. M. Narasimham	—	1 November 1985 – 31 July 1988
Mr. S. Stanley Katz	—	1 April 1978 – 28 September 1990
Mr. In Yong Chung	—	1 August 1988 – 31 July 1993
Mr. William R. Thomson	—	1 October 1990 – 30 June 1994
Mr. Günther G. Schulz	—	1 April 1983 – 30 June 1995
Mr. Bong-Suh Lee	—	1 August 1993 – 9 October 1998
Mr. Pierre Uhel	—	1 July 1995 – 4 December 1998

Appendix 8

SUMMARY OF BUDGET FOR 1999
Internal Administrative Expenses
($ thousand)

		1998			
		Budget	After Transfers[a]	Actual	1999 Budget
I.	BOARD OF GOVERNORS[b]	1,250	1,250	836	528
II.	BOARD OF DIRECTORS	8,382[c]	8,382[c]	7,795	8,524[c]
III.	OPERATIONAL EXPENSES	161,112	161,112	154,322	162,796
	Salaries	83,520	83,520	78,893	84,149
	Benefits	49,111	48,619	47,340	46,971
	Staff Development	2,350	2,350	1,980	2,300
	Relocation	2,556	3,048	3,048	2,596
	Consultants	9,550	10,608	10,608	11,300
	Business Travel	13,715	12,657	12,232	15,170
	Representation	310	310	221	310
IV.	ADMINISTRATIVE EXPENSES	32,045	32,045	30,865	33,072
	Communications	3,633	3,633	3,485	3,686
	Office Occupancy	7,314	7,479	7,479	7,437
	Library	681	684	684	696
	Office Supplies	2,060	2,060	1,763	1,837
	Office Equipment	3,031	3,572	3,572	3,279
	Contractual Services	5,021	4,312	4,170	5,255
	Insurance	600	600	590	605
	Depreciation	9,546	9,546	9,021	10,092
	Miscellaneous	159	159	101	185
V.	GENERAL CONTINGENCY	2,028	2,028	–	2,049
TOTAL		**204,817**	**204,817**	**193,818[d]**	**206,969**

a Transfers were made between budget items within each budget category without exceeding the original amount of each category.
b Annual Meeting expenses.
c Includes $250,000 for inspection function.
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 ($1,677,000), accumulated compensated absences ($641,000), and accrued resettlement/repatriation allowances (-$322,000); (ii) adjustments of actuarially determined assessment benefit obligations with respect to pension costs (-$8,339,000) and postretirement medical benefits ($6,828,000); and (iii) bank charges pertaining directly to Asian Development Fund, Japan Special Fund and Japan Scholarship Program ($30,000). Total administrative expenses, as shown in the financial statements, amounted to $194,333,000. This amount, after deducting $50,000 directly charged to the Scholarship Program, has been distributed as follows: OCR-$121,701,000 (Ref. OCR-2), ADF-$71,502,000 (Ref. ADF-2), and JSF-$1,080,000 (Ref.-JSF-2)

Major ADB Publications

STUDIES AND REPORTS

Agriculture and Natural Resources

Biodiversity Conservation in the Asian and Pacific Region: Constraints and Opportunities (1994)
Biotechnology: Opportunities for Enhancing Agricultural Production (Agriculture Department Staff Paper No. 8) (1995)
Handbook for Incorporation of Integrated Pest Management in Agriculture Projects (1994)[1]
Mangrove Forests: A Valuable But Threatened Indo-Pacific Resource (Agriculture Department Staff Paper No. 5) (1992)

Economy and Finance

Asian Development Bank Economic Staff Paper Series
Asian Development Bank Economics and Development Resource Center Report Series
Asian Development Bank Occasional Paper Series
Asian Development Bank Statistical Report Series
Asian Development Outlook (annually)[2]
The Bangladesh Economy in Transition (1997)[1]
Creating Resilient Financial Regimes in Asia (1997)[2]
Emerging Asia: Changes and Challenges (1997)[1]
External Shocks and Policy Adjustments: Lessons from the Gulf Crisis (1994)[1]
Financial Sector Development in Asia: Country Studies (1995)[1]
Financing Local Government in the People's Republic of China (1997)[2]
Fiscal Management and Economic Reform in the People's Republic of China (1995)[2]
From Centrally Planned to Market Economies: The Asian Approach
Vol. 1: An Overview (1995)[2]
Vol. 2: People's Republic of China and Mongolia (1996)[2]
Vol. 3: Lao PDR, Myanmar, and Viet Nam (1996)[2]
The Future of Asia in the World Economy (1998)
The Global Trading System and Developing Asia (1997)[2]
Informal Finance: Some Findings from Asia (1992)[2]
Investing in Asia (1997)
Key Indicators of Developing Asian and Pacific Countries (annually)[2]
Lao PDR and the Greater Mekong Subregion: Securing Benefits from Economic Cooperation (1996)
Mongolia: A Centrally Planned Economy in Transition (1992)[2]
Private Sector Development in the Lao PDR: Potential and Constraints (1996)
Project Planning and Management in the People's Republic of China: Sharing Development Experiences (1997)[1]
Reforming the Financial Sector in the Lao PDR (1996)

Energy

Electric Utilities Data Book for the Asian and Pacific Region, Fifth Edition (1997)[1]
Energy Efficiency Reference for Asian Use (1997)[1]
Energy End Use: An Environmentally Sound Development Pathway (1993)[1]
Energy Indicators of Developing Member Countries of ADB (1994)[1]
Regional Workshop on Solar Power Generation Using Photovoltaic Technology (1997)
Solar Photovoltaic Power Generation Using PV Technology (Vols. I to III) (1996)[1]

Environment

Asia Least-Cost Greenhouse Gas Abatement Strategy (ALGAS) National Reports, and Summary Report (1997)[1]
Breakthroughs in Forestry Development: Experience of the Asian Development Bank (1995)[1]
Central Asian Environments in Transition (1997)[1]
Economic Evaluation of Environmental Impacts: A Workbook (1996)[1]
ELC Handbook: Checklists, Commentary, Drafting Guide and Samples for Use in Drafting Environmental Loan Covenants (1993)
Environmental Assessment Requirements of the ADB (1998)
Environment and Development: A Pacific Island Perspective (1992)[1]
Environmental Evaluation of Coastal Zone Projects: Methods and Approaches (ADB Environment Paper No. 8) (1991)
Environmental Impact Assessment for Developing Countries in Asia (Vols. I and II) (1997)[1]
Environmental Legislation and Administration: Briefing Profiles of Selected DMCs of ADB (ADB Environment Paper No. 2) (1989)[1]
Environmental Loan Covenants: Helping Ensure the Environmental Soundness of Projects Supported by the Asian Development Bank (ADB Environment Paper No. 10) (1992)
Environmental Loan Covenants: Principles, Checklists and Samples (ADB Environment Paper No. 12) (1993)
Environmental Risk Assessment: Dealing with Uncertainty in Environmental Impact Assessment (ADB Environment Paper No. 7) (1991)
Financing Environmentally Sound Development (1994)[1]
Measuring Environmental Performance in Asia (ADB Environment Paper No. 13) (1997)
Measuring Environmental Quality in Asia (1997)[1]
Mobilizing Broader Support for Asia's Biodiversity (1997)[1]
Potential Uses of Market-Based Instruments for Environmental Management in the Philippines (Main Report) (1997)
Potential Uses of Market-Based Instruments for Environmental Management in the Philippines: The Essentials (1997)
Remote Sensing and Geographic Information System for Natural Resource Management (ADB Environment Paper No. 9) (1991)[1]
Strategy for the Use of Market-Based Instruments in Indonesia's Environmental Management (Main Report) (1997)
Strategy for the Use of Market-Based Instruments in Indonesia's Environmental Management: The Essentials (1997)

Industry and Nonfuel Minerals

Industrial Pollution Prevention (1994)[1]
Technology Transfer and Development: Implications for Developing Asia (1995)[1]

Law and Development

Executive Summary: The Role of Law and Legal Institutions in Asian Economic Development: 1960–1995 (1998)

Copies of these publications may be obtained from the Publications Unit, Office of External Relations, Asian Development Bank, P.O. Box 789, 0980 Manila, Philippines. Orders may also be sent by fax to (632) 636-2648 or E-mail at **adbpub@mail.asiandevbank.org**. All are free of charge (sent via surface mail), except those listed with footnotes.

1 Priced publication.
2 Priced publication, which is also available directly from Oxford University Press (OUP) offices, associated companies, and agents worldwide.

Governance: Promoting Sound Development Management (1997)
Governance and Regulatory Regimes for Private Sector Infrastructure Development: Final Report (1998)
Law and Development: An Asian Bibliography (1998)
Law and Development at the Asian Development Bank (1998)
Law and Development Bulletin (semiannually)
Law and Development: Seminar Proceedings (1997)
Law and Development: Seminar Proceedings (1998)
Legal and Judicial Reform in Asia: Agenda for the New Millennium: Discussion Materials (1997)
The Role of Law and Legal Institutions in Asian Economic Development: 1960–1995 (1998)[2]
Strengthening the Legal Framework for Customs Administration (1997)

Pacific Studies Series

Cook Islands: Economic Performance, Issues and Strategies (1995)[1]
A Different Kind of Voyage: Development and Dependence in the Pacific Islands (1998)[1]
Federated States of Micronesia: 1996 Economic Report (1997)[1]
Fiji Agriculture Sector Review: A Strategy for Growth and Diversification (1996)[1]
Human Resource Development: Small Pacific Island Countries (1995)[1]
Improving Growth Prospects in the Pacific (1998)[1]
Kiribati: 1997 Economic Report (1998)[1]
Marshall Islands: 1996 Economic Report (1997)[1]
The Pacific's Tuna: The Challenge of Investing in Growth (1997)[1]
Roundtable Proceedings on Sociocultural Issues and Economic Development in the Pacific Islands–Volume II (1997)[1]
Sociocultural Issues and Economic Development in the Pacific Islands (1996)
Solomon Islands: 1997 Economic Report (1998)[1]
Strategy for the Pacific: Policies and Programs for Sustainable Growth (1996)[1]
Tonga: Economic Performance and Selected Development Issues (1996)[1]
Tuvalu: 1997 Economic Report (1998)[1]
Vanuatu: Economic Performance, Policy and Reform Issues (1997)[1]

Regional Cooperation

Central Asian Environments in Transition (1997)[1]
East ASEAN Growth Area: Brunei Darussalam, Indonesia, Malaysia, Philippines (Vols. I to VII) (1997)[1]
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