

ADB



ANNUAL REPORT **2006**
VOLUME 1

Asian Development Bank

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The ADB Annual Report 2006 comprises two separate volumes:
Volume 1 is the main report and Volume 2 contains the financial
statements and statistical annexes.



The Record

(amounts in \$ million)

	1966–2006	2003	2004	2005	2006
OPERATIONAL ACTIVITIES					
LENDING (amount)	123,201 ^a	6,085	5,039 ^a	5,761	7,396 ^a
Number of Projects ^b	2,002	66	62	63	67 ^c
Ordinary Capital Resources (OCR) Loans (amount)	90,523	4,706	3,797 ^a	4,398	6,117
Number of Loans	1,126	37	31	31	35
Disbursements (amount)	60,797	2,688	2,508	3,498	4,420
Asian Development Fund (ADF) Loans (amount)	32,677 ^a	1,379	1,242	1,362	1,279
Number of Loans	1,150	47	47	40	45
Disbursements (amount)	23,456	1,128	1,055	1,247	1,338
A. Sovereign Loans (amount)	120,456	5,918	4,947	5,248	6,821
Number of Projects ^b	1,903	62	58	58	59
Disbursements	82,447	3,703	3,454	4,541	5,399
OCR Loans (amount)	87,793	4,539	3,705	3,885	5,542
Number of Loans	1,026	33	27	25	26
Disbursements (amount)	59,006	2,575	2,399	3,294	4,061
ADF Loans (amount)	32,663	1,379	1,242	1,362	1,279
Number of Loans	1,145	47	47	40	45
Disbursements (amount)	23,441	1,128	1,055	1,247	1,338
B. Nonsovereign Loans (amount)	2,744	167	93	513	575
Number of Projects ^b	100	4	4	6	8
Disbursements (amount)	1,804	113	109	204	358
Public Sector (amount)	150	—	—	—	150 ^e
Number of Projects ^b	2	—	—	—	2 ^e
Disbursements (amount)	1	—	—	—	1
OCR Loans (amount)	150	—	—	—	150 ^e
Number of Loans	2	—	—	—	2 ^e
Disbursements (amount)	1	—	—	—	1
ADF Loan (amount)	—	—	—	—	—
Number of Loans	—	—	—	—	—
Disbursements (amount)	—	—	—	—	—
Private Sector (amount)	2,594	167	93	513	425 ^f
Number of Projects ^b	98	4	4	6	6
Disbursements (amount)	1,804	113	109	204	358
OCR Loans (amount)	2,580 ^d	167	93 ^d	513 ^d	425 ^f
Number of Loans	98 ^d	4	4 ^d	6 ^d	7
Disbursements (amount)	1,790	113	109	204	358
ADF Loans (amount)	14	—	—	—	—
Number of Loans	5	—	—	—	—
Disbursements (amount)	14	—	—	—	—
EQUITY INVESTMENT ^g (amount)	1,311 ^d	36	164	197 ^d	261
Number of Investments	157 ^d	3	11	8 ^d	14
EQUITY UNDERWRITING ^g (amount)	40	—	—	—	—
Number of Commitments	6	—	—	—	—
GRANTS ^h (amount)	2,602 ^d	454	104	1,150 ^d	538
Number of Projects	187 ^d	12	27	50 ^d	43
TECHNICAL ASSISTANCE ^h (amount)	3,021 ^d	175	192 ^d	199	242
Number of Projects	6,153 ^d	312	317 ^d	299	260
MULTITRANCHE FINANCING FACILITIES ⁱ (amount)	5,330	—	—	1,520	3,810
Number of Facilities	10	—	—	2	8
COFINANCING ^j (amount)	13,958	789	295	401	1,483
Number of Projects	1,062	95	110	111	103
Sovereign Operations (amount)	12,179	614	285	351	828
Number of Projects	1,025	93	109	110	96
Nonsovereign Operations (amount)	1,779	175	10	50	655 ^k
Number of Projects	37	2	1	1	7
Guarantees (amount)	3,220	170 ^d	10	68	125
Number of Projects	27	2 ^a	1	2	3
Political Risk Guarantee (amount)	708 ^a	0 ^a	10	50	15
Number of Projects	9 ^a	0 ^a	1	1	1
Partial Credit Guarantee (amount)	2,512	170	0	18	110
Number of Projects	18	2	0	1	2

RESOURCES (as of period end)

Ordinary Capital Resources					
Authorized Capital	53,169	51,997	54,162	50,163	53,169
Subscribed Capital	53,169	51,997	54,162	50,163	53,169
Borrowings (gross) (for the period)	65,129	4,141	1,629	4,230	5,576
Outstanding Debt	27,601	26,359	24,212	24,454	27,601
Ordinary Reserve	8,994	8,892	8,865	8,957	8,994
Special Reserve	198	186	190	194	198
Gross Revenue (for the period)	35,849	1,657	1,313	1,432	1,839
Net Income after Appropriation of Guarantee Fees to Special Reserve (for the period)	12,044	436	427	105	566
Special Funds Resources					
Asian Development Fund Total Resources	29,247	26,759	29,571	27,605	29,247
Technical Assistance Special Fund Total Resources	1,347	1,006	1,062	1,257	1,347
Japan Special Fund					
Regular and Supplementary Contributions	929	853	877	904	929
Asian Currency Crisis Support Facility	241	241	241	241	241
ADB Institute Special Fund Total Resources	121	83	96	110	121
Asian Tsunami Fund Total Resources ^h	594	—	—	565	594
Pakistan Earthquake Fund Total Resources ^h	114	—	—	85	114

= nil.

a Totals may not add up because of rounding.

b Projects with multiple loans are counted once. Cumulative number of projects excludes supplementary loans.

c Includes loans arising from multitranche financing facilities.

d Adjusted to exclude terminated loans, equity investments, guarantees, technical assistance, and grants.

e These are loans to companies in which public sector entities own more than 50% of the capital or over which they exert management control in other ways.

f Of which \$75 million has been reinsured.

g Refers to nonsovereign operations only.

h Includes direct value-added cofinancing.

i Multitranche financing facilities are facilities that will give rise to loans. Loans arising from the facilities are included under loans when approved by ADB.

j Starting 2006, cofinancing statistics indicate direct value-added cofinancing.

k Nonsovereign operations comprise total syndications and guarantees. Total syndications amount to \$530 million (B-loans for private sector projects, \$105 million; B-loans for public sector projects, \$350 million; reinsurance [KfW guarantee], \$75 million). Guarantees amount to \$125 million.

MESSAGE FROM THE PRESIDENT AND CHAIRMAN OF THE BOARD OF DIRECTORS

ADB celebrated its 40th anniversary in 2006, looking back on 4 decades of cooperation with the governments and peoples of Asia and the Pacific. This region has made tremendous progress, helping 300 million people rise out of extreme poverty.

The region continued to show impressive growth in 2006, with the People's Republic of China and India emerging as major players in the global economy. On the other hand, about 1.9 billion people—nearly half the population of this region—still live on \$2 a day or less. More than 620 million of them live in extreme poverty on \$1 a day or less. In this region of increasing prosperity, one in five people do not have access to safe drinking water and almost 50% do without proper sanitation. An estimated 4 million children died before reaching their fifth birthday. Poverty in all its aspects remains the region's most daunting problem.

ADB therefore remains focused on its vision of an Asia and Pacific region free of poverty. To help achieve its goal of substantially reducing poverty in the region, ADB adopted its second medium-term strategy to guide its operations from 2006–2008. Responding to emerging challenges in the region, the strategy is built around five priorities: catalyzing investment for development, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and preventing corruption.

ADB's operational model was adjusted to support these priorities. In particular, since ADB cannot do everything everywhere and do it well, it identified core sectors where it will focus its operations. These sectors, in which ADB will build a critical mass of expertise, include road transport, energy, urban infrastructure, rural infrastructure, education, and financial services. The sectors have been selected based on their relevance to ADB's broad strategic priorities, client country demands, and ADB's track record of quality project delivery. In line with this selected focus, 73% of all public sector loans and Asian Development Fund (ADF) grants approved in 2006 were in these sectors.

To help ADB refine its longer-term goals, I convened a panel of eminent people, led by UNCTAD Secretary



General Supachai Panitchpakdi, to advise ADB on key trends and development challenges in the region. The report of this Eminent Person's Group is an important input to a comprehensive review of ADB's long-term strategic framework to be conducted in 2007. The report will be discussed at the Governor's Seminar at ADB's 40th annual meeting in Kyoto, Japan.

At the Frankfurt meeting to review the progress of ADF IX replenishments, ADF donors noted that ADB had made significant progress in achieving some aspects of its reform agenda. They called for a closer alignment of the ADF grant framework with that of the International Development Association, and a joint debt sustainability assessment with the International Monetary Fund and the World Bank. A Board paper on proposed changes to the ADF grant framework to accommodate these recommendations will be prepared in 2007.

In 2006, ADB adopted a regional cooperation and integration strategy to fight poverty and

ADB President Haruhiko Kuroda visits Phu Chan Lower Secondary School in Tu Son District, Bac Ninh Province, Viet Nam. The school is being supported by ADB's Lower Secondary Education Development Project, which is assisting the Viet Nam Government improve lower secondary education



promote growth through collective action. In an increasingly interdependent world, the new strategy will enable ADB to move beyond the stand-alone subregional programs of the past to a more strategic approach to cooperation and integration.

One area where the world's interdependence is painfully obvious is that of greenhouse gas emissions and climate change. As Asian economies continue their rapid economic growth, their energy needs are rising sharply. This is particularly true of the People's Republic of China and India. In 2006, ADB retained a focus on its clean energy and environment program, promoting investments in energy efficiency and further developing a carbon market initiative to provide up-front financing and technical support to clean development mechanism projects. To disseminate knowledge on these important issues, ADB joined government and nongovernment development partners in Asia to establish regional knowledge hubs.

ADB worked with other multilateral development banks to organize an International Financial Institutions

Anti-Corruption Task Force that established a consistent and harmonized approach to combat corruption in the activities and operations of the institutions. This initiative led to standardized definitions of fraudulent and corrupt practices and common principles and guidelines for investigations. ADB also worked with other multilateral development banks in designing a joint investment framework for clean energy and development. ADB continued to work with its bilateral and multilateral development partners to harmonize strategies, programs, and procedures. ADB hosted the 2006 Asian Regional Forum on Aid Effectiveness to support the implementation of the Paris Declaration in Asia.

Internally, ADB made important progress in implementing its reform agenda to make the institution more relevant to the region, more responsive to the needs of its members, and more focused on achieving results. Among other things, ADB revised its private sector development framework and developed its second governance and anticorruption plan.

To better serve client countries at different stages of development, ADB worked to clearly define its separate approaches to guide its support to middle-income and weakly performing countries.

For the second year in a row, ADB increased its assistance to its developing member countries. ADB approved loans, technical assistance, and grants amounting to \$8.17 billion in 2006 compared to \$7.11 billion approved in 2005, and \$5.34 billion approved in 2004. Moving forward, we will continue to fight poverty and inequity, promote inclusive development, and contribute to building an Asia and Pacific region where all have access to the essentials of life—education, health, safe drinking water, and proper sanitation.

For 40 years, ADB has been a steadfast partner in the region's development process. Our institution is proud to be a part of the amazing economic and social progress that has lifted hundreds of millions of people out of poverty. We look forward to working with all our members and shareholders as we take the next steps on this journey toward greater and more widely shared peace, security, and prosperity.

HARUHIKO KURODA


President and Chairman
Board of Directors



BOARD OF DIRECTORS

The Board of Directors strongly supports President Kuroda's call for the Asian Development Bank (ADB) to enhance its relevance, responsiveness, and results orientation. These are key benchmarks for ADB's effectiveness that require increasing both the quality and quantity of assistance. ADB is gradually shifting from a focus on loan approvals to a focus on outcomes. Its country strategies are becoming more selective, more responsive to country priorities, and have better monitoring frameworks. Project design frameworks have improved but need to continue to do so. The proportion of projects at risk is declining and project performance has continued its upward trend. Devoting sufficient attention to implementation and monitoring, however, remains an ongoing challenge.

The Board considered a number of new or revised policies and strategies that target ADB's greater relevance, responsiveness, and results orientation. These included the medium-term strategy, financing partnership strategy, and regional cooperation and integration strategy. A recurrent theme in discussions on policies was the need to ensure that they support development in developing member countries without unduly burdening them with conditions for ADB involvement. The policies' resource implications were repeatedly raised in Board discussions, and Management and staff were encouraged to strengthen the link between policy and strategic priorities and ADB's resource allocation.

STRENGTHENING ADB'S STRATEGIC FRAMEWORKS

ADB's second medium-term strategy (2006–2008) reorders ADB's priorities, including giving new emphasis to regional cooperation and integration. In endorsing the regional cooperation and integration strategy, the Board asked Management to concentrate on cross-border infrastructure and regional public goods. In considering the approach of greater selectivity and focus, the Board concluded that ADB needs to have strengths in key areas but must also be able to meet the most pressing development needs of

Board approvals totaled \$3.8 billion in multitranche financing facilities that will give rise to future loans for increased development

a wide variety of developing countries. Weakly performing countries have particular needs for policy advice, knowledge products, and institutional capacity building. Board members stressed throughout the year the importance of technical assistance in delivering knowledge and skills and in strengthening capacity. Board members asked ADB to intensify efforts to coordinate the work of the knowledge departments and expressed increasing concern about pressure on technical assistance resources, including as a result of adopting new policies and priorities.

A review of ADB's long-term strategic framework commenced, with an Eminent Persons Group established to provide inputs. The Board welcomed the opportunity to meet with the group and to discuss related issues at the Board's annual retreat in October. The review of the framework is a key means of helping ADB become as effective as possible. The Board looks forward to contributing to the strategic choices that will be made as a result.

SCALING UP

ADB's approach to support middle-income countries encompasses measures already taken under the innovation and efficiency initiative to scale up operations and better meet the needs of these countries. These measures include new mechanisms such as the multitranche financing facility. Board approvals totaled \$3.8 billion in

multitranche financing facilities that will give rise to future loans for increased development. Optimal governance arrangements are still being developed to ensure that new instruments such as the multitranche financing facility, subsovereign lending, and greater use of guarantees not only provide more money more conveniently but also deliver demonstrably stronger development outcomes.

COUNTRY PARTNERSHIP STRATEGIES

The Board discusses every country partnership strategy (formerly the country strategy and program) that ADB negotiates with its developing member countries. Board discussion of a strategy guides its implementation. The Board paid particular attention to responding to country demands, strengthening the strategies' results orientation, and promoting greater focus and selectivity in the country programs.

RISK MANAGEMENT

While considering the middle-income country strategy, the Board debated the trend toward increased use of country systems. Many members saw it as potentially positive, where adequate capacity and transparency could be demonstrated, but also as creating areas of vulnerability and risk that need to be carefully managed. In discussions on credit enhancement and in the Audit Committee, Board members welcomed the evolution of ADB's risk management architecture but pressed for a more comprehensive approach to identifying and mitigating major risks facing the institution. They also called for a strengthening of staff and managerial skills in risk management.

TRANSACTION COSTS

The Board discussed ADB transaction costs on many occasions. Board members share the desire to shorten the project cycle where possible but also want ADB to uphold high standards of quality, equity, and transparency. Getting the balance right is a key institutional challenge, brought into sharper focus in ADB's safeguard policies. Reviews of these policies commenced in 2006. The Development Effectiveness Committee considered two studies by the Operations Evaluation Department on the environment and resettlement and asked Management to diligently work through the issue to deliver better outcomes for all stakeholders.



Board members visit a solar/wind hybrid electricity system in Afghanistan



Board members review a scheme that helps tsunami-hit families in Aceh, Indonesia, start a new life with goat breeding

INSTITUTIONAL MANAGEMENT AND OVERSIGHT

The year saw increasing calls for managerial changes that would allow ADB to respond more quickly and effectively to its clients. These included greater delegation of authority to managers and staff to make sound professional judgments and be held responsible for them. The operational role of vice presidents has become better defined, and accordingly, they contribute more substantively in steering the institution.

The Board saw some progress in human resources management in key areas such as introducing staff assessments that more clearly distinguish between different levels of performance, strengthening management training, and designing a competency framework. However, as the Board observed during budget discussions, progress needs to become more consistent and approaches less mechanistic to make the best use of ADB's largely talented and committed staff.

The Board sought to play a greater role in the design and approval of overarching strategies such as the second medium-term strategy and to become involved earlier and more deeply in the budget process. Board inputs helped guide the internal administrative expense budgeting and work program processes at various stages. The Board's discussion in September 2006 on the 3 year work program and budget framework for 2007–2009 led to the finalization of the budget framework by Management, and further served as policy guidance in finalizing the 2007 budget for internal administrative expenses, approved by the Board in December. The Board also gave its policy guidance on

a number of financial issues, most notably by approving the new asset and liability management statement and the borrowing program for 2007, as well as recommending the allocation of net income for various uses.

IMPROVING BOARD EFFECTIVENESS

The Board recognizes that the demands for greater relevance, responsiveness, and results challenge it to think and rethink the way it operates and supports the overall reform process. In doing this, the Board fully respects the provisions in the Charter on its role, responsibilities, and functions.

The Board bears the ultimate responsibility for approving the projects and programs funded by ADB. The Board repeatedly emphasized its role in setting the policy-level strategic directions for ADB. It has streamlined some of its procedures to be able to pay more attention to policy and strategic issues.

The Board proposed a series of initiatives to improve the quality of efficiency of its working procedures. These initiatives relate to matters such as strengthening the

In March 2006, a group of five Board members went to Afghanistan, Pakistan, and Sri Lanka, and in September another group of five Board members visited Indonesia and the Philippines

feedback to the Board by Management following Board decisions, and how the Board arranges its formal and informal meetings, including committee work and planning the Board agenda.

The Board held 45 formal meetings. It approved or discussed a number of strategy or policy papers (Appendix 3) and approved 67 projects and programs. It held 36 informal seminars or sessions on a variety of sectoral, thematic, or country-related topics.

Although the Board focuses mainly on strategic and policy issues, it also tries to stay in close touch with the operational part of ADB's work. One means of doing this is through visits by groups of Board members to developing member countries, both to have policy discussions with the country authorities and to get firsthand information on the implementation of selected projects through field visits. Two such Board group visits were arranged. In March 2006, a group of five Board members went to Afghanistan, Pakistan, and Sri Lanka, and in September another group of five Board members visited Indonesia and the Philippines, ADB's host country. The Board appreciates the experience and knowledge gained through such visits and is grateful for the support of the host country authorities as well as of ADB Management and staff, particularly in the resident missions.

BOARD COMMITTEES

The Board has standing committees for audit, budget review, compliance review, and development effectiveness. In 2006, the Ethics Committee was created. Membership of the committees is shown in Appendix 6.

Audit Committee. The committee helps the Board oversee ADB's financial reporting and audits, including



Board members visit the Day Care Room in a Women's Resource Center in Panabo City, Davao del Norte, Philippines, funded by the \$1 million Social Protection for Poor Women Vendors in Mindanao Cities Project under ADB's Japan Fund for Poverty Reduction

internal controls. The committee operated under terms of reference that had been expanded in the previous year to include procurement policies and procedures in its review of risk management.

The committee was satisfied that all audits were appropriate and in accordance with ADB's approved policies and applicable auditing standards. The committee reviewed quarterly financial statements and the annual management discussion and analysis, and considered applying key financial and accounting systems using information technology.

The committee made several recommendations, including to establish an integrated risk management framework; monitor prepayments and any associated possible impact on operating income; review progress in implementing cost accounting systems and cost information systems in ADB; and continue to periodically monitor the implementation of accounting standards, including Financial Accounting Standard 133 covering derivative instruments.

The committee met 10 times.

Budget Review Committee. The committee discussed the President's planning directions in preparation for the work program and budget framework (2007–2009) and exchanged views with the vice presidents on its key thrusts.

The committee noted that the work program and budget framework is conceived as a business plan to allow implementation of the second medium-term strategy, ADB's commitments to the Paris Declaration on Aid Effectiveness, and managing for development results. The committee further noted ADB's efforts to scale up development effectiveness and improve institutional efficiency. It reviewed the implementation status of the enhanced separation program, discussed the sequestration and redeployment of professional staff positions, and noted the realignment of regional departments as an attempt to balance resources among departments.

At midyear, the committee reviewed the operations program and budget utilization status, including ADB-wide efficiency measures supporting the second medium-term strategy. The committee was also briefed about the price and volume aspects of the 2007 budget; cost implications

The committee noted that the work program and budget framework is conceived as a business plan to allow implementation of the second medium-term strategy



Board members tour projects in Colombo Port, Sri Lanka

of new policies, strategies, and initiatives; and the budget carryover concept for implementation, beginning from the 2007 budget.

The committee discussed the draft 2007 budget and noted the need to provide an appropriate level of staff and budgetary resources to support ADB's priorities. The committee made recommendations to ensure the effective use of budgetary resources through strengthened linkage between performance and budgetary allocations. The committee recommended approval of ADB's 2007 budgets for internal administrative expenses and annual capital expenditures as well as the 2007 budget of the ADB Institute.

The committee met seven times.

Compliance Review Committee. The committee, set up under the ADB accountability mechanism, clears the Compliance Review Panel's proposed terms of reference and time frame for conducting compliance reviews, and reviews the panel's draft monitoring reports on implementation of remedial actions approved by the Board before the panel finalizes them.

The committee discussed the panel's draft monitoring reports on the implementation of the Board-approved remedial actions in the Southern Transport Development Project in Sri Lanka and the Chasma Right Bank Irrigation Project (Stage III) in Pakistan. The committee met informally with Management to be briefed on the progress in implementing the remedial actions. The committee checked on the status of implementation as reported by the panel in its monitoring reports and discussed whether Management's actions had brought the project into compliance.

The committee met three times.

Development Effectiveness Committee. The committee continued to shift the focus of its review work from

individual operation evaluations to broader evaluations at the country, sector, thematic, and policy levels. The committee reviewed nine independent evaluation reports by the Operations Evaluation Department, including three country program evaluations. The committee is encouraged by increasing referrals to country assistance program evaluation findings in the design of new country strategies.

The committee reviewed Management's annual reports on the implementation of the poverty reduction strategy and progress in managing for development results.

The committee ensured that Management adequately considered key recommendations in the evaluation reports of the Operations Evaluation Department and that these resulted in operational actions when Management accepted them. Special attention was paid to monitoring implementation of the action plan to improve loan and technical assistance portfolio performance that Management had initiated at the end of 2005 in response to the committee's recommendation. The committee encouraged the Operations Evaluation Department to make findings more accessible and to disseminate them more widely. The committee continued to search for additional ways of strengthening Board–Management dialogue on portfolio performance and quality assurance.

The committee met 11 times.

Ethics Committee. The Board established the committee to address matters of ethics that may arise under the Code of Conduct adopted by the Board in September 2006. The code provisions apply to all Board members (directors, alternate directors, and temporary alternate directors) and to the President.

The committee is responsible for advising directors, alternate directors, or the President when they request guidance on actual or potential conflicts of interest or other ethical issues concerning themselves. The committee also considers any allegations of misconduct against directors, alternate directors, or the President that relate to the performance of their duties. It recommends appropriate action to the Board.

The committee did not meet in 2006.

The Development Effectiveness Committee continued to shift the focus of its review work from individual operation evaluations to broader evaluations at the country, sector, thematic, and policy levels

BOARD OF DIRECTORS AND MANAGEMENT

Board of Directors



President and Chairman of the Board of Directors (top right): Haruhiko Kuroda

Board of Directors (middle spread [left to right]): Executive Directors David Taylor (Austria, Germany, Luxembourg, Turkey, United Kingdom); Patrick Pillon (Belgium, France, Italy, Portugal, Spain, Switzerland); Agus Haryanto (Cook Islands, Fiji Islands, Indonesia, Kyrgyz Republic, New Zealand, Samoa, Tonga); Ashok Saikia (Afghanistan, Bangladesh, Bhutan, India, Lao People's Democratic Republic, Tajikistan, Turkmenistan); Emile Gauvreau (Canada, Denmark, Finland, Ireland, The Netherlands, Norway, Sweden); Stephen Sedgwick (Australia; Azerbaijan; Cambodia; Federated States of Micronesia; Hong Kong, China; Kiribati; Nauru; Palau; Solomon Islands; Tuvalu); Masaki Omura (Japan); Chol-Hwi Lee (Republic of Korea; Papua New Guinea; Sri Lanka; Taipei, China; Uzbekistan; Vanuatu; Viet Nam); Xiaosong Zheng (People's Republic of China); Sibtain Fazal Halim (Kazakhstan, Maldives, Marshall Islands, Mongolia, Pakistan, Philippines, Timor-Leste); Md. Saad Hashim (Brunei Darussalam, Malaysia, Myanmar, Nepal, Singapore, Thailand); Alternate Executive Directors Tsuen-Hua Shih; Siew Juan Aw; Paul W. Curry; Atsushi Mizuno; Xiaolong Mo; Marita Magpili-Jimenez; Richard Stanley; Richard Moore; Nima Wangdi; Pasi Hellman; Sebastian Paust; João Simões de Almeida

Management (bottom right [left to right]): Managing Director General Rajat Nag; Vice Presidents Ursula Schaefer-Preuss, Khempheng Pholsena, Liquun Jin, and C. Lawrence Greenwood, Jr.; and Secretary Jeremy Hovland



**President and Chairman
of the Board of Directors**

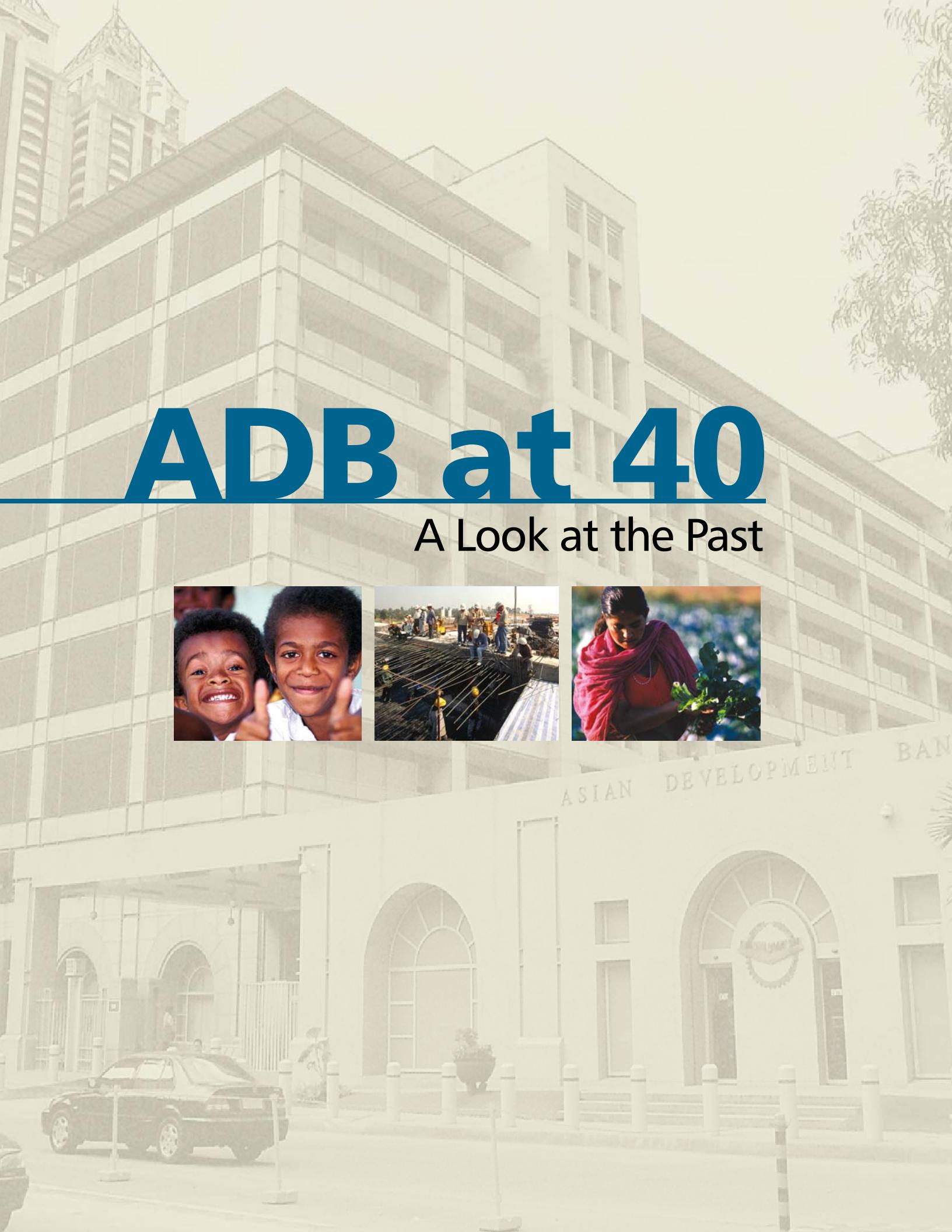


Management



ADB at 40

A Look at the Past



1960s

As 2006 drew to a close, ADB celebrated 40 years of fruitful cooperation with the governments and peoples of the Asia and Pacific region, looking back on phenomenal economic growth in the region alongside abiding development challenges.

Opening in late 1966 in Asia, ADB helped its members develop what were then largely agricultural economies.

63

In the postwar period of rehabilitation and reconstruction, the United Nations Economic Commission for Asia and the Far East held the first Ministerial Conference on Asian Economic Cooperation, which passed a resolution to establish a financial institution that would be Asian in character to foster economic growth and cooperation in the region, one of the poorest in the world.

Manila, capital of the Philippines, was chosen from among several cities that offered to host the new bank.



66

Takeshi Watanabe was unanimously elected ADB's first president during the inaugural meeting of the Board of Governors, held in Japan on 24–26 November 1966.

ADB opened in Manila, Philippines, on 19 December 1966, with 31 members to serve a predominantly agricultural region.



67

ADB focused its assistance on food production and rural development. ADB approved its first technical assistance project to support Indonesia's food grain production, and its first regional technical assistance project, for an Asian agricultural survey.



68

ADB made its first loan to a Thai development finance institution for onlending to private industries. The first agriculture loan was made to Sri Lanka for the modernization of tea factories.



69

ADB approved its first loan on concessional terms from its Special Funds resources for an irrigation project in Indonesia. ADB also made its first energy sector loan to Malaysia for an electricity supply project.

To augment ordinary capital resources for lending to developing members, ADB issued its first bond, a Deutsche mark bond issue for DM60 million (\$16 million) in Germany.

Subscribed capital \$978.0 million

President Takeshi Watanabe (1966–1972)

Members 33 Regional 20 Nonregional 13

Cumulative lending \$139.7 million

Cumulative technical assistance \$5.1 million as of end of 1969

1970s

In the 1970s, ADB explored new sources and modalities of financing the region's development.

ADB assistance expanded from agriculture into education and health, and then to infrastructure and industry. When the world suffered its first oil price shock, ADB shifted more of its assistance to support energy projects, especially those promoting the development of domestic energy sources in member countries.

70

As operations expanded, ADB mobilized additional resources from bilateral and other multilateral institutions.

Cofinancing operations began to provide additional resources for ADB projects and programs.

ADB's first bond issue in Asia—worth \$16.7 million—was made in Japan. This was the first time that yen bonds were sold to the public in Japan by a foreign entity.

ADB made its first education loan, to Singapore for a college expansion project; and its first multisector loan, to the Lao People's Democratic Republic for agriculture development.



72

Shiro Inoue assumed the presidency, to be succeeded by Taroichi Yoshida in 1976.

Technical assistance projects emphasized institution building and training of local staff.



74

The Asian Development Fund was established to provide concessional lending to ADB's poorest members.



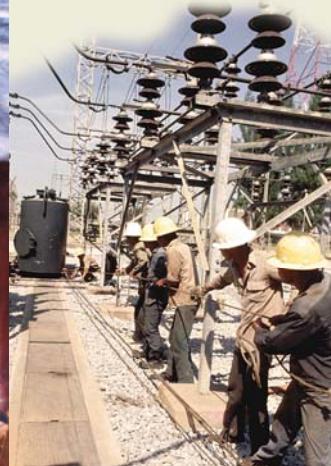
78

ADB approved its first loan in the health sector to Hong Kong, China.

ADB's annual lending reached the \$1 billion mark. At the close of the decade, some Asian economies had improved considerably and graduated from ADB's regular assistance.

The gradual emergence of Asian economies in the 1970s spurred demand for better infrastructure to support economic growth.

ADB focused on improving roads and providing electricity.



79

ADB approved its first program loan for industry, for the cement industry program in Myanmar; its first loan for rural electrification, in Sri Lanka; and its first multiproject loan, in Tonga.



Subscribed capital **\$8.9 billion**

Presidents **Shiro Inoue (1972–1976), Taroichi Yoshida (1976–1981)**

Members **43**

Regional **29** Nonregional **14**

Cumulative lending **\$6.7 billion**

Cumulative technical assistance **\$71.5 million as of end of 1979**

1980s

As it became clear that the private sector was an important ally in driving growth, ADB made its first direct equity investment in the private sector. ADB also began to use its track record to mobilize additional resources for development from the private sector.

As global awareness grew about the sometimes uneven benefits and negative impacts of unregulated development, ADB strengthened its monitoring of gender and environmental issues. While still assisting energy and other infrastructure projects, ADB also increased its support to social infrastructure.

81

Masao Fujioka became ADB President in 1981, to be succeeded by Kimimasa Tarumizu in 1989.

In the wake of the second oil crisis, ADB continued its support to infrastructure development, particularly energy projects.

ADB increased its support to social infrastructure, including gender, micro-finance, environmental, education, urban planning, and health issues.



82

To bring operations closer to their intended beneficiaries, ADB opened its first resident office, in Dhaka, Bangladesh.



83

Private sector development was deemed crucial to economic growth, leading ADB to make its first direct equity investment in a private sector project to a development investment corporation in the Republic of Korea.

86

A pool-based variable lending rate system was introduced at a time of increasing globalization and deregulation.



84

ADB opened its first regional office in the Pacific in Port Vila, Vanuatu.

85

The Board of Directors took action to include women more effectively in the development process, approving a policy on the role of women in development.

87

The Board of Directors approved a policy supporting collaboration with nongovernment organizations (NGOs) to address the basic needs of disadvantaged groups in developing member countries, and to support improved natural resources management and conservation.

88

The first loan for primary education was approved for Pakistan.



Subscribed capital \$21.1 billion

Presidents **Masao Fujioka (1981–1989), Kimimasa Tarumizu (1989–1993)**

Members 47

Regional 32

Nonregional 15

First resident office **Dhaka, Bangladesh**

First regional office **Port Vila, Vanuatu**

Cumulative lending \$28.6 billion

Cumulative technical assistance \$418.9 million as of end of 1989

1990s

ADB declared poverty reduction as its overarching goal.

When several Asian countries suffered a severe financial crisis, ADB responded with projects and programs to strengthen financial sectors and create social safety nets for the poor.

92

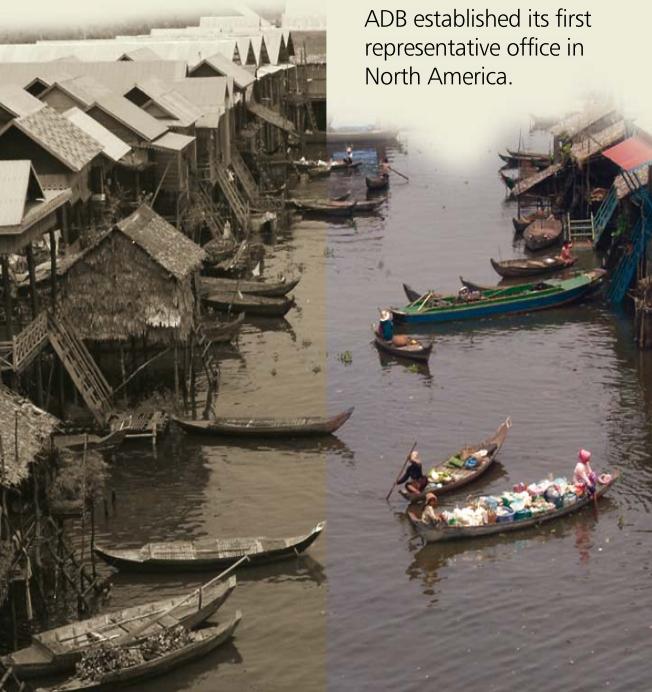
ADB began promoting regional cooperation, forging close ties among neighboring countries through an economic cooperation program in the Greater Mekong Subregion.

95

As the Internet continued to expand its reach into homes and offices, ADB set up its website (www.adb.org).

ADB became the first multilateral organization to have a Board-approved governance policy to ensure that development assistance benefits the poor. Policies on the inspection function, involuntary resettlement, and indigenous peoples—designed to protect the rights of people affected by a project—were also approved.

ADB established its first representative office in North America.



96

ADB established its representative offices in Europe and Japan.



97

Following the end of the cold war, the former Soviet republics of Central Asia, in transition from centrally planned to market economies, joined ADB and the Central Asia Regional Economic Cooperation program formed by ADB and other multilateral institutions in 1997.

A severe financial crisis hit, setting back economic gains in Asia. In response, ADB approved its largest single loan—a \$4 billion emergency loan to the Republic of Korea—and established the Asian Currency Crisis Support Facility to accelerate assistance.

The ADB Institute was established as a subsidiary to conduct research and build capacity to help developing member countries identify development strategies and improve project management.

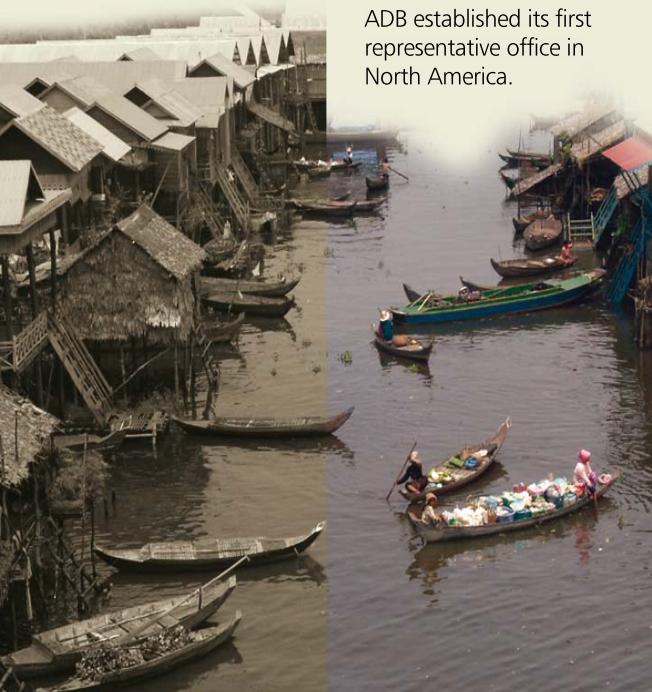


99

ADB adopted poverty reduction as its overarching goal and approved several vital policies relating to indigenous peoples, cooperation with NGOs, and anticorruption efforts.

93

Mitsuo Sato assumed ADB's presidency, and was succeeded by Tadao Chino in 1999.



Subscribed capital **\$47.6 billion**

Presidents **Mitsuo Sato (1993–1999), Tadao Chino (1999–2005)**

Members **58**

Regional **42**

Nonregional **16**

First representative offices **Washington, DC Tokyo, Japan Frankfurt, Germany**

Cumulative lending **\$82.3 billion**

Cumulative technical assistance **\$1.7 billion ADB Institute**

as of end of 1999

2000s

The new century brought both hope and tragedy. Responding to unprecedented natural disasters and conflict in its member countries, ADB provided disaster relief and postconflict assistance.

ADB introduced clean energy initiatives to make the region, and the world, a better place. It initiated a Water for All program to provide clean water around the region.

01

ADB formulated its first long-term strategic framework to guide operations from 2001 to 2015.

Two medium-term strategies were approved, covering 2001–2005 and 2006–2008 to strengthen the poverty-reducing impact of ADB assistance.

A major reorganization at the start of the decade focused on country operations. ADB committed to help its developing members achieve the Millennium Development Goals and to enhance development effectiveness.



02

ADB assisted countries in postconflict situations such as Afghanistan, where ADB resumed operations after 22 years, and the newly independent country of Timor-Leste.

The Board of Directors approved an environment policy, which aims to promote the environmental sustainability of ADB's development assistance.



03

When the severe acute respiratory syndrome (SARS) hit the region, it became clear that fighting infectious diseases was a public good that required regional cooperation. ADB began providing support at both national and regional levels to help member countries respond to HIV/AIDS and avian influenza.



04

ADB adopted a reform agenda that includes various initiatives, chief among them managing for development results. ADB approved the first project under its clean development mechanism facility for a coal mine methane project in the People's Republic of China.

The Board of Directors approved a policy to help countries prepare for and mitigate the impact of disasters. At the end of 2004, a tsunami hit many ADB member countries in the Indian Ocean. ADB hosted a high-level meeting on the reconstruction of affected areas and established the Asian Tsunami Fund to channel funds specifically to regional disaster relief and reconstruction.

ADB's first female vice president, Khempheng Pholsena, was appointed.



05

Haruhiko Kuroda became ADB President.

The Board of Directors approved a policy of disclosure of information to increase transparency and accountability. ADB committed more than \$850 million for recovery in the tsunami-hit areas of India, Indonesia, Maldives, and Sri Lanka. It opened a \$1 billion line of assistance to help victims of the earthquake in Pakistan.

06

A strategy promoting regional cooperation and integration was adopted in 2006 to fight poverty through regional collective action. A new medium-term strategy was approved to strengthen the poverty reduction impact of ADB's assistance.



POLICY OVERVIEW: IMPROVING EFFECTIVENESS

ADB continued to operate in an economically buoyant region, where aggregate gross domestic product (GDP) grew 8.3% in 2006 (Asian Development Outlook 2007). Steady growth kept the region on track to achieve the Millennium Development Goal of halving the number of people living on less than \$1 per day between 1990 and 2015. Growth, however, was not evenly distributed among and within countries, and the Asia and Pacific region remained home to more than 620 million people living on less than \$1 per day. The region made much less progress in achieving the non-income Millennium Development Goals such as access to safe drinking water and proper sanitation facilities, and improved health and education. The rapid pace of growth highlighted the pressing need to develop and upgrade the region's infrastructure and to ensure sustainable management of natural resources.

As part of the efforts to enhance its relevance, responsiveness, and results orientation, ADB continued to sharpen its strategic focus under its ongoing internal reform agenda to make ADB more cooperative, flexible, and efficient. This agenda aims to strengthen operational policies, strategies, and approaches; mainstream managing for development results; refine organizational processes and structures; reinforce knowledge management; and improve human resources management and staff incentives. Five new or revised initiatives identified under the agenda were adopted in 2006: ADB's second medium-term strategy, the regional cooperation and integration strategy, the revised strategic private sector development framework, enhanced ADB support to middle-income countries and ordinary capital resources (OCR) borrowers, and the second governance and anticorruption plan. Business processes have been refined and new financial instruments introduced.

ADB worked closely with other multilateral development banks and bilateral donors to harmonize strategies, programs, and procedures to improve aid effectiveness regionally. ADB hosted the 2006 Asian Regional Forum on Aid Effectiveness to facilitate the implementation of the Paris Declaration in Asia. ADB played a key role in the Asia 2015 conference held in London in March 2006 to identify future challenges and solutions for the



The second medium-term strategy (2006–2008) aims to strengthen the poverty reduction impact of ADB's assistance programs

region, and to build new alliances to fight poverty in Asia. More specifically, ADB took joint action with other multilateral development banks to promote better governance and combat corruption, promote clean energy, and reduce vulnerability to the avian influenza pandemic. Together with other development partners, ADB helped establish an International Financial Institutions Anti-Corruption Task Force, which developed a uniform framework for preventing and combating fraud and corruption. Jointly with other multilateral development banks, ADB has helped develop a joint investment framework for clean energy and development, with a progress report discussed at the September meeting of the Development Effectiveness Committee. ADB has taken the lead in energy efficiency in the transport sector under this framework.

The development of the second medium-term strategy, which was finalized after discussion by the Board of Governors at the 2006 Annual Meeting in Hyderabad, India, marked a milestone in taking forward the internal reform agenda. The strategy was prepared to guide ADB's operations for 3 years, from 2006 to 2008. This is a transitional period during which the long-term strategic framework will be reviewed, and a new long-term strategic direction established to respond to the emerging challenges

in the region. As a strategy for this transitional period, the second medium-term strategy combines continuity and change. The main purpose of the strategy is to strengthen the poverty impact of ADB's assistance programs. Hence, in many respects, the priorities identified in the strategy reflect themes that were already identified in the poverty reduction strategy and the first medium-term strategy. Some of these themes were further elaborated in separate papers.

As a result of rapid development in the region, ADB deals with a diverse set of client countries, from weakly performing countries to low-income Asian Development Fund (ADF) recipients to rapidly growing middle-income countries. Recognizing this diversity, particularly the special needs of weakly performing countries, ADB undertook other initiatives parallel to the second medium-term strategy. These include preparation of ADB's Approach to Engaging with Weakly Performing Countries: Achieving Development Effectiveness in Weakly Performing Countries. To be presented to the Board of Directors in 2007, this paper is expected to call for greater use of grant assistance and closer partnership. Other initiatives in 2006 included a midterm review of operations under the eighth replenishment of ADF resources (ADF IX) in eligible ADF recipient countries, which was discussed with representatives of ADF donor countries in Frankfurt, Germany, on 4–5 December 2006; and the development of a coherent framework of initiatives for enhancing ADB support to middle-income countries and OCR borrowers.

The second medium-term strategy recommends several adjustments in ADB's operational model. These include greater sector focus and selectivity; product and process innovations to enhance ADB's responsiveness, flexibility, and efficiency; and greater emphasis on portfolio performance, development effectiveness, and results. Most of the innovations were introduced in the context of the innovation and efficiency initiative. ADB pays greater attention to the readiness and implementation of current projects and is streamlining managing for development results into the entire project cycle, from development of results-based country partnership strategies to systematic application

ADB took joint action with other multilateral development banks to promote better governance and combat corruption, promote clean energy, and reduce vulnerability to the avian influenza pandemic

of results-monitoring frameworks in projects and internal processes at all levels.

PRIORITIES UNDER THE SECOND MEDIUM-TERM STRATEGY

The second medium-term strategy strengthens the poverty reduction impact of ADB's assistance and helps developing member countries meet their Millennium Development Goals. The strategy has five priorities: catalyzing investment, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and preventing corruption. In many respects, they reflect themes already identified under the first medium-term strategy and carry forward its unfinished agenda.

CATALYZING INVESTMENT

The sharp reduction in income poverty in the region in recent years is primarily attributable to high growth. However, there is a risk that growth may falter because of the poor investment climate. The second medium-term strategy emphasizes the need to help developing member countries improve the investment climate by supporting policy and institutional reforms, infrastructure development, and the development of quality human resources through investments in education and health. ADB will also seek to use its wide range of products to leverage cofinancing with public and private sector partners. ADB's revised strategic framework for private sector development (adopted in February 2006) provides greater strategic clarity on private sector development at the corporate level. The new strategic framework aims to create an enabling environment for private sector development, mobilize additional finance, and develop ways of financing public goods and services. ADB's new financing partnership strategy (adopted in July 2006) will also facilitate the implementation of this framework. This

ADB's revised strategic framework for private sector development aims to create an enabling environment for private sector development, mobilize additional finance, and develop ways of financing public goods and services

The second medium-term strategy strengthens the poverty reduction impact of ADB's assistance and helps developing member countries meet their Millennium Development Goals

strategy enables ADB to be a more proactive and effective financing partner by shifting the focus from reactive and input-oriented cofinancing toward proactive and value-added financing partnerships, improving client orientation and selectivity, deepening and expanding the range of financing partnerships, ensuring relevance of products and services, improving access to knowledge, and fostering innovation in ADB, and introducing new approaches and changes in the business model in a phased manner.

STRENGTHENING INCLUSIVENESS

Although growth has helped reduce poverty, the benefits have not been evenly distributed. To strengthen inclusiveness, the second medium-term strategy underlines the importance of expanding productive employment in rural areas and generating higher productivity and wage incomes in the informal urban sector, combined with measures to address the non-income dimensions of poverty.

ADB helps its developing member countries strengthen inclusiveness to ensure equitable and sustainable development. Through its policy of inclusiveness, ADB encourages greater equity in access to services, resources, and opportunities; the active participation of poor and marginalized groups in social, economic, and political life; and household-level security to cope with chronic or sudden risks, especially among poor and marginalized groups.

The second medium-term strategy lays fresh emphasis on investing in key social development interventions to promote gender equality by supporting education for girls, better health for girls and women, and microfinance projects that help women.

PROMOTING REGIONAL COOPERATION AND INTEGRATION

Regional cooperation and integration strengthens the growth potential of individual countries, thereby strengthening their capacity to reduce poverty. Integration helps link and better align growth in the smaller and less-developed countries with the faster-growing economies. Regional

cooperation and integration also serve as a platform for regional initiatives to manage cross-border environmental and health risks. The second medium-term strategy mainstreams regional cooperation and integration as a means to reinforce country-level efforts to reduce poverty by supporting cross-border infrastructure to strengthen connectivity, promoting monetary and financial cooperation, developing advisory capacity for trade and investment cooperation and integration, and playing a larger role in providing regional public goods.

ADB's regional cooperation and integration strategy, adopted in July 2006, lays out in greater detail how ADB plans to intensify its support in this area. It lists four ways by which ADB can support and promote cooperation and integration in the Asia and Pacific region: provide financial resources for regional cooperation and integration projects and programs, provide related technical assistance, and help countries mobilize funds and technical assistance from other sources; create, consolidate, and disseminate knowledge and information on regional cooperation and

Gender and Development Policy

Two thirds of the world's poor live in the Asia and Pacific region. Most are women. In many societies, women are denied access to basic services and essential assets such as land, and are excluded from decision making. Empowering women economically and socially is crucial to achieving ADB's goal of poverty reduction.

ADB adopted its policy on gender and development in 1998. A review of the policy's implementation experience after 5 years was completed in 2006, and included desk studies, consultations with and technical inputs from ADB's External Forum on Gender and Development, and selective consultations with developing member country officials and ADB staff.

Aside from assessing the gender quality of ADB loans at entry, the implementation review also involved rapid gender assessments of the impacts of selected loans with gender-responsive designs being implemented in Bangladesh, Cambodia, Nepal, and Pakistan. While the projects and programs were at various stages of implementation, the gender assessments were able to identify some with intermediate gender impacts. The most impressive were found in projects that included a detailed project gender action plan linked to the project's main components with clear targets and indicators for monitoring. These were mainly agriculture and rural development projects in which ADB's resident mission gender consultants had worked closely with the executing agency to develop,

refine, and implement a detailed gender action plan.

The rapid gender assessments provide strong evidence that including comprehensive project gender action plans in loans significantly improves the project's results for women, promotes gender equality, and empowers women. Project gender action plans are found to be an effective tool for gender mainstreaming as they provide a road map for implementing the project's gender design features. It is thus recommended that they be applied more systematically to the design of ADB loans.

The full reports of the implementation review of ADB's policy on gender and development and the rapid gender assessments are at www.adb.org/Gender/gad-review.asp.

Empowering women economically and socially is crucial to reducing poverty



ADB's gender policy helps empower poor women



ADB works to minimize the adverse impact of growth on the environment

integration; help countries and regional or subregional bodies build institutional capacity to manage regional cooperation and integration; and catalyze and coordinate regional cooperation and integration in Asia.

MANAGING THE ENVIRONMENT

Strong demographic pressures and high growth are both taking a heavy toll on rural and urban environments. Poor people typically bear the greatest burden of pollution and environmental degradation. ADB will focus its assistance on energy efficiency, urban environment improvement, and sound natural resources management. As part of this effort, ADB completed the first phase and began implementing the second phase of the energy efficiency initiative, a three-phase program launched in 2005 that aims to expand ADB's investments in clean energy projects. More specifically, the second phase of the initiative will aim to develop country-level and regional strategies and action plans to meet the targets already set, explore the possibility of establishing an Asia-Pacific fund for energy

efficiency, develop the necessary institutional capacity in ADB to scale up as well as to monitor and evaluate activities implemented under the initiative, and implement immediate energy efficiency investment opportunities.

ADB's carbon market initiative was adopted in November 2006 to respond to issues of energy security and global climate change. It aims to enhance the viability of alternative clean energy sources in developing countries and help developed countries meet their greenhouse gas emission commitments under the Kyoto Protocol.

ADB has launched three interrelated programs to fill existing market gaps to help project designers in its developing member countries positively engage with the carbon market: the establishment of the Asia-Pacific Carbon Fund, a dedicated project cofinancing facility; the provision of specialist technical support for clean development mechanism developers and projects through a technical support facility; and the provision of marketing support services to the project developers to promote the sale of carbon credits through a credit marketing facility.

ADB will focus its assistance on energy efficiency, urban environment improvement, and sound natural resources management

IMPROVING GOVERNANCE AND PREVENTING CORRUPTION

Good governance is critical for poverty reduction, as weak governance hurts the poor disproportionately. ADB recognizes the essential role of governance in development. Governance is closely related to equitable and

inclusive growth. It is also important for private sector efficiency. Under the second medium-term strategy, ADB will undertake more focused governance activities and renew its commitment to fighting corruption. Priority activities will focus on public financial management, including procurement, public expenditure management, legal and regulatory work, and capacity development in sectors and subsectors where ADB is active. ADB will work closely with other multilateral development banks to develop a common framework for preventing corruption. To enhance ADB support in these areas, the implementation of ADB's governance and anticorruption policies was comprehensively reviewed. The second governance and anticorruption action plan was adopted in July 2006 based on the findings and conclusion of the review. The plan is focused on improving risk assessments, ensuring that risks are properly taken into account during project design, increasing attention to project implementation, and improving staff skills in these areas.



Poor people typically bear the greatest burden of pollution and environmental degradation

MEETING DIVERSE CLIENT NEEDS

As a result of rapid development in the region, ADB deals with a significantly more diverse set of countries today than it did a few decades ago. ADB's support therefore needs to be highly customized to the development needs of each group of countries. In parallel to the overall institutional strategy laid out in the second medium-term strategy, ADB worked on distinct approaches to deal with these different groups of countries.

WEAKLY PERFORMING COUNTRIES

Many of the region's poor people live in developing member countries with weak governance, ineffective public administration, and civil unrest. In many of these countries, large-scale and violent civil conflict has impaired the government's ability to guarantee people's security. In such a setting, achieving the Millennium Development Goals is difficult.

The second medium-term strategy calls for a special approach to dealing with weakly performing countries and warns of the dangers of a lack of, or limited, engage-

ADB will undertake more focused governance activities and renew its commitment to fighting corruption

ment with them. ADB's current approach is based on its strategic framework and its performance-based allocation system, which tends to channel more funds to countries that perform well based on set criteria, including good governance. However, this could mean that the countries needing the most assistance in improving governance and reducing poverty may get less help because of their poor performance.

Effective assistance programs in weakly performing countries must be based on country ownership and bolstered by systematic capacity development. ADB plans to respond to the need for capacity building by mobilizing greater technical assistance and other grant financing from its partners. ADB operations in weakly performing countries will involve partnerships at all stages and will require ADB to pursue cofinancing opportunities. ADB continues to refine its approach to identifying and defining weak performance, rethink its operational planning, and adapt its business processes and instruments to ensure that its engagement is suitable and effective for individual weakly performing countries and is consistent with the Paris Declaration.

A background paper on the subject was prepared and discussed during the ADF IX midterm review exercise in Frankfurt, Germany, in December 2006. A Board paper on ADB's Approach to Engaging with Weakly Performing Countries: Achieving Development Effectiveness in Weakly Performing Countries is expected to be submitted to the Board of Directors in 2007.

ADF RECIPIENT COUNTRIES, THE ADF IX MIDTERM REVIEW

On 4–5 December 2006 in Frankfurt, ADF deputies from donor countries, representatives from ADF borrowing members, and observers from other international development institutions met with ADB Management and staff to review the progress of ADF IX implementation (2005–2008). Two vice presidents for operations headed the ADB team. The discussion emphasized the need for ADB to continue its focus on poverty reduction, with

greater effort to demonstrate a link between ADF operations and poverty reduction.

In this context, a midterm report prepared by ADB's Operations Evaluation Department was submitted to ADF donors. To provide some indication of the results achieved by ADF-funded public sector projects, their success rates were compared with those of OCR-funded projects over time. The analyses found that 70% of OCR projects were rated successful compared with 58% of ADF-funded projects, although both OCR and ADF ratings converged and improved markedly in recent years. This result should

Pathways Out of Poverty

A study completed in 2006 challenges some key assumptions underlying ADB's poverty targeting in rural areas. Given that poverty reduction is ADB's overarching goal and that most of the poor still live in rural areas, the study has far-reaching implications for future projects.

A key recommendation of Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting is to tailor projects to address the specific causes of poverty in a particular area instead of providing a standard package of rural infrastructure and agricultural development.

The study argues against a too-narrow focus on poor households in poor areas as this can isolate the poor from the more dynamic actors in society and from the mainstream of economic growth. Supporting economic activity led by the nonpoor could create jobs for the poor and lift them out of poverty.

The study—conducted in the People's Republic of China, Malaysia, and Viet Nam—found that most of those who had risen out of poverty had done so by migrating to areas with more dynamic growth.

Poverty targeting has been widely used in development projects to channel funds to poor regions or deliver benefits to poor households and, in particular, to upgrade rural infrastructure or support agricultural production. The study challenges the assumptions that this approach is based on—that poor people live in poor regions, that public investment in poor regions

automatically reduces poverty, and that the solution to poverty in a poor region lies within that region.

The study found that the bulk of the rural poor live in less-poor regions, the location of projects in poor regions does not guarantee significant poverty reduction, and solutions to persistent rural poverty in remote and poorly endowed regions often lie in economic growth outside those regions.

The full report is at <http://adb.org/Documents/SES/REG/Rural-Poverty-Targeting/ses-poverty-targeting.asp>

Supporting economic activity led by the nonpoor could create jobs for the poor and lift them out of poverty



Most of the region's poor live in rural areas

ADF IX resource mobilization has been smooth so far because of timely donor contributions

not be surprising as ADF is allocated to poorer countries, which often face daunting development challenges mainly because of country-specific initial conditions and weaker institutional capabilities.

Overall, ADF participants supported aligning the ADF grant framework with that of the International Development Association 14 in 2007, and requested further review and analysis of the financial implications of the change to be made before ADF X negotiations. Participants also suggested that ADB participate in preparing a joint debt sustainability assessment with the International Monetary Fund and the World Bank, and prepare a separate assessment only in countries where these institutions are not preparing one. ADB will prepare a Board paper on the proposed changes to the ADF grant framework that will reflect the comments.

Participants voiced strong support for the revised performance-based allocation policy and especially welcomed the increased rigor and transparency in the system. Participants appreciated the issues raised by ADB regarding the new system's outcomes such as the shift of resources away from countries eligible only for ADF funding, the volatility of allocations, and the challenge of ensuring cross-country comparability of assessments conducted by different country teams. Participants requested further analysis of the issues raised and urged ADB to continue the close coordination with the International Development Association and the African Development Fund to address performance-based allocation implementation issues. ADB will present its analysis and recommendations on such issues to the donors during ADF X negotiations.

Donors agreed that ADB should participate in debt relief of heavily indebted poor countries if any ADF recipient country becomes eligible, while reaffirming the need to maintain the financial viability of the ADF and not to impair support for ADF recipient countries. Donors noted their willingness to discuss additional funding for financing debt relief to heavily indebted poor countries—consistent with the treatment of debt relief by other multilateral development banks—during the ADF X negotiations. They stressed that ADB should maximize the use of its internal resources but that any financing should not undermine the financial integrity of ADB. The vice presidents noted that, in light of donors' willingness to cover some of the cost of debt relief, ADB

was willing to discuss burden sharing to cover those costs. Management will consider these issues, and a Board paper further analyzing the financial implications of debt relief under various scenarios will be prepared.

ADB noted that ADF IX resource mobilization has been smooth so far because of timely donor contributions. Participants endorsed the proposal to use the special drawing rights composite discount rate to calculate credits for new donor participants in the accelerated note encashment program. They endorsed the proposal to reduce Nauru's contribution to ADF. Participants supported an ADF liquidity management policy and investment guidelines, which ADB will prepare by the end of 2007.

Participants agreed to hold an informal meeting on the sidelines of the ADB Annual Meeting in May 2007 to plan for ADF X negotiations. In particular, participants indicated that they hoped to see more progress in the implementation of the ADB human resources strategy and clearer reporting on ADF outcomes during ADF X negotiations. While noting some progress by ADB, they felt much more needed to be accomplished. Some participants raised concerns on the centralized admin-



ADB encourages greater equity in access to services, resources, and opportunities

istration of human resources and budget, emphasizing insufficient control and flexibility over these functions by the vice presidents and decisions that are not seen as transparent. Many participants called for the next staff engagement survey to be brought forward and suggested an independent progress review of the human resources strategy. Participants welcomed the changes in staff evaluation embodied in the performance and development plans. They urged greater effort to institute a merit-based system of staff selection and promotion at all levels. Participants pressed for greater efforts to achieve gender balance in ADB also at the senior levels. ADB acknowledged the importance of these issues and agreed to consider ways to address them.

MIDDLE-INCOME COUNTRIES AND OCR BORROWERS

Providing effective assistance to middle-income countries and borrowers from OCR is essential if ADB is to achieve its vision of an Asia and Pacific region free from poverty. OCR-borrowing countries are home to two thirds of the world's poor living below \$1 dollar a day and account for the bulk of ADB lending operations. In recent years up to 2004, the OCR public sector portfolio had experienced little change in the annual numbers of new loans approved, increased concentration in a limited number of countries and sectors, stable disbursements, and high cancellation rates. In 2006, disbursements and new approvals increased significantly.

To address these concerns, in June 2004, ADB began exploring how it could enhance its support to OCR borrowers. The work focused on three mutually reinforcing objectives: review the main development challenges facing this diverse group of countries, articulate the countries' demands and expectations of ADB's role in helping them meet these challenges, and discuss how ADB can improve its services to OCR borrowers.

On 7 April 2006, ADB and the World Bank jointly organized a consultation meeting with senior officials from various Asian middle-income countries at ADB headquarters. The main objective of the consultation meeting was to assess

Providing effective assistance to middle-income countries and borrowers from OCR is essential if ADB is to achieve its vision of an Asia and Pacific region free from poverty

whether the current set of reforms under adoption and implementation was sufficient to meet the development needs of middle-income countries. The event promoted an active exchange of views and valuable feedback.

The work culminated in the preparation of a paper, Enhancing ADB Support to Middle-Income Countries and OCR Borrowers, outlining a coherent framework for ongoing and planned initiatives in this area. The paper, which the ADB Board of Directors discussed in August 2006, would serve as a basis to monitor progress over time. The initiatives were grouped into three main areas: reducing the costs of doing business with ADB, expanding and enhancing ADB's operational instruments, and enhancing the quality of ADB's services. Many of these initiatives were developed as part of the innovation and efficiency initiative.

MODERNIZING THE OPERATIONAL MODEL

The second medium-term strategy proposes several adjustments in ADB's operational model to better align it with the five strategic priorities outlined under Strengthening Strategic Priorities under the Second Medium-Term Strategy (pages 23–26). The most important of these include greater sector focus and selectivity; product and process innovations to enhance responsiveness, flexibility, and efficiency—most were developed as part of the innovation and efficiency initiative; and increased emphasis on portfolio performance, development, and results as part of ADB's broader effort to manage for development results.

GREATER SECTOR SELECTIVITY

ADB recognizes that it cannot be effective in all sectors and in all countries. Selectivity and focus are important determinants of ADB's ability to deliver quality development results. The second medium-term strategy identifies core sectors where ADB will focus its operations and build a critical mass of expertise. These sectors have been identified based on their relevance to ADB's broad strategic priorities, clients' demand for ADB assistance in these sectors, and ADB's track record of quality project delivery.

Group I covers core operational sectors where ADB will build up a critical mass of expertise and be a leading provider of financing and expertise. These sectors include road transport, energy, urban infrastructure, rural infrastructure, education, and financial services. Group II comprises sectors

for which building ADB capacity is not a priority but which are identified as important for ADB to be able to meet the diversity of needs across different countries. Group II includes agriculture and natural resources, railways, health, trade (related to regional cooperation and integration), law and the judiciary, public finance, and economic management. Group III covers sectors with limited demand and where ADB's performance has sometimes been poor. Operations in group-III sectors are to be gradually phased out, thereby freeing up resources for focusing operations in group-I and -II sectors. Three of ADB's most poorly performing sectors (fisheries, livestock, and development finance institutions) are in group III. Group III also includes some sectors where ADB has had success (airports, water transport, and communications, for example), but demand from developing member countries for ADB financing in these sectors is likely to be limited.

This selective approach has been working well so far. For public sector loans and ADF grants, 73% of total approvals in 2006 were for group I, 17% for group II, and 4% for group III.

ADB realigned its regional departments to remove structural constraints identified during the independent assessment of the 2002 reorganization. These adjustments were aimed to ensure greater synergy between country and regional operations by regrouping countries more in line with existing regional and subregional initiatives, strengthen country focus as a result of more balanced workload across regional departments, and optimize

the use of staff resources and skills through operational synergy and focus by regrouping countries with congruent development challenges and priorities.

INNOVATION AND EFFICIENCY INITIATIVE

Another important adjustment to the operational model is the introduction of new products and processes to enable ADB to more flexibly and innovatively meet the needs of developing member countries and improve real development outcomes on the ground. Greater efficiency in this regard is required to reduce transaction costs that developing member countries incur by doing business with ADB, including measures to accelerate loan processing. Many plans are already under way as part of the innovation and efficiency initiative.

Launched in November 2003, the initiative focused on the following priority areas: cost sharing and eligibility of expenditures, procurement and consulting services, business processes, country strategies, safeguard policies, and new financing instruments and modalities. These initiatives are now being implemented.

Cost Sharing and Eligibility of Expenditures. On 25 August 2005, the Board approved a new policy framework on cost sharing, expenditure eligibility, and local cost financing for public sector assistance. In the past, cost-sharing limits were fixed up-front and equally for all projects based on the developing member country's classification. The new policy harmonizes ADB's approaches and practices with those of other development institutions, including the World Bank. In March 2006, new staff instructions and operations manual sections were issued to provide detailed guidance on the implementation of the new policy.

Under the new policy, cost-sharing ceilings and financing parameters for each developing member country will normally be established in conjunction with the country partnership strategy. Occasionally, the ceilings and parameters may be reviewed and redefined on a stand-alone basis. In both cases, they will be approved by Management and submitted to the Board for information. Until a country cost-sharing ceiling under the new policy is agreed for a specific developing member country, the old project cost-sharing ceiling applicable to the member country will constitute the country cost-sharing ceiling.

Pilot Financing Instruments and Modalities. On 25 August 2005, the Board approved the 3-year pilot-testing



The Water Financing Program (2006–2010) seeks to make water a core investment area for ADB

of three new financing instruments and modalities: the multitranche financing facility, the nonsovereign public sector financing facility, and the refinancing facility. The innovation and efficiency initiative pilot financing instruments and modalities do not replace ADB's existing instruments, but rather expand the range of alternatives available in ADB's portfolio of development finance solutions. They are intended to provide ADB clients and operational teams with additional and flexible alternatives to help finance individual projects and investment programs.

Multitranche Financing Facility. The multitranche financing facility allows ADB to offer financial resources to clients for an agreed investment program or a set of interrelated investments. These resources may be provided in a series of separate financing tranches over a fixed period. Of the various pilot financing modalities, the multitranche financing facility is the most in demand among clients. From August 2005 to December 2006, 10 multitranche financing facility proposals were submitted to and approved by the Board. Financing made available through this facility amounted to \$5.3 billion. As of 31 December 2006, two loans amounting to \$360 million had been declared effective.

Nonsovereign Public Sector Financing Facility. The nonsovereign public sector financing facility allows ADB to provide loans and guarantees directly to selected nonsovereign public sector entities, without need for a central government or sovereign guarantee. In the first year since the facility was adopted as a pilot instrument, the Private Sector Operations Department has processed two nonsovereign public sector financing facilities: the National Thermal Power Corporation Capacity Expansion Financing Facility in India and the South Sumatra to West Java Phase II Gas Pipeline Project in Indonesia. In both cases, the clients were state-owned enterprises. Staff instructions and guidance notes for nonsovereign public sector financing facilities were issued on 15 December 2006. They reiterate the policy directive that these facilities should be processed in accordance with private sector operations procedures.

Refinancing Facility. Using the refinancing facility, ADB can restructure the existing debt of public, private, or public-private clients who are burdened by a legacy of inappropriate or onerous financing plans. No refinancing transaction has yet been processed and no concept paper for a refinancing transaction has been cleared. There is potential demand for this type of facility, but two factors continue to affect its uptake: skills mix and ability to restructure financing plans, and tight conditions and criteria for its use. As with nonsovereign public

sector financing facilities, refinancing facilities are to be processed in accordance with private sector operations procedures.

As a precondition for the pilot instruments, the independent Risk Management Unit was created in 2005 to evaluate nonsovereign finance transactions. The unit became fully operational in 2006 with respect to credit risk assessment on individual transactions of nonsovereign operations, provision and reserve measurement, credit portfolio management on nonsovereign operations, and market and treasury risk management. The unit reviewed two policies in cooperation with other departments: the loss provisioning policy for nonsovereign operations (jointly with the Controller's Department) and ADB's investment strategy and authority (with the Treasury Department). Completing the risk framework for nonsovereign operations will continue in 2007.

ADB also reviewed and revised its major financial and liquidity policies in 2006 to update and align the financial policies and practices with ADB's business activities and initiatives and to harmonize with best practices. ADB formalized a comprehensive asset and liability management policy framework for managing the financial assets and liability and updated the liquidity policy and investment authority and guidelines.

Procurement and Consulting Services. On 1 January 2005, streamlined procedures became effective for the procurement of goods and services and the engagement of consultants. In February 2006, the Board approved additional amendments to ADB procurement and consulting services policies, which further streamlined the procedures, improved project implementation performance, and responded to borrowers' demands for more flexibility and modernization in procurement and consultant engagement. The revised policies became effective on 1 April 2006.

Country Strategies and Business Processes. In August 2006, Management approved new business processes to improve the preparation of country strategies and programs as well as project processing of sovereign

The innovation and efficiency initiative pilot financing instruments and modalities expand the range of alternatives available in ADB's portfolio of development finance solutions

operations. The improvements will make ADB programming and processing more responsive, relevant, and results oriented by ensuring strategic clarity at the country level and selectivity in operations pipelines, results orientation and operational quality at entry, and procedural efficiency and improvement.

The Strategy and Policy Department, in close consultation with operations and non-operations departments, prepared the operations manual section on country partnership strategy and the detailed country partnership strategy guidelines, which Management finalized and approved in February 2007. The department and the Office of the Secretary prepared templates on the country partnership strategy, partnership strategy midterm review report, and country operations business plan. The entire set of documents was discussed at a workshop conducted on 6–7 November 2006 with staff concerned, including those from resident missions.

Safeguard Policy Update. ADB's review of its safeguard policies continued. These policies—on the environment (2002), indigenous peoples (1998), and involuntary resettlement (1995)—aim to avoid, minimize, mitigate, and/or compensate for any adverse environmental impacts, social costs to project-affected people, or marginalization of vulnerable groups that might result from project interventions supported by ADB. The ongoing review takes into account two special evaluation studies by the Operations Evaluation Department on the environment and involuntary resettlement. ADB also held consultations with representatives of nongovernment, civil society, and indigenous peoples' organizations. The review is expected to be completed in 2008.

PORTRAIT PERFORMANCE AND DEVELOPMENT RESULTS

Another adjustment in the operational model under the second medium-term strategy relates to the enhanced emphasis on project implementation and portfolio performance in the framework of ADB's institutional results agenda. In assessing the effectiveness of development efforts, attention is increasingly focused on country outcomes, and particularly progress toward the Millennium Development Goals. Consequently, the development effectiveness of the strategy will depend on mainstreaming the results agenda in ADB.

Managing for Development Results. ADB continues to make progress in implementing its managing for develop-

ment results agenda at the country and institutional levels and through global partnerships. This is in line with its revised action plan for managing for development results for 2006–2008, approved by Management in August 2006.

ADB approved 13 technical assistance projects to help build capacity in managing for development results in its developing member countries. Some of the projects are funded through the agenda's cooperation fund. A community of practice on managing for development results was launched in March 2006 to help build capacity in developing member countries.

At the institutional level, ADB has adopted a results-based country strategy and program for 11 countries. Strategic planning processes, including the work program and budget framework, the annual report on the poverty reduction strategy, and other policy documents, are now more results oriented. ADB has introduced a curriculum for managing for development results to promote staff learning and development at all levels. Vice presidents now convene regular development effectiveness meetings with department heads to focus on performance and outcomes.

ADB has been active in the global partnership in managing for development results. ADB still chairs the Multilateral Development Bank Working Group on Managing for Development Results and co-chairs the Organisation for Economic Co-operation and Development–Development Assistance Committee Joint Venture on Managing for Development Results. ADB conceived and initiated the



ADB's safeguard policies help avoid marginalization of vulnerable groups

first Multilateral Development Bank Common Performance Assessment System Report and worked with many development partners in sharing knowledge and experience in this area.

Strengthening Project Performance Management Systems.

ADB's enhanced project performance management system helps manage projects for greater development results. It outlines a systematic way of designing and implementing projects. The design and monitoring framework, the key element of the project performance management system, is a results-based tool for analyzing, conceptualizing, designing, implementing, monitoring, and evaluating projects. It structures the project-planning process and helps communicate essential information about the project to stakeholders in an efficient, easy-to-read format. The design and monitoring framework can be applied to the analysis and planning of country programs, and sector strategies, programs, and projects.

Operations manual sections on project performance management systems were issued in January 2006 and *Guidelines on Preparing a Design and Monitoring Framework* was published in March. These guidelines focus on applying the design and monitoring framework at the program, project, and technical assistance levels. The guidelines are being translated into Afghanistan's Dari language, Mandarin (Chinese), Russian, and Vietnamese. Capacity building for officials of developing member countries, executing agencies, and ADB staff focused on the participatory process in designing a project, stakeholder analysis, problem and objectives analyses, results chains, and analysis of alternatives. The results of the participatory process are summarized and presented in a results matrix format in the design and monitoring framework. Workshops and training programs were conducted for ADB staff and for officials in 13 developing member countries: Fiji Islands, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Papua New Guinea, Philippines, Sri Lanka, Tajikistan, Uzbekistan, and Viet Nam. In all, 325 officials from developing member countries and executing agencies, 56 consultants, and 376 ADB staff were trained.

ADB's enhanced project performance management system helps manage projects for greater development results

Improving Portfolio Performance and Results. The Operations Evaluation Department presented its Annual Report on Loan and Technical Assistance Portfolio Performance for 2005 in September 2006. The main recommendation arising from the analyses is to see that the action plan to improve loan and technical assistance portfolio performance is fully implemented. The action plan was prepared by Management in 2005 in response to the previous year's report. Seven action plan items were flagged for importance and are being acted upon. These are a closer alignment of staff and budget allocations with specified output deliverables in the work program and budget framework for 2006–2008, provision of career incentives and development for staff involved in project implementation and portfolio management, improvement in the strategic application of technical assistance resources, more accurate costing of actions to complete project preparatory work, revision of project and technical assistance performance report formats to improve efficacy and efficiency, review of the private sector development strategy and private sector operations, and full functioning of the Risk Management Unit.

Assessing Project Quality.

The Operations Evaluation Department analyzed successful projects in the group-sectors identified in the second medium-term strategy as those where ADB's operations are expected to grow—irrigation and water management, power, water supply and sanitation, education, and roads. Project success rates in these sectors have ranged from 55% to 90%. The analyses found that common factors across sectors contribute to good project performance: strong ownership by governments and executing agencies; continuity of ADB's involvement; an ability to learn lessons and incorporate them into project design; careful project preparation; strong executing agencies that operate in the right policy environment, are autonomous, and have the necessary human resources, technical skills, and access to adequate financing for project implementation and for operation and maintenance; an ability to identify and solve problems during project implementation; a clear unmet demand for the goods and services provided by the project; use of a participatory approach and involvement of stakeholders and beneficiaries in all project phases; successful institutional impacts; and good performance by consultants and contractors.

Improving Country Strategies. Experience in 2005 through early 2006 suggests that the influence of country assistance program evaluations in formulating new country



ADB's enhanced project performance management system helps manage projects for greater development results

partnership strategies has been mainstreamed. The Board does not normally discuss a country strategy and program until after the Development Effectiveness Committee has considered the corresponding country assistance program evaluation and informed the full Board of the committee's views based on the findings.

All country strategies and programs discussed by the Board in 2005 and 2006 were reviewed to assess whether the respective country assistance program evaluations had influenced them. In most instances, the corresponding country assistance program evaluation recommendations were used as inputs.

The lessons from the review of the country strategies and programs discussed by the Board in 2005 fall broadly into 10 areas:

- Future assistance should be prioritized based on selectivity and focus, with successful ADB performance in a sector as one key criterion.
- Country strategies and programs should be results based—the lack of monitorable indicators made it difficult to evaluate past strategies and programs.
- Success has been greatest when ADB maintains a long-term involvement in a sector and combines programs of capacity building with investment support.
- Projects and programs using relatively simple designs that are rooted in local conditions are more likely to succeed than complex interventions.
- Steps must be taken to strengthen the impact of the technical assistance used to support policy reform, capacity building, and institutional strengthening.
- ADB should deepen its relationships with broader

society as this enhances ownership and often helps achieve better development results.

- ADB should intensify its coordination with development partners and stakeholders.
- Governance, including the need to control corruption, should be explicitly addressed in country strategies and programs, and not just as a crosscutting theme.
- The understanding of corruption and the risks that it has for ADB operations remains superficial in country strategies and programs.
- Failure of project designs to recognize and address institutional weaknesses in implementing agencies early on leads to weak project performance.

Promoting Quality at Entry. An interdepartmental panel reported on quality at entry of ADB projects and country strategies approved during 2004–2005. For projects, the panel said that improvements to overall project quality at entry will occur if particular attention is paid to implementation arrangements, fiduciary matters, risk, and policy and institutional aspects. Regarding country strategies, it noted that thematic country diagnostics are usually comprehensive but that they tend to be descriptive rather than analytical. Sector diagnostics tend to be inadequate or missing. A common problem is that diagnostic work is insufficiently distilled to identify a set of constraints on development, which should provide the focus of ADB's operations.

In 2007, the Operations Evaluation Department will conduct a special evaluation study on the effectiveness of ADB's loan-processing system by documenting the expe-

rience and insights of ADB mission leaders and officials of developing member countries. The study will identify issues that impinge on the effectiveness of ADB's loan-processing system, evaluate the system's effectiveness in screening projects and facilitating incorporation of lessons into new operations, and recommend improvements. It may also explain why the average number of months from fact finding to Board approval has remained constant, at about 24 months, despite the introduction of revised business processes in 2001 (Table 1).

COOPERATION FUNDS

ADB continued to manage several Special Funds in 2006: the Asian Development Fund; Technical Assistance Special Fund; Japan Special Fund, including the Asian Currency Crisis Support Facility; ADB Institute Special Fund; Asian Tsunami Fund; and Pakistan Earthquake Fund.

In addition, ADB also managed and administered the Japan Scholarship Program, Japan Fund for Poverty Reduction, Japan Fund for Information and Communication Technology, and channel financing arrangements of a number of cooperation funds provided by bilateral donors to support technical assistance and soft components of loans. The cooperation funds supplement ADB's regular resources and help it respond more effectively to the needs of its developing member countries.

ADB administered 34 funds financed by its member countries, of which 20 were single-donor funds and 14 multi-donor thematic funds. The thematic funds supplement ADB funding in priority thematic areas, such

as poverty reduction, governance, gender, HIV/AIDS, natural disasters, and others. The 34 funds include the Asian tsunami and Pakistan earthquake special funds, established in 2005 as Special Funds with ADB as the initial sole contributor but with the possibility for other donors to join. Subsequently, external donors joined these funds, agreeing to ADB's administration of their respective contributions.

Four single-donor trust funds were established in 2006. The Republic of Korea contributed \$20 million to the e-Asia and Knowledge Partnership Fund. The ADB–Australia South Asia Development Partnership Facility was set up with an initial Australian contribution of \$8.5 million equivalent. Luxembourg made an initial commitment of \$1.8 million to the Financial Sector Development Partnership Fund. Denmark contributed \$3.6 million equivalent to the Second Cooperation Fund for Renewable Energy and Energy Efficiency in Rural Areas.

In addition, ADB approved the Water Financing Partnership Facility, which will accept resources from bilateral, multilateral, and corporate sources to boost ADB's water financing program in its developing member countries. Such resources may be provided through project-specific loans, grants, guarantees, or other forms of assistance. In response to the need for significant investments needed in the water sector and recommendations made by the independent panel that reviewed the implementation of ADB's water policy, ADB announced, at the fourth World Water Forum in March 2006, the Water Financing Program 2006–2010. The program seeks to make water a core investment area for ADB. Under the program, ADB proposes to double its water investments to over \$2 billion annually, combined with reforms and capacity building.

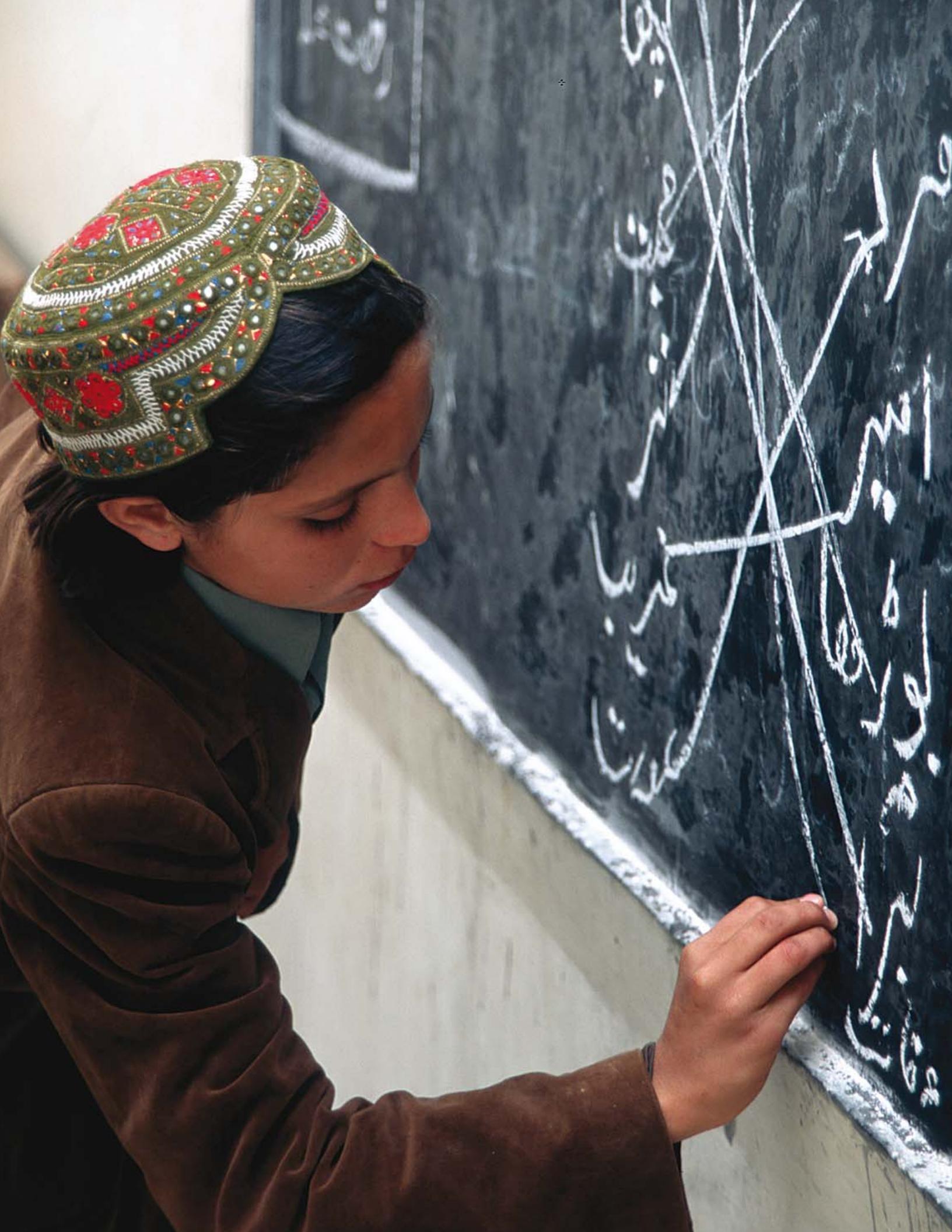
Some existing funds were replenished during the year. Spain contributed \$30.0 million equivalent to the multi-donor Asia Pacific Carbon Fund. Finland provided the equivalent of \$5.5 million to the Pakistan Earthquake Fund and Norway contributed to the fund through a swap-to-development modality by converting \$20.0 million equivalent in outstanding loan repayment obligations into a grant to be administered by ADB. Ireland joined ADB and the Governance Cooperation Fund in 2006, contributing \$1.0 million equivalent to the fund. It also contributed \$1.0 million to the Gender and Development Cooperation Fund. The Canadian Cooperation Fund on Climate Change was replenished with the equivalent of about \$200,000.

**TABLE 1 Average Processing Time
Average Number of Months from Fact Finding
to Board Approval**

Year	Sovereign Loan Projects	Private Sector Operations ^a	Grants
1998	21	9	—
1999	26	14	—
2000	26	9	—
2001	24	10	—
2002	25	9	—
2003	27	6	—
2004	23	6	—
2005	23	12	8
2006	22	8	12

— = data not applicable.

^a Concept clearance date is used where the fact-finding date is not available.



FINANCING OPERATIONS

FINANCIAL RESOURCES

Authorized and subscribed capital stock amounted to \$53.2 billion as of 31 December 2006. ADB raised funds totaling \$5.6 billion, of which \$1.0 billion was raised through a global public offering as of 31 December 2006.

Gross income, which includes revenue and net realized gains, amounted to \$1.9 billion, \$1.2 billion of which was generated from the loan portfolio, \$573.1 million from the investment portfolio, and \$136.4 million from other sources, of which \$105.0 million came from equity investment operations.

ADB's Special Funds are the Asian Development Fund (ADF) with 2006 committed resources amounting to \$1.3 billion, Technical Assistance Special Fund with \$89.4 million, Japan Special Fund with \$35.2 million, ADB Institute Special Fund with \$11.3 million, Asian Tsunami Fund with \$15.3 million, and Pakistan Earthquake Fund with \$28.5 million.

FUNDING

About 73% of cumulative lending is from ordinary capital resources (OCR). Funding from the OCR comes from three distinct sources: private placements and capital markets in the form of borrowing; paid-in capital provided by shareholders; and accumulated retained income (reserves), which provides a buffer for risks.

The main instruments for providing help to ADB's developing member countries are policy dialogues, loans, equity investments, guarantees, grants, and technical assistance.

ADB offers a range of modalities and terms for loans aimed at improving performance.

Loans are also provided from Special Funds. The ADF offers loans on concessional terms to members with low per capita gross national product and weak debt-repayment capacity. It is the only multilateral development bank concessional fund dedicated exclusively to economic and social development in the Asia and Pacific region. The ADF is financed by periodic voluntary contributions from donors. The current and eighth replenishment of the ADF (ADF IX) program is \$7 billion for 1 January 2005–31 December 2008. ADF IX grants are helping countries reduce the debt burden of development finance,

make the transition from conflict to peace and stability, and combat HIV/AIDS and other infectious diseases.

ADB also manages and administers Special Funds (see pages 29–30) and grants provided by bilateral and multilateral donors to support technical assistance and soft components of loans. In recent years, thematic trust funds were established focusing on gender and development, governance, poverty reduction, water, energy, and the environment.

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

ADB has a triple-A credit rating and actively mobilizes financial resources through its cofinancing operations, tapping official, commercial, and export credit sources. Assistance to its developing member countries creates an enabling environment for private sector development. ADB also directly finances private sector projects to assist commercial investors and lenders.

OVERVIEW OF OPERATIONS

ADB approved 80 loans (67 projects) for \$7.4 billion, 14 equity investments for \$260.5 million, 3 guarantees for \$124.8 million, 5 syndication operations for \$530.0 million, 43 grant projects for \$538.4 million, 260 technical assistance projects for \$241.6 million, and 8 multitranche financing facilities for \$3.8 billion.

LOANS

Sovereign lending amounted to \$6.8 billion in 71 loans (59 projects and programs), comprising 26 loans from ADB's OCR for \$5.5 billion, and 45 loans from the ADF for \$1.3 billion. These amounts include six OCR loans for \$930.8 million and three ADF loans for \$30.0 million from the multitranche financing facilities. Overall, sovereign lending increased by 30% over the \$5.2 billion approved in 2005 (an increase of 43% for OCR lending and decrease of 6% for ADF lending). Two nonsovereign public sector loans to state-owned enterprises for \$150.0 million were approved. Seven nonsovereign loans (six projects) to the private sector for \$425.0 million were also approved—17% less than the \$513.0 million that went to six loans (six projects) in 2005.

Of the 67 projects and programs approved, 18 (27%) were targeted interventions, and 49 (73%) were general interventions. Sustainable economic growth was the most prevalent theme and was associated with 57 projects. Finance received the largest share of lending (24%) (Table 3).

The 52 projects approved will result in total investments of about \$17.5 billion: \$4.3 billion (25%) will be financed by ADB; \$4.9 billion (28%) by governments and borrowers; \$8.2 billion (47%) by cofinanciers, equity sponsors, and local financial institutions; and \$22.3 million (0.1%) by project beneficiaries. Four projects, amounting to \$314.2 million, will be financed under sector lending, compared with eight projects amounting to \$1.0 billion in 2005.

The 15 policy-based programs approved in 2006 were valued at \$3.2 billion, compared with 10 programs for

TABLE 2 Top Recipients by Approval, 2006
(\$ million)

Recipient	Loans				
	Sovereign	Nonsovereign	TA	Grants	Total
China, People's Rep. of	1,522.00	50.00	13.58		1,585.58
Pakistan	1,535.80		7.60	34.50	1,577.90
India	1,260.00	275.00	30.57	5.00	1,570.57
Indonesia	709.80	75.00	7.05	36.56	828.41
Philippines	650.00		4.65	4.40	659.05
Viet Nam	308.19		16.52	32.49	357.21
Bangladesh	255.10		5.71	56.70	317.51
Afghanistan	113.20	40.00	7.95	151.20	312.35
Nepal	86.00		6.38	84.90	177.28
Kazakhstan		125.00	0.60		125.60
Regional			102.24	25.00	127.24
Other DMCs	381.20	10.00	38.77	107.65	537.62
Total	6,821.29	575.00	241.63	538.40	8,176.32

DMC = developing member country, TA = technical assistance.

Note: Totals may not add up because of rounding.

\$1.1 billion in 2005. Four program loans approved were coupled with an investment project loan.

EQUITY OPERATIONS

Fourteen equity investments for \$260.5 million were approved, compared with eight for \$196.5 million in 2005.

COFINANCING AND GUARANTEE OPERATIONS

Total direct value-added cofinancing amounted to \$1.5 billion for 103 projects, of which \$1.4 billion was for 29 investment projects and \$92.7 million was for 74 technical assistance projects. Direct value-added cofinancing

TABLE 3 Operations by Sector, 2005–2006

Sector	Loans				Grants			
	2005		2006		2005		2006	
	\$ million	%	\$ million	%	\$ million	%	\$ million	%
Agriculture and Natural Resources	301.21	5	807.17	11	67.28	6	133.60	25
Education	58.06	1	250.90	3	34.57	3	46.66	9
Energy	1,073.80	19	1,369.50	19	28.50	2	3.00	1
Finance	261.22	5	1,787.00	24	2.00	0.2	72.05	13
Health, Nutrition, and Social Protection	57.90	1	—	—	92.18	8	71.99	13
Industry and Trade	25.00	0.4	10.00	0.1	2.70	0.2	0.50	0.1
Law, Economic Management, and Public Policy	778.00	14	220.00	3	8.30	1	8.30	2
Transport and Communications	1,722.80	30	1,433.20	19	70.80	6	131.40	24
Water Supply, Sanitation, and Waste Management	618.00	11	638.82	9	28.00	2	1.00	0.2
Multisector	864.62	15	879.70	12	815.60	71	69.90	13
Total	5,760.61	100	7,396.29	100	1,149.93	100	538.40	100

— = no data available.

Note: Totals may not add up because of rounding.

TABLE 4a Direct Value-Added Cofinancing Arrangements, 2003–2006

(\$ million)

	2003			2004			2005			2006		
	Sovereign	Nonsovereign	Total									
Investment Projects												
Guarantees	65.0	105.0	170.0	0.0	10.0	10.0	18.4	50.0	68.4	0.0	124.8	124.8
Syndications	0.0	70.0	70.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	530.0	530.0
Grants	404.0	0.0	404.0	68.2	0.0	68.2	223.4	0.0	223.4	166.1	0.0	166.1
Official Loans	77.0	0.0	77.0	142.0	0.0	142.0	30.5	0.0	30.5	569.2	0.0	569.2
Subtotal	546.0	175.0	721.0	210.2	10.0	220.2	272.3	50.0	322.3	735.3	654.8	1,390.1
Technical Assistance Projects												
Grants	67.9	0.0	67.9	75.2	0.0	75.2	78.9	0.0	78.9	92.7	0.0	92.7
Total DVA Cofinancing	613.9	175.0	788.9	285.4	10.0	295.4	351.2	50.0	401.2	828.1	654.8	1,482.9

DVA = direct value added.

TABLE 4b Direct Value-Added Cofinancing Arrangements, 2003–2006

(number of projects^a)

	2003			2004			2005			2006		
	Sovereign	Nonsovereign	Total	Sovereign	Nonsovereign	Total	Sovereign	Nonsovereign	Total	Sovereign	Nonsovereign	Total
Investment Projects												
Guarantees	1	1	2	0	1	1	1	1	2	0	3	3
Syndications	0	1	1	0	0	0	0	0	0	0	5	5
Grants	2	0	2	6	0	6	12	0	12	12	0	12
Official Loans	3	0	3	7	0	7	3	0	3	11	0	11
Subtotal	6	2	8	13	1	14	15	1	16	22	7	29
Technical Assistance Projects												
Grants	87	0	87	96	0	96	95	0	95	74	0	74
Total	93	2	95	109	1	110	110	1	111	96	7	103

DVA = direct value added.

a A project with more than one source of cofinancing is counted as one.

Table 5 Top Recipients of Grants by Approval,^a 2006

Country	\$ million
Afghanistan	151
Nepal	85
Bangladesh	57
Indonesia	37
Pakistan	34
Viet Nam	32
Solomon Islands	25
Lao PDR	22
Papua New Guinea	22
Sri Lanka	17
Other DMCs	31
Regional	25
Total	538

DMC = developing member country.

a Includes cofinanced grants.

Table 6 Top Recipients of Technical Assistance by Approval, 2006

(\$ million)

Country	TASF	JSF	Others	Total	%
India	6.00	2.30	22.27	30.57	12.7
Viet Nam	4.03	4.00	8.49	16.52	6.8
China, People's Rep. of	12.66	–	0.93	13.58	5.6
Afghanistan	6.95	–	1.00	7.95	3.3
Pakistan	2.20	5.40	–	7.60	3.1
Indonesia	5.27	1.48	0.30	7.05	2.9
Nepal	1.30	2.45	2.63	6.38	2.6
Cambodia	1.80	3.15	1.30	6.25	2.6
Bangladesh	2.00	3.45	0.26	5.71	2.4
Philippines	2.55	1.60	0.50	4.65	1.9
Other DMCs	12.27	13.73	7.12	33.12	13.7
Regional	35.27	19.03	47.95	102.24	42.3
Total	92.30	56.59	92.74	241.63	100.0

DMC = developing member country, JSF = Japan Special Fund, TASF = Technical Assistance Special Fund

Note: Totals may not add up because of rounding.

Table 7 Resource Transfers to Developing Member Countries

(\$ million)

	2005	2006
OCR		
Loan Disbursements	3,498	4,420
Principal Repayments ^a	(3,491)	(1,736)
Payments of Interest/Charges	(1,041)	(1,185)
Net Equity Investment	47	(14)
Net	(987)	1,486
ADF		
Loan Disbursements	1,247	1,338
Principal Repayments	(434)	(468)
Payments of Interest/Charges	(201)	(204)
Net	612	666
Total	(375)	2,152

() = resource inflow from developing member countries, ADF = Asian Development Fund, OCR = ordinary capital resources.

a Includes prepayments of \$460.3 million (\$597.4 million in 2005).

for investment projects comprised \$124.8 million for 3 guarantee operations, \$530.0 million for 5 syndication operations, \$166.1 million for 12 grant operations, and \$569.2 million for 11 official loan cofinancing operations (Tables 4a and 4b). Nondirect value-added cofinancing amounted to about \$4.5 billion in the form of parallel grants and loans for 20 ADB-financed projects and programs.

GRANTS

ADB approved 43 grant projects for \$538.4 million in 2006 (Table 5). Of this amount, \$274.9 million was funded from the ADF IX; \$28.5 million from the Asian Tsunami Fund and Pakistan Earthquake Fund; and \$235.0 million from external sources with full or partial administration by ADB, comprising \$67.9 million from the Japan Fund for Poverty Reduction, \$1.0 million from the Japan Fund for Information and Communication Technology, and \$166.1 million from other bilateral and multilateral sources (Australia, Canada, Finland, Republic of Korea, the Netherlands, New Zealand, Norway, Sweden, Switzerland, and United Kingdom).

Of the 43 grant projects, sustainable economic growth was the most prevalent theme and was associated with 25 projects. Agriculture and natural resources received the largest share among the sectors (25%) (Table 3).

In addition, parallel grants of \$111.9 million were provided from multilateral and bilateral institutions without ADB administration services for five ADB-financed projects.

TECHNICAL ASSISTANCE

ADB approved a total of 260 technical assistance projects for \$241.6 million, including 234 new projects and 26 supplementary projects. This amount is 21.7% more than the \$198.5 million for the 299 projects approved in 2005. Of the 260 technical assistance projects, 73 were for project preparation, 98 were advisory, and 89 were for regional assistance. Of the total amount approved, \$92.3 million was financed from the Technical Assistance Special Fund, \$56.6 million from the Japan Special Fund, and the remaining \$92.7 million from other multilateral and bilateral sources (Table 6).

MULTITRANCHE FINANCING FACILITIES

Eight multitranche financing facilities totaling \$3.8 billion were approved in 2006, compared with two for \$1.5

billion in 2005 (see *The Record*). These were one facility (\$430.0 million) for Bangladesh, three (\$1.1 billion) for India, three (\$2.2 billion) for Pakistan, and one (\$50.0 million) for the People's Republic of China (PRC).

RESOURCE TRANSFERS

The year showed significant improvement in disbursement, compared with the past 10 years. In discussions with borrowers, countries highlighted the need for ADB to expand support for poverty reduction programs. The Board discussed a range of new financial mechanisms and business procedure reforms under the innovation and efficiency initiative to respond to client demands.

Compared with the net inflow of \$0.4 billion to ADB from its developing member countries in 2005, there was a net transfer of resources of \$2.2 billion from ADB to its developing member countries. There was a net transfer of \$1.5 billion from ADB to OCR borrowers/investors. The four countries with largest net resource transfers were the PRC, Pakistan, Philippines, and India.

Loan disbursements totaled \$5.7 billion compared with \$4.7 billion in 2005. Of the total, OCR disbursements were \$4.4 billion or 77% and ADF disbursements were \$1.3 billion or 23% (Table 7).

Loan service payments reached \$3.6 billion in 2006, compared with \$5.2 billion in 2005. The decrease was mainly because of the bullet repayment of the financial sector program loan to the Republic of Korea of \$1.7 billion in 2005.

NONSOVEREIGN OPERATIONS

ADB approved a total of 21 financial markets and infrastructure nonsovereign projects providing \$1.4 billion in assistance in 2006 (Table 9). The interventions are composed of 14 equity investments of \$260.5 million,

7 private sector loans of \$425.0 million, of which \$75.0 million has been reinsured, 2 public sector loans of \$150.0 million, two partial credit guarantees of \$109.8 million, a political risk guarantee of \$15.0 million, and \$455.0 million in commercial loans under ADB's B-loan program (Table 9), of which \$105.0 million is for B-loans for private sector projects and \$350.0 million is for B-loans for public sector projects.

As of 31 December 2006, the overall exposure of nonsovereign operations amounted to about \$2.6 billion, consisting of \$915 million in equity investments, loans of \$1.3 billion, and guarantees of \$401 million. ADB's nonsovereign exposure is largest in the infrastructure sector with a total of \$1.2 billion in exposure, followed by exposure to the financial sector of \$822 million, investment funds and capital markets of \$446 million, and exposure to other sectors at \$110 million.

The exposure of nonsovereign operations is the largest in the PRC (21%), followed by Indonesia (14%), India (13%), and Kazakhstan (9%). Regional projects account for roughly 10% of the total.

Table 8 Cumulative Nonsovereign Operations by Top Countries, 1983–2006^a
(\$ million)

India	1,026
China, People's Rep. of	766
Indonesia	729
Pakistan	505
Philippines	448
Thailand	319
Viet Nam	255
Bangladesh	242
Sri Lanka	232
Kazakhstan	225
Other DMCs	330
Regional	830
Total	5,906

DMC = developing member country.

a Net of full cancellations before effectivity.

Table 9 Nonsovereign Operations, 2003–2006^a
(\$ million)

	2003	2004	2005	2006
Loan	167	93	513	575
Equity	36	164	197	261
Partial Credit Guarantee	170	–	18	110
Political Risk Guarantee	–	10	50	15
B-loan	170	–	–	455
Total Approvals	543	267	778	1,415
Total Project Cost	2,300	2,228	8,776	8,586

– = nil, B-loan = an ADB loan funded by third parties without recourse to ADB (see Glossary, page 122).

a Net of full cancellations before effectivity.



OPERATIONS OVERVIEW

For the second year running, ADB scaled up its assistance to its developing member countries. It also continued to increase its development effectiveness through internal reform initiatives and external efforts to harmonize strategies, programs, and procedures with other multilateral development banks and bilateral donors. ADB's operations reflected the priorities of its second medium-term strategy: catalyzing investment, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and preventing corruption.

CATALYZING INVESTMENT

Financing infrastructure development in the Asia and Pacific region poses a challenge that can only be met by involving the private sector. ADB provides funds, makes equity investments, and catalyzes financing from other sources to support infrastructure development.

ADB's nonsovereign operations supported the infrastructure, capital market, and banking sectors, among others. ADB approved 21 nonsovereign projects (projects without sovereign guarantee), totaling \$1.4 billion in assistance, an 81.9% increase over the \$777.9 million approved in 2005. The projects were in the form of traditional direct lending amounting to \$575.0 million, equity investments of \$260.5 million, a political risk guarantee of \$15.0 million, two partial credit guarantees amounting to \$109.8 million, and commercial cofinancing through B-loans totaling \$455.0 million.

For the first time, ADB supported private sector projects in the Central Asian republics of Azerbaijan and Kazakhstan. It also approved its first nonsovereign public sector loans: \$75 million to increase power generation capacity in India and \$75 million to transport gas from South Sumatra to West Java in Indonesia. For the India loan, ADB leveraged three times its own loan (\$75 million from ADB's own resources and \$225 million to be underwritten and syndicated from international commercial banks through the B-loan), showing ADB's commitment to crowd in private lenders. The loan will help fund two projects in Chhattisgarh and Bihar states,

which will add 4,480 megawatts of electricity to India's national grid in 2006–2009. The Bihar project mobilized an additional \$125 million from commercial banks as well as Kreditanstalt für Wiederaufbau (KfW) and the Islamic Development Bank.

ADB's private sector portfolio has improved significantly. As of the end of the year, the impaired portfolio had been reduced to 4% of the total private sector outstanding portfolio, compared with 9% in 2005. With a fully functioning independent risk management group rigorously screening nonsovereign projects at point of entry, the quality of the private sector portfolio is expected to improve further. Impaired projects are being monitored closely by a work-out team and continue to be sold or disposed of.

A \$400 million program loan to Pakistan will establish a comprehensive framework to address key policy, regulatory, and institutional constraints on private sector investment in the power, transport, and water sectors and eventually help mobilize private sector resources for them.

ADB focused on encouraging public–private partnerships and private investment through projects in railways (Cambodia, \$42.0 million); infrastructure reform (Indonesia, \$426.5 million); forest plantation development (Lao People's Democratic Republic, \$10.0 million); financial market regulation and intermediation (Philippines, \$200.0 million); and power sector development (Philippines, \$450.0 million), among others.

ADB focuses particularly on investments to support rural development

STRENGTHENING INCLUSIVENESS

The second medium-term strategy emphasizes strengthening inclusive patterns of growth and social development to enable disadvantaged groups to benefit equitably from the opportunities that development provides. The strategy focuses particularly on investments to support rural development—as the vast majority of the poor remain in rural areas—as well as investments in key social development interventions.

ADB invested substantially in projects that supported rural road construction (India, Papua New Guinea, People's Republic of China [PRC]); rural water supply systems (Sri Lanka); irrigation (Pakistan); rural finance (India); and rural electrification (PRC). About a quarter of approved loans cited inclusive social development as a theme. ADB strengthened inclusiveness through projects to develop education (Bangladesh, Indonesia, Lao People's Democratic Republic [Lao PDR], Mongolia, Nepal, and Viet Nam); improve the environment (India); reduce poverty (Viet Nam); and support sustainable livelihoods through livestock development (Lao PDR).



ADB invested substantially in rural finance projects in India



Safe water, sanitation, and responsible environmental management are all ADB priorities

REGIONAL COOPERATION AND INTEGRATION

In cooperation with governments in the region, ADB drew up its first regional cooperation strategy and program for South Asia (2006–2008). The ADB-supported South Asia Subregional Economic Cooperation Program took a major step in developing four investment projects for information and communications technology, tourism, transport, and trade. ADB also supported studies and cooperation activities of the South Asian Association for Regional Cooperation and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation in transport and energy.

The Central Asia Regional Economic Cooperation program took a major step forward in October 2006 when ministers endorsed its comprehensive action plan. The

ADB's private sector portfolio has improved significantly. As of the end of the year, the impaired portfolio had been reduced to 4% of the total private sector outstanding portfolio, compared with 9% in 2005

plan presents a detailed forward-looking framework for cooperation among the eight participating countries of the region and includes a pipeline of 42 projects in 2006–2008 with anticipated financing of more than \$2.3 billion from the program's six multilateral partners.

ADB endorsed a new regional cooperation strategy and program update and subsequently approved 2 loans and 11 technical assistance projects for the Greater Mekong Subregion (GMS). ADB supported studies and cooperation programs in transport, trade facilitation, energy, agriculture, and environmental management.

In East Asia, ADB is facilitating a number of cooperation initiatives between the PRC and Mongolia.

In the Pacific, ADB continued to help eight of its members establish the multi-country Pacific Aviation Safety Office. The project is financed through a public sector regional loan to an intergovernmental organization, supported by guarantees of its member countries.

In the Pacific, ADB recognizes that with the endorsement of the Pacific Plan by 16 Forum island countries in October 2005, the time is ripe to promote regional cooperation. The Pacific Plan is an evolving document which presents initiatives supporting the achievement of four strategic goals—economic growth, sustainable development, good governance, and security. ADB has directly supported implementation of the Pacific Plan in 2006 through approval of two regional technical assistance projects to strengthen regional cooperation among Pacific developing member countries, and governance and financial management in these countries.

In 2006, 42.3% of ADB's technical assistance—\$102.2 million—supported regional initiatives.

MANAGING THE ENVIRONMENT

To ensure compliance with its safeguard policies, ADB reviewed all projects before Board consideration. In a review of 81 projects and equity investments approved in 2006, ADB found that 55 projects required the preparation of environmental assessment reports and management system frameworks, 20 required the preparation of a plan or framework or specific actions for indigenous peoples, and 35 required resettlement plans and frameworks—to address potential adverse impacts on the environment and affected people. ADB issued revised operational procedures for each of the three safeguard policy areas, taking into account the new disclosure requirements of the recently approved public communications policy. ADB organized orientation and training for its own staff and developing

member country officials on safeguard requirements. It also enhanced knowledge capture and dissemination through regular updates of its websites on the environment, involuntary resettlement and indigenous peoples, and safeguards.

ADB continued to enhance legal frameworks and capacity development related to involuntary resettlement in Bangladesh, Cambodia, Nepal, and Sri Lanka. As a continuing commitment to global dialogue on indigenous peoples' issues, ADB participated in the Fifth Session of the United Nations Permanent Forum on Indigenous Issues, which highlighted the need to redefine the Millennium Development Goals to include indigenous peoples' concerns.

Of the 67 projects approved in 2006 (excluding equity investments), 17 (25%) had environmental sustainability as a theme—up from 10 (16%) in 2005. Total ADB assistance for the 17 projects amounted to \$1.6 billion (22% of total ADB funds), twice the \$794 million (14%) committed in 2005.

Nearly half of ADB funds (44%) approved aimed to improve urban environments by providing or rehabilitating water supply, sanitation, and waste management systems. More than 30% of ADB funds supported cleaner production processes and controlled industrial pollution. Other projects helped conserve natural resources.

Several approved technical assistance projects aimed to strengthen capacity, start policy reforms, make project implementation more effective, and help achieve the Millennium Development Goals, among others. For example, ADB will help the Government of the PRC establish the Clean Development Mechanism Fund by designing a governance structure and building its initial operational capacity. ADB is financing a study to help Bangladesh, Bhutan, India, and Nepal improve and develop policy and regulations for managing hazardous wastes.

ADB is working in partnership with other institutions. The Global Environment Facility provided \$9 million in cofinancing for a coastal resources management project in the Philippines and a commitment of \$20 million in grant support for the first phase of the ADB-led Central Asian Countries Initiative for Land Management.

The Asian Environmental Compliance and Enforcement Network, established by ADB and the United

States Agency for International Development on the premise that sustainable development depends on good governance, supported pilot activities, including regional training and consultation to develop national environmental compliance and enforcement indicators in the Philippines, Thailand, and Viet Nam. During the network's first annual forum held in Ha Noi, Viet Nam, participants discussed general principles for compliance and enforcement tailored to Asia, and lessons from country case studies.

The Clean Air Initiative for Asian Cities progressed well, with rapid expansion of country-level air quality analysis and investment planning. The Better Air Quality Conference held in Yogyakarta, Indonesia, highlighted the success of Asian countries, cities, and communities in reducing air pollution, and efforts needed to improve air quality.

The Poverty and Environment Program continued to accelerate learning on the link between environment and poverty, and effective approaches for poverty reduction. ADB's Poverty and Environment Net website—a repository of successful poverty and environment strategies, programs, and projects—has become a much sought-after knowledge management tool inside and outside the region.

IMPROVING GOVERNANCE AND PREVENTING CORRUPTION

ADB is committed to working with its client countries to improve governance and reduce vulnerability to corruption, which is key to reducing poverty.

Eighteen of 67 approved public and private sector loan projects and 85 technical assistance projects had improving governance as a theme. Assistance to strengthen governance in developing member countries totaled \$2.7 billion, including technical assistance to improve public auditing capacity in Pacific island member countries and to help develop the Afghanistan National Development Strategy (including support to develop a national anticorruption strategy); preparation of a governance reform and decentralization cluster program in Nepal; and a program cluster to support the Development Policy Support Program of Indonesia, which, among other things, will strengthen the public financial management and anticorruption framework and improve the delivery of public services.

ADB's five regional departments have begun to implement the second governance and anticorruption action plan. Preparations have begun to apply this action plan to five new country partnership strategies scheduled for completion in

Nearly half of technical assistance aimed to provide or rehabilitate water supply, sanitation, and waste management systems



Involving stakeholders strengthens their support for, and reduces challenges to, ADB-assisted activities

2007. Initial assessments of governance, institutional, and corruption risks have been completed for projects and programs with a high perceived exposure to governance issues. One such assessment, for example, was for a rural cooperative credit restructuring and development program in India.

ADB approved the revised *Guidelines on the Use of Consultants* and *Procurement Guidelines* in 2006. They are now substantially harmonized with those of the Inter-American Development Bank and the World Bank, and streamline ADB's procurement processes, enhance their transparency, and allow greater flexibility in procurement for experienced executing agencies. The guidelines include a provision for declaring misprocurement when agreed procedures are not followed, and contain harmonized definitions of corrupt, fraudulent, coercive, and collusive practices.

Ensuring adequate project implementation capacity is the responsibility of ADB's borrowers and requires a commitment to provide resources, develop skills, and put in place the necessary systems and procedures. ADB has introduced a number of measures for borrowers to assess

and improve their procurement capacity. These measures include executing agency capacity assessment, training to develop a project procurement plan, and improvement of executing agency staff's skills in project implementation through seminars and customized training programs. An important role of executing agency capacity assessment is to evaluate the project risks that may hinder the ability of an executing agency to carry out effective, efficient, and transparent procurement. Assessments will feed into plans to develop institutional capacity to mitigate such risks, and a procurement plan commensurate with the capacity of each executing agency. ADB introduced capacity assessment with executing agencies and procurement plans, and will expand activities in 2007.

ADB's NGO Center approved small grants amounting to \$150,000 to nonprofit, nongovernment groups in Mongolia, Pakistan, and the Philippines to pilot-test and demonstrate the relevance and impact of nongovernment mechanisms and approaches to improving transparency and accountability and fighting corruption.



FOOD
FOR YOU

CENTRAL AND WEST ASIA

Afghanistan, Armenia, Azerbaijan, Kazakhstan,
Kyrgyz Republic, Pakistan, Tajikistan,
Turkmenistan, Uzbekistan

ADB's Central and West Asia Department was established on 1 May 2006. It includes members from the Caucasus, Central Asia, and two countries from the previous South Asia Department.

These countries lie at the heart of an increasingly integrated Eurasian continent. Surrounded by opportunity, the area is growing rapidly. Its countries are also examining how best to work together to turn potential into shared and sustainable economic prosperity.

The area's strong economic growth comes amid efforts to develop the private sector, further the transition toward a market system, and deal with conflict. A large percentage of the population in many countries also continues to live on less than \$2 a day.

ADB assistance supports actions to encourage productive economic activity, provide and promote public goods and services, and facilitate private sector development. ADB finance covers financial market development, energy security, connectivity, urban services improvement, and agriculture productivity.

ADB approved 23 loans for Central and West Asia totaling \$1.9 billion, an increase of 57% from the annual average of \$1.2 billion during 2001–2005. Total lending to the subregion comprised \$1.6 billion from ADB's ordinary capital resources (OCR), and \$274.8 million in Asian Development Fund (ADF) loans (Table 12). ADF grants in 2006 totaled \$106.5 million. In addition, 43 technical assistance grants totaling more than \$33.0 million and 7 projects financed from the Japan Fund for Poverty Reduction totaling \$49.5 million were approved in 2006.

Of the assistance, 80% went to Pakistan, for which 13 loans totaling \$1.5 billion were approved. Two public sector investments and one

nonsovereign loan totaling \$153.2 million were approved for Afghanistan. Two loans totaling \$125.0 million were approved for Kazakhstan, two loans totaling \$27.0 million for Tajikistan, two loans totaling \$60.2 million for Uzbekistan, and one loan amounting to \$10.0 million for Azerbaijan.

Lending to Pakistan included seven blended loans (OCR and ADF) under multitranche financing facilities. These transactions accounted for \$758.8 million in lending in 2006 and involved total anticipated lending of \$3.0 billion in the coming years. Cumulative lending for the region amounted to \$20.1 billion (Table 11).

In line with the priorities set out in the second medium-term strategy and the regional cooperation and integration strategy, the Central and West Asia Department continued its active support for the Central Asia Regional Economic Cooperation Program, an alliance of eight countries and six multilateral institutions that promotes cooperation and integration in transport, energy, and trade. The program adopted a comprehensive action plan, marking a transition to a results-oriented program with tangible targets and outputs, based on strong country ownership, pragmatic approaches, and mutual accountability.

One regional project was approved during the year. The \$56.5 million Regional Power Transmission Interconnection Project will tap Tajikistan's power surplus to meet serious shortfalls in neighboring Afghanistan. The project will construct a 220-kilovolt double-circuit transmission line

Contract awards topped \$1.2 billion and disbursements reached \$1.0 billion in 2006, both up substantially from 2005

TOP 5 ACHIEVEMENTS IN 2006

- Established the Central and West Asia Department and developed strategic directions
- Continued to increase the department's contract awards and disbursements
- Focused policy-based lending in Pakistan on encouraging private sector participation in infrastructure development and improving access to finance
- Approved a regional power interconnection project that will bring power from Tajikistan to Afghanistan
- Adopted the Central Asia Regional Economic Cooperation Comprehensive Action Plan

linking the hydropower stations on Tajikistan's Vakhsh River to Kunduz and, ultimately, to Kabul, Afghanistan. The total net economic benefits from the project are estimated at \$114.0 million, split fairly evenly between the two countries.

Portfolio Management

Contract awards topped \$1.2 billion and disbursements reached \$1.0 billion in 2006, both up substantially from 2005. Program loan tranche releases to Pakistan in the last quarter contributed to this performance. Pakistan accounts for 85% of the department's total contract awards and 79% of disbursements (Table 10). The department took a number of initiatives to improve project supervision and portfolio management, including a special review of the portfolio, establishment of a project administration unit network, and the initiation of regular portfolio review meetings at the division and department levels.

TABLE 10 Central and West Asia: Portfolio Performance Indicators for Sovereign Lending, 2005–2006

Country	No. of Ongoing Loans (as of Dec 2006)	Contract Awards/Commitments		Disbursements		Loans at Risk	
		2006 (\$ million)	2005 (\$ million)	2006 (\$ million)	2005 (\$ million)	2006 (%)	2005 (%)
Afghanistan	11	44.35	97.73	67.15	23.91	9.1	–
Azerbaijan	5	20.74	1.38	4.08	0.50	40.0	40.0
Kazakhstan	4	–	–	2.42	26.06	–	25.0
Kyrgyz Republic	10	36.88	20.05	42.82	30.40	10.0	18.2
Pakistan	80	1,048.41	734.14	790.19	563.51	12.5	5.7
Tajikistan	12	28.28	43.73	35.17	26.07	8.3	–
Uzbekistan	17	49.26	90.03	59.31	91.69	11.8	–
Total	139	1,227.91	987.05	1,001.14	762.14	12.2	7.1

– = nil.

Note: Totals may not add up because of rounding.

COUNTRY HIGHLIGHTS

AFGHANISTAN

Despite impressive economic growth, Afghanistan remains one of the poorest countries in the Asia and Pacific region. Ongoing security problems and capacity constraints impede progress, including the implementation of donor-supported projects and programs.

ADB assistance has focused on building capacity, helping establish policy and institutional frameworks, and rehabilitating essential infrastructure. Donor coordination is critical, and ADB actively contributes in this area as a member of the Afghanistan Compact Joint Coordination Monitoring Board as well as to the management committees for both the Afghanistan Reconstruction Trust Fund and the Counter Narcotics Trust Fund. ADB is also the lead donor agency for the energy and road sectors.

ADB provided \$213.2 million in ADF loans and grants, and \$8.0 million in technical assistance grants. The approval of two Japan Fund for Poverty Reduction grants totaling \$38.0 million complemented ADB's overall program of assistance.

Public sector approvals included a \$118.2 million project (\$78.2 million ADF loan and \$40.0 million ADF grant) in support of the North–South Corridor, a road project that will rehabilitate 140.3 km of the Mazar-e-Sharif–Dara-i-Suf road and 98.9 km of the Bamian–Yakawlang road. A \$20.0 million Japan Fund for Poverty Reduction project will support the construction of a link road to Bamyan.



The second medium-term strategy identifies infrastructure as a core operational sector

TABLE 11 Central and West Asia: Cumulative Lending and Disbursements by Country as of the end of 2006

(\$ million)^a

Country	Lending	Disbursements
Afghanistan	892.28	367.26
Azerbaijan	114.00	8.58
Kazakhstan	626.60	560.00
Kyrgyz Republic	588.50	495.23
Pakistan	16,571.04	11,320.88
Tajikistan	300.84	134.75
Uzbekistan	974.90	433.61
Total	20,068.16	13,320.31

a Loan component of regional projects distributed to the countries.

FIGURE 1 Central and West Asia: ADB Lending by Country, 2005–2006 (Sovereign and Nonsovereign)

(\$ million)

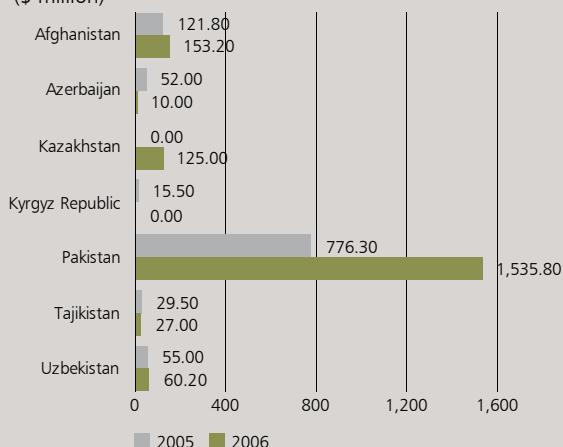


FIGURE 2 Central and West Asia: ADB Disbursements by Country, 2005–2006 (Sovereign and Nonsovereign)

(\$ million)



A \$60 million ADF grant for the Private Sector and Financial Market Development Program will encourage private sector activity and improve access to financial services.

A \$35 million ADF loan will support the Afghanistan component of the Regional Power Transmission Interconnection Project to connect the Afghanistan and Tajikistan power grids.

A \$40 million nonsovereign loan and guarantee of up to \$15 million will help accelerate the expansion of Afghanistan's leading cellular network. The investment builds upon ADB's 2004 investment of \$35 million in Roshan, a telecommunications company owned by the Aga Khan Fund for Economic Development (see story, page 55). Roshan's cellular network was the first private sector project to attract international commercial bank financing to Afghanistan for some 30 years, made possible through ADB's B-loan program and political

risk guarantee product. As a result of additional financing, Roshan was able to provide service to more than 1 million Afghan subscribers.

Since resuming operations in Afghanistan in 2002, ADB has approved more than \$1 billion in assistance to the country. This has been complemented by \$126.2 million in donor cofinancing, largely through the Japan Fund for Poverty Reduction. ADB has pledged up to \$200.0 million a year over 2006–2010.

Because of lack of capacity and procurement delays, overall implementation progress has been slower than

Since resuming operations in Afghanistan in 2002, ADB has approved more than \$1 billion in assistance to the country

TABLE 12 Central and West Asia: Sovereign and Nonsovereign Loan Approvals by Country, 2006
(\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
SOVEREIGN					
Afghanistan					
North–South Corridor	–	78.20	78.20	140.90	26 Sep
Regional Power Transmission Interconnection (Afghanistan)	–	35.00	35.00	55.50	19 Dec
Pakistan					
Mega City Development	–	10.00	10.00	13.33	2 Feb
Rural Enterprise Modernization	–	5.00	5.00	6.50	7 Feb
National Highway Development Sector Investment Program (Subproject 1)	180.00	–	180.00	220.30	15 Feb
Federally Administered Tribal Areas Rural Development	–	42.00	42.00	60.40	25 Apr
Private Participation in Infrastructure Program (Subprogram 1)	400.00	–	400.00	400.00	31 Oct
Renewable Energy Development Sector Investment Program (Subproject 1)	105.00	10.00	115.00	145.00	13 Dec
Power Transmission Enhancement Investment Program (Subproject 1)	226.00	10.00	236.00	294.50	13 Dec
Improving Access to Financial Services (Phase 1) Program	300.00	20.00	320.00	320.00	14 Dec
Punjab Irrigated Agriculture Investment Program	217.80	10.00	227.80	281.38	18 Dec
Tajikistan					
Sustainable Cotton Subsector	–	5.50	5.50	15.29	3 Nov
Regional Power Transmission Interconnection (Tajikistan)	–	21.50	21.50	54.00	19 Dec
Uzbekistan					
Land Improvement	32.60	27.60	60.20	76.18	24 Jul
Subtotal	1,461.40	274.80	1,736.20	2,083.28	
NONSOVEREIGN					
Afghanistan					
Roshan Phase II Expansion	40.00	–	40.00	210.20	29 Jun
Azerbaijan					
Private Banks and Leasing Companies in Azerbaijan	10.00	–	10.00	15.00	30 Mar
Kazakhstan					
JSC Alliance Bank	50.00	–	50.00	50.00	15 Jun
Bank TuranAlem JSC	75.00	–	75.00	75.00	15 Jun
Subtotal	175.00	–	175.00	350.20	
Total	1,636.40	274.80	1,911.20	2,433.48	

– = nil, ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and subborrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

targeted. Some 228 km (51%) of the 450 km of the northern link road (from Pul-e-Khumri to Andkhoy) have been completed. A project to rehabilitate 241 km of 220-kilovolt double-circuit transmission lines will be completed by mid-2007. ADB has helped develop policy and institutional reforms related to fiscal management, restructuring of state-owned enterprises, public administration, and the country's statistical system, as well as road sector and energy master plans. ADB, together with other donors, will help the Government prepare a national anticorruption strategy.

ARMENIA

Armenia joined ADB in September 2005. On 1 August 2006, the Board of Directors endorsed an economic report and interim operational strategy for 2006–2009. ADB's strategic priorities are to accelerate rural and urban development, promote the private sector, and enhance regional cooperation. Continued progress in macroeconomic, fiscal, and debt management reaffirmed the Government's commitment to reform. ADB is developing an assistance program for 2007–2009 in consultation with the Government.

ADB will focus initially on rehabilitating rural roads, water supply, and social infrastructure.

A rural roads rehabilitation project preparatory technical assistance for \$150,000 was approved.

AZERBAIJAN

In March 2006, ADB approved its first nonsovereign loan and equity investment to Azerbaijan, totaling \$15 million. This will strengthen the emerging private banking sector. The financial assistance will improve regulation, growth of the small- and micro-loan portfolio, and support the implementation of professional banking practices by three local private banks—Micro Finance Bank of Azerbaijan, Azerigazbank, and Bank Respublika. ADB approved \$8 million to help facilitate trade. ADB has three ongoing loan projects in Azerbaijan totaling \$104 million. The disbursement of these loans has been slow on account of lack of familiarity with ADB procedures. ADB also supported the Government's campaign against avian influenza.

Rich oil and gas resources are expected to continue to be major sources of export revenue. The Government significantly expanded its investment program to develop infrastructure and the non-oil economy. ADB's strategy in the country focuses on promoting sustainable and inclusive growth through rehabilitation of roads, and improvement of water and sanitation, good governance, private sector development, and regional cooperation.

KAZAKHSTAN

ADB approved two private sector loans totaling \$125 million. In line with Government priorities, ADB's assistance focuses on private sector activity.



Azerbaijan significantly increased investment in infrastructure and the non-oil economy



ADB is helping rehabilitate the regional road network in the Kyrgyz Republic

ADB approved two 5-year loans to two commercial banks—\$75 million to Bank TuranAlem JSC and \$50 million to JSC Alliance Bank—representing ADB's first nonsovereign financing in Kazakhstan. They will help the two banks expand their small and medium-sized enterprise portfolio by providing debt funding and bridging an unwarranted maturity gap, allowing the banks to match their assets and liabilities more closely.

A partial credit guarantee was provided to JSC Alliance Bank for its first diversified payment rights securitization program with a total issue amount of \$200 million. This will help develop Kazakhstan's securitization market. The project is the first diversified payment rights securitization of a medium-sized private sector bank in Kazakhstan. It is expected to help similar banks access this type of funding.

Ongoing public sector technical assistance and investments support the Government as it strives to achieve environmentally sustainable development, wider access to drinking water, improved water supply and sanitation services, long-term benefits from higher farm income, and improved irrigation networks and water service institutions.

ADB approved two private sector loans totaling \$125 million in Kazakhstan

KYRGYZ REPUBLIC

As of 31 December, the country had received 25 loans and 4 grants (including 3 from the Japan Fund for Poverty Reduction) for project financing, totaling \$607 million equivalent. All loans were provided on concessional terms from the ADF. ADB also provided 65 technical assistance projects amounting to about \$38 million. The transport and communications sector received the largest share of ADB assistance, and focused on rehabilitating key sections of the national road network and strengthening sector management and finance.

The Kyrgyz Republic was selected as a pilot country during the February 2003 Rome conference on harmonization. Much progress has been made among key donors in coordinating and harmonizing procurement procedures, financial management and monitoring, and sharing project implementation units. ADB has conducted country portfolio reviews jointly with other international financial institutions since 2003. A results-based joint country support strategy for 2007–2010 is being prepared with the United Kingdom's Department for International Development, Swiss Agency for Development Cooperation, United Nations, and World Bank.

PAKISTAN

ADB's large and diverse portfolio consists of 80 loans totaling \$6.4 billion. ADB approved \$1.5 billion in 2006. Six loans were approved under the multitranche financing facility that provides long-term support in transport and communications, energy security, and irrigation services. In addition, ADB also provided \$180 million to modernize the national highway network under a \$770 million multitranche financing facility approved in 2005. A renewable energy sector development program, through a \$510 million multitranche financing facility, will fund new investments in small to medium-sized hydropower units that will help realize Pakistan's significant hydropower potential. A power transmission enhancement project under an \$800 million multitranche financing facility aims to ensure reliable and high-quality power supply to an ever-increasing number of industrial, commercial, and retail consumers. The Punjab Irrigated Agriculture Investment Program, representing the first of a series of investments under a multitranche financing facility of \$900 million, will rehabilitate the canal system reducing water losses and improving irrigation efficiency and agricultural productivity.

Supporting Economic Reconstruction: Afghanistan's Cellular Phone Network

After more than 25 years of conflict, Afghanistan was left with no national fixed-line telecommunications service, a barely functioning postal service, and poor roads. Cellular networks, while growing fast, are basic, limited, and require over \$300 million in investments to extend their coverage beyond major cities.

In mountainous and landlocked Afghanistan, cellular telephony is the only way to provide reliable, countrywide communications. National demand for this service will continue to increase rapidly but limited funds constrain its development.

ADB is helping improve telecommunications through a \$120 million assistance package that includes separate \$35 million and \$40 million nonsovereign loans, a political risk guarantee of up to \$15 million, and a B-loan of up to \$30 million that leverages funds from other sources. ADB funding

for the program and its political risk cover have encouraged commercial lenders to join the program, a first for Afghanistan in several years. ADB's presence encourages international aid agencies and commercial lenders to support private sector development.

This assistance will help the Roshan Cellular Phone Network, Afghanistan's leading network provider, upgrade its systems and services and expand its coverage.

The cellular network project will use global systems for mobile communication, cellular, satellite, and radio wave transmission technologies. The new funding will help Roshan—a private limited liability company providing cellular telephone, international gateway, and Internet services—expand coverage countrywide, pilot a mobile banking service, and deploy public call offices that provide access to communications for less-affluent users.

ADB's presence encourages international aid agencies and commercial lenders to support private sector development



Roshan—Afghanistan's leading network provider—uses public call offices to give the less affluent access to telephones



ADB supports a program to establish policy, legal, and regulatory frameworks and support reforms in Pakistan

A \$400 million program loan was approved to promote private sector participation in infrastructure development. The program will establish policy, legal, and regulatory frameworks and support reforms in priority sectors such as power, transport (highways), and water to make them attractive for financing by the private sector.

A flagship program in the financial sector, approved for \$320 million, focuses on improving access to microfinance and other financial services.

ADB also approved \$7.6 million in grant financing for technical assistance projects, including \$2.0 million to help the Government develop a national strategy to support its Access to Financial Services Program.

TAJIKISTAN

ADB approved a \$5.5 million loan and a \$6.5 million ADF grant for a sustainable cotton development project to help restore the cotton subsector, the country's main source of farm income, agriculture exports, and rural employment. The project will target four major cotton-growing districts and use a two-tiered strategy to resolve cotton farm debt on a pilot basis and to develop the cotton market. ADB also supports the Government's farm debt resolution strategy.

ADB assistance to the power sector continued, with a \$21.5 million loan for the Regional Power Transmission

A flagship program in Pakistan's financial sector, approved for \$320 million, focuses on improving access to microfinance and other financial services

Interconnection Project for Afghanistan and Tajikistan (including a \$35.0 million loan to Afghanistan). The loan will finance the construction of a 220-kilovolt double-circuit transmission line from the Sangtuda Hydropower Plant to Shekabandar, and rehabilitation of the Khatlon Power System. ADB is cooperating with other development partners to support a larger regional proposal for the Central Asia–South Asia Transmission Line Project, which will export power from Tajikistan to Pakistan.

TURKMENISTAN

ADB maintains a liaison office in Ashgabat to facilitate dialogue with the Government. No active operations took place in Turkmenistan in 2006. Turkmenistan is involved in two regional technical assistance programs covering the sharing of environmental information and land management. Consultations continued on the proposed Turkmenistan–Afghanistan–Pakistan pipeline.

UZBEKISTAN

ADB's \$60.2 million Land Improvement Project, approved in July 2006, will address the degradation of about 162,000 hectares of irrigated land in nine districts in Bukhara, Kashkadarya, and Navoi provinces, where crop yields have declined by 30% since 1991, directly affecting about 1.4 million people. The project will improve land reclamation practices and establish three farms to demonstrate innovative farm technologies and enhanced agronomic practices. It will also rehabilitate drainage and irrigation systems to improve water control and efficiency. A technical assistance grant for \$800,000, cofinanced by the Poverty Reduction Cooperation Fund of the Government of the United Kingdom, accompanies the loan and will help strengthen institutions and prepare legislation.

In March 2006, ADB approved a \$1.5 million Japan Fund for Poverty Reduction grant to pilot a project that

will improve basic education for children with special needs to increase their learning, social confidence, and social integration.

ADB also approved a 5-year country strategy and program focusing on four strategic priorities: accelerating rural development, building human capital through basic education and early childhood development, promoting regional trade and transport, and enhancing private sector activities.

ADB approved a 5-year country strategy and program focusing on accelerating rural development, building human capital, promoting regional trade and transport, and enhancing private sector activities



ADB continues to assist the power sector in Tajikistan



EAST ASIA

People's Republic of China, Mongolia

In East Asia, the thematic priorities of ADB's program are to diversify operations to promote inclusiveness and improve the environment; meet client needs and expectations for quality knowledge products through new ideas and approaches and their better dissemination; actively participate in the Central Asia Regional Economic Cooperation and Greater Mekong Subregion (GMS) programs, and expand cooperation to regional public goods and other new initiatives in line with ADB's new regional cooperation and integration strategy; and explore opportunities to catalyze funds and add value through private-public partnership operations and private sector transactions. ADB aims to continue the diversification of its People's Republic of China (PRC) program beyond transport to agriculture and natural resources management, urban development and environmental management, and energy conservation. ADB's Mongolia program is exploring assistance to address urgent problems in natural resources management, and promote private sector development including through expanding or replicating successful pilot projects financed by the Japan Fund for Poverty Reduction and other bilateral sources. Regional cooperation with neighboring countries—particularly the PRC—is receiving greater attention to leverage the significant investments Mongolia is making to develop its regional road network.

A multitranche financing facility is being pilot-tested in the PRC energy sector, and new approaches for energy conservation are being developed. ADB's public sector operations are exploring avenues to promote private-public partnerships as in the Nanjing Qinhuai River Environmental Improvement Project in the PRC and introduce new approaches and innovative instruments.

ADB approved 13 sovereign loans amounting to \$1.6 billion for the PRC and Mongolia (Table 13, Figure 3). The program included a multitranche financing facility project for the PRC's Gansu Heihe Rural Hydropower Development Investment Program for \$50.0 million. The first tranche of this facility is \$22.0 million. In Mongolia, a customs modernization project is cofinanced with \$0.5 million in grant funds from the Korea e-Asia and Knowledge Partnership Fund. ADB also provided \$180.0 million in assistance to the private sector in the PRC including equity investments and B-loans. The nonlending program for the two countries included 31 technical assistance projects (including 2 supplementary technical assistance approvals) for \$16.0 million. Of these, 15 (\$8.7 million) were for project preparation and 16 were for advisory technical assistance

(\$7.3 million). One Japan Fund for Poverty Reduction project for \$1.0 million was processed for Mongolia to impart nonformal skills training to unemployed youth and poor adults. Cumulative lending for the region amounted to \$18.6 billion (Table 14).

ADB is pursuing a more focused approach to producing and disseminating knowledge products by mainstreaming knowledge management into technical assistance and loans. The objective is to incorporate knowledge products into all loan and technical assistance operations to add value to ADB's operations. This is considered essential and operationally relevant, particularly in the PRC, which is seeking high-quality international know-how and advice on good management practices. ADB has set up a knowledge management unit in its East Asia Department under senior staff supervision and is building a knowledge network. A knowledge management plan is being developed. ADB established a knowledge network on climate change in the PRC's Tsinghua University.

Regional Cooperation

In line with the second medium-term strategy's priorities and the regional cooperation and integration strategy, active support is being provided for the PRC's participation in the GMS and Central Asia Regional Economic

TOP 5 ACHIEVEMENTS IN 2006

- Launched new regional cooperation initiatives in East Asia involving the PRC and Mongolia
- Mainstreamed knowledge management into loans and technical assistance to add value to operations
- Implemented innovative projects and project components, including clean development mechanism carbon credits and a pilot multitranche financing facility energy project
- Promoted a coordinated sector-wide approach to primary education in Mongolia with the Government and other donors in an initiative that will also give significant grants for education
- Achieved good portfolio performance, with few "at risk" projects and a largely project-based disbursement ratio of 20.9%

Cooperation programs, and Mongolia's participation in the latter, particularly in cross-border infrastructure connections and trade facilitation that cover the PRC and Mongolia. The PRC hosted two senior officials' meetings and the Fifth Ministerial Conference on Central Asia Regional Economic Cooperation in Urumqi, Xinjiang Uygur Autonomous Region. ADB provided technical support to help the PRC organize an in-country consultation work-

TABLE 13 East Asia: Sovereign and Nonsovereign Loan Approvals by Country, 2006
(\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
SOVEREIGN					
China, People's Rep. of					
Shandong Hai River Basin Pollution Control	80.00	–	80.00	160.36	21 Jun
Guangxi Nanning Urban Environmental Upgrading	100.00	–	100.00	262.70	26 Jun
Wuhan Wastewater and Stormwater Management	100.00	–	100.00	266.40	26 Jun
Hunan Flood Management Sector	200.00	–	200.00	497.40	29 Jun
Heilongjiang Road Network Development	200.00	–	200.00	524.55	26 Jul
Inner Mongolia Autonomous Region Environment Improvement	120.00	–	120.00	330.40	29 Sep
Taiyuan–Zhongwei Railway	300.00	–	300.00	3,752.90	23 Nov
Southern Gansu Roads Development	300.00	–	300.00	1,660.00	18 Dec
Erlongshan Hydropower Project (Subproject 1)	22.00	–	22.00	49.09	18 Dec
Nanjing Qinhuai River Environmental Improvement	100.00	–	100.00	236.10	18 Dec
Mongolia					
Third Education Development	–	13.00	13.00	16.38	21 Jun
Urban Sector Development	–	28.20	28.20	37.60	19 Dec
Customs Modernization	–	5.00	5.00	6.76	20 Dec
Subtotal	1,522.00	46.20	1,568.20	7,800.64	
NONSOVEREIGN					
China, People's Rep. of					
Municipal Natural Gas Infrastructure Development	50.00	–	50.00	1,157.00	30 Aug
Subtotal	50.00	–	50.00	1,157.00	
Total	1,572.00	46.20	1,618.20	8,957.64	

– = nil, ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and subborrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

shop that brought together key decision makers from government agencies for in-depth discussions of issues related to regional cooperation. ADB also supported the inaugural forum of the Beibu Regional Economic Cooperation Program to promote regional cooperation between the PRC's Guangxi Zhuang Autonomous Region and the Association of Southeast Asian Nations (ASEAN) and the GMS.

ADB is facilitating a number of cooperation initiatives between the PRC and Mongolia under a regional technical assistance project covering transport, trade facilitation, and capacity building for participation in regional cooperation.

Another approved regional technical assistance project on subregional cooperation in Northeast Asia focuses on mitigating transboundary air pollution from coal-fired power plants. The project's major outputs will include closer environmental cooperation among countries of Northeast Asia on transboundary air pollution, increased technical capacity and knowledge transfer on prevention and management of transboundary pollution, and greater capacity for management of coal-fired power plant emissions in Mongolia.

Portfolio Management

A strong focus on portfolio management continued to yield good performance in the region. Portfolio quality continued to be relatively satisfactory; 2 of the 65 ongoing loans to the region were at risk (3.1%). The disbursement performance was also good, with \$1 billion disbursed. Contract awards were \$786.1 million. To improve project administration, the role of resident missions was strengthened through increased delegation of projects. Six additional loans were delegated to the PRC Resident Mission and one loan to the Mongolia Resident Mission. To further streamline project administration, the PRC Resident Mission assumed full disbursement functions for

A strong focus on portfolio management continues to yield good performance in the region

all loans it administers. Technical assistance administration improved significantly. Several technical assistance projects were financially closed and savings realized to augment the scarce resources.

Portfolio performance in the PRC continued to be good with only one project (2.1% of the portfolio) at risk. Disbursements (all for projects) totaled \$984.8 million.

For Mongolia, contract awards totaled \$52.5 million. Disbursements amounted to \$28.6 million (Table 15).

TABLE 14 East Asia: Cumulative Lending and Disbursements by Country as of the end of 2006
(\$ million)

Country	Lending	Disbursements
China, People's Rep. of	17,947.40	10,908.23
Mongolia	666.54	520.57
Total	18,613.94	11,428.80

FIGURE 3 East Asia:
ADB Lending by Country, 2005–2006
(Sovereign and Nonsovereign)

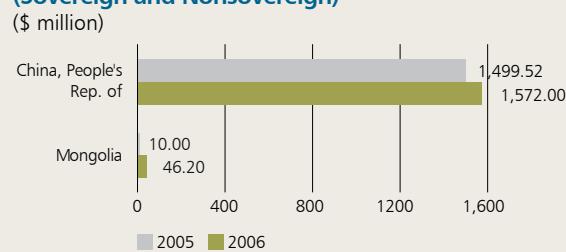


FIGURE 4 East Asia:
ADB Disbursements by Country, 2005–2006
(Sovereign and Nonsovereign)

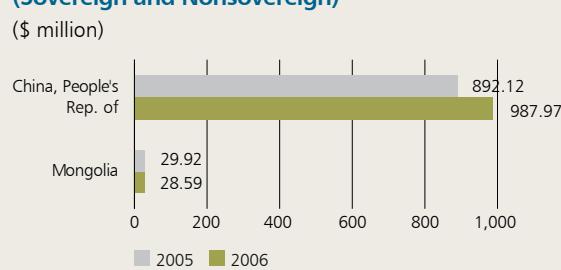


TABLE 15 East Asia: Portfolio Performance Indicators for Sovereign Lending, 2005–2006

Country	No. of Ongoing Loans (as of Dec 2006)	Contract Awards/Commitments		Disbursements		Loans at Risk	
		2006 (\$ million)	2005 (\$ million)	2006 (\$ million)	2005 (\$ million)	2006 (%)	2005 (%)
China, People's Rep. of	47	733.70	1,385.53	984.84	874.77	2.1	—
Mongolia	18	52.45	19.45	28.59	29.92	5.6	—
Total	65	786.14	1,404.98	1,013.43	904.69	3.1	—

Note: Totals may not add up because of rounding.

COUNTRY HIGHLIGHTS

THE PEOPLE'S REPUBLIC OF CHINA

The new country partnership strategy (2008–2010), which is being prepared, will align ADB's country strategy with the PRC's 11th Five-Year Plan and the priorities set out in ADB's second medium-term strategy. ADB approved 10 sovereign loans to the PRC totaling about \$1.5 billion and secured \$3.2 billion in nondirect value-added cofinancing. In addition, 27 technical assistance projects (including two supplementary approvals) provided grants amounting to \$13.6 million. ADB began diversifying its operations away from transport, which still accounted for more than half of total lending (52.6%). Other key sectors were water supply, sanitation and waste management (25.0%), agriculture and natural resources (13.1%), and energy (9.3%).

Increasing Connectivity

Removing constraints on transport infrastructure remains a high priority for the Government. Since 1989, ADB has provided \$9.8 billion for 48 transport infrastructure projects to construct, upgrade, and improve railways, expressways, and feeder or access roads. About \$8.8 billion, or 90% of this investment, was allocated to the poorer central and western regions.

All three transport sector projects approved in 2006 are in less-developed regions. These include a \$200 mil-

lion loan (Heilongjiang Road Network Development Project) to upgrade 428 km of the Jixi–Nehe highway in the northeast, along with 170 km of rural link roads. A second transport sector project for \$300 million is in southern Gansu, one of the poorest provinces. The project will support the construction of the 134-km Wudu–Guanzigou expressway, the upgrading of 357 km of rural roads in the Lanzhou–Haikou corridor, and the improvement of road transport services by constructing 200 township bus stations and pilot-testing the road transport action plan. These two road projects help diversify ADB assistance within the sector by supporting provincial roads and integrating logistics services and rural development into expressway projects.

The third transport sector project in 2006 is a \$300 million loan to finance the construction of 944 km of railway line from Taiyuan in Shanxi to Zhongwei and Yinchuan in Ningxia. This will be the first east–west railway linking the provinces of Shanxi, Shaanxi, and Ningxia. The project will link Beijing, Qingdao, and other major cities and ports in the east with Yinchuan, Zhongwei, Lanzhou, and Urumqi in the west on its way to Kazakhstan. The project introduces strategic and private investors and

ADB began diversifying its operations away from transport, which still accounted for more than half of total lending



ADB-supported railway projects give inland provinces access to ports

helps transform railway enterprises from cost centers in a planned economy into profit centers in an increasingly competitive transport market.

Environmental Protection

Land degradation and air and water pollution have caused losses of up to the equivalent of 8% of gross domestic product (GDP) per year, and depleted natural resources that rural residents need. ADB continues to support the PRC in environmental protection through lending and technical assistance. ADB directly supported environmental improvement by lending \$200 million to a flood control project in Hunan province, and \$120 million to an energy conservation project in the Inner Mongolia Autonomous Region, and providing a \$50 million multitranche financing facility for rural hydropower projects in a remote region of western Gansu province.

The clean development mechanism (CDM) allows developed countries to fulfill their greenhouse gas emission reduction obligations under the United Nations Framework Convention on Climate Change (Kyoto Protocol) through investments in emission reduction projects in developing countries such as the PRC. In June 2006, ADB approved technical assistance to help the PRC establish the CDM Fund to manage the fees applied to the large revenue from CDM projects. The CDM Fund will be used to support domestic climate change-related activities. ADB introduced innovative carbon financing to the Shandong Hai River Basin Pollution Control Project through the CDM, which introduced additional financing from international carbon markets. The Government proposed to pilot-test the recently approved carbon market initiative for the ADB-assisted medium-sized hydropower project in Gansu.

Urban Development, Environmental Management

ADB approved loans totalling \$380 million for four water supply, sanitation, and wastewater management projects. These urban projects aim to support the Government's effort to promote sustainable economic growth through urbanization while protecting the environment and improving the health and well-being of urban residents. The \$100 million Nanjing Qinhuai River Environmental Improvement Project has innovative features to promote private-public coordination in urban infrastructure management and to catalyze alternative sources of investments with help from ADB's technical assistance. ADB also provided assistance, through its private sector window, to enhance the supply of clean energy in urban areas.



Cleaning up the Suzhou creek: ADB supports environmental protection and regeneration in the PRC

Private Sector Development

The domestic private sector contributes more than 40% of GDP, 60% of economic growth, 75% of new jobs in the organized sector, and more than half the tax revenue in many areas. ADB supports government efforts to improve the enabling environment for the private sector. An ADB-supported study on private sector development was submitted to the Chinese People's Political Consultative Conference and the National People's Congress in March 2006. ADB provided technical assistance to formulate the supervisory framework for small and medium-sized enterprise credit guarantee companies, and to improve corporate governance of companies in which ADB has invested.

In addition to policy advice and assistance in improving the enabling environment, ADB provides project-based financial support, focusing on infrastructure and the financial sector. In December 2006, ADB invested \$30 million to take a 5% minority stake in Hangzhou City Commercial Bank, the fourth largest commercial bank in Hangzhou, a city that thrives on private sector economic activity. City commercial banks in the PRC play a vital role, especially in developing small and medium-sized enterprises. However, they have weaknesses in a number of areas, including strategic risk management, corporate governance, credit risk manage-

ADB helps the PRC establish the Clean Development Mechanism (CDM) Fund to manage the fees applied to the large revenue from CDM projects



ADB support has played an important role in the PRC's economic development

ADB is exploring new areas in social development, including education

ment, and inadequate capital. Through its investment, ADB will help the bank improve its corporate governance and internal control procedures.

ADB provided \$150 million in assistance to the China Gas Group, consisting of a \$50 million direct loan, a \$25 million equity investment, and \$75 million in commercial loans under ADB's B-loan program to help construct natural gas distribution infrastructure in municipalities for supplying natural gas to residential, industrial, and commercial customers. The project supports the Government's efforts to promote the use of natural gas to reduce particulates and sulfur dioxide emissions from households and small industries. This will benefit the urban population, particularly the poor, who are exposed to indoor and outdoor air pollution. ADB's assistance to the project is expected to have a demonstration effect and help catalyze support for more such projects in the PRC.

20 Years of ADB–PRC Partnership

The ADB–PRC partnership has grown in many ways since the PRC became a member of ADB in March 1986. The PRC has become the third largest shareholder of ADB, with 6.5% of subscribed capital and 5.5% of voting power, and an important middle-income country client. Its cumulative borrowing reached \$17.9 billion by the end of 2006. The PRC has also received project preparatory and advisory technical assistance grants amounting to \$270.4 million.

Since 2003, ADB's lending to the PRC has focused on four sectors: infrastructure, mainly transport and energy; agriculture and natural resources; urban development; and environmental protection, largely in the central and western regions. Increased attention is being given to integrating ADB assistance into the Government's socioeconomic development priorities, and to promoting balanced and sustainable development.

ADB support has played an important role in the PRC's economic development and structural reforms. Before the late 1990s, capital was scarce in the PRC. As the economy boomed and reforms deepened, financing became less of a constraint. ADB's lending and nonlending assistance also evolved with client requirements and continues to focus on innovative approaches in management, new modalities in project implementation, and initiatives for reform. ADB is becoming increasingly active in delivering knowledge-based products in agriculture and natural resources, energy, environment, finance, governance, macroeconomic management, transport, and urban development. These products provide valuable inputs for socioeconomic reforms.

The PRC has strengthened its partnership with ADB in new ways by contributing \$30 million to the Asian Development Fund (ADF), and establishing the \$20 million Fund for Regional Cooperation and Poverty Reduction in ADB, becoming the first developing country to set up such a fund with an international development agency.

The 11th Five-Year Plan period of 2006–2010 will see a stronger ADB–PRC partnership on many new fronts. ADB is exploring new areas in social development, including technical education and vocational training, and public health. ADB is also looking to expand its assistance to rural development.

MONGOLIA

In October 2005, the ADB Board approved a new country strategy and program for Mongolia that is closely aligned with the Government's poverty reduction strategy and more

Agricultural Waste Raises Production in the PRC

An innovative ADB pilot project to help develop efficient ways to use agricultural waste for sustainable rural development in the People's Republic of China (PRC) is paying multiple dividends. A \$6.4 million grant from the Global Environment Facility supplemented ADB's assistance of \$33.1 million and improved the project's sustainability.

The Efficient Utilization of Agricultural Wastes Project, approved in 2002, is boosting farm production and the income of poor farmers, reducing household costs, and helping tackle the PRC's environmental and energy challenges by using agricultural waste from crops and animals to fuel biogas digesters and biomass gasification plants.

More than 13,000 households in 145 villages in Henan, Hubei, Jiangxi, and Shanxi provinces are benefiting as operators of smallholder biogas digesters incorporated into farming systems, or as consumers of gas from medium-scale biogas and gasification plants.

In the project area, agricultural production has increased between 10% and 25%, and the annual production of biogas in the project area has reached about 104,000 cubic meters.

"This is the best development project in 30 years in our county," says Huang Lingqiang, deputy governor, Jing'an county, Jiangxi province. "Project implementation is clear, simple, and the benefits to farmers are sustainable."

The project is promoting local and national awareness of the advantages of biomass rural energy development. It has created a high level of interest and participation in the project area with increasing direct private investment in biogas digesters at the farmer, technician, and digester production levels, and greater understanding and management capacity for further expansion and after-installation management by farmers and local officials.

The use of biogas for cooking and lighting is helping improve household air quality and reduce the incidence

of respiratory diseases. It is reducing the time women spend collecting firewood for cooking, and helping regenerate forests.

Biofertilizers from biogas digesters are helping reduce the need for chemical fertilizers that pollute the environment.

Technical support and training are being provided to promote and improve biomass technology and to establish adequate service infrastructure to ensure sustainability and the development of biomass systems in rural areas. This project will also provide valuable field experience to prepare effective interventions to implement the Government's new thrust to develop sustainable rural energy sources as part of its rural development strategy.

"This is the best development project in 30 years in our county. The project implementation is clear, simple, and the benefits to farmers are sustainable"



Contractors construct biogas digesters under ADB's Efficient Utilization of Agricultural Wastes Project



ADB helps the Government promote education in Mongolia

tightly focused on improving development impact. The country strategy and program aims to reduce poverty by supporting stable, broad-based growth, and socially inclusive development. It programs an indicative lending level of \$78 million from ADF resources for 2007–2009, supplemented by an additional \$40 million for regional projects from the ADF. The country strategy and program will help the Government as it embarks on a results-based approach to development, formulating rigorous performance indicators and establishing systems to manage the Government's strategy for results. The strategy and program calls for assistance in agriculture, transport, education, health, and urban development. ADB is preparing an agribusiness supply chain development project in Mongolia to target niche markets for premium value products. The project has strategic implications for livelihood improvement, economic diversification, and environmental protection.

The ADB Board endorsed a country strategy and program update in September 2006. While maintaining the overall directions of the country strategy and program, the update incorporates changes needed to support the strategic approach that the Government has adopted to achieve the Millennium Development Goals, increase the effectiveness of development activities, boost governance, improve alignment with the Government's and ADB's

priorities, and strengthen coordination with other development partners to increase the inflow of funds.

ADB's cumulative lending to Mongolia for 39 public sector loans totaled \$662.0 million. ADB provided \$4.5 million in assistance to the private sector through its private sector window. Eighteen sovereign loans and one nonsovereign loan were active at the end of 2006. Technical assistance grants totaled \$61.3 million, and grants from the Japan Fund for Poverty Reduction, the Japan Fund for Information and Communication Technology, the Republic of Korea e-Asia and Knowledge Partnership Fund, and Norway totaled \$9.7 million.

In 2006, three new loans for education, urban development, and customs modernization totaling \$46.2 million, and four technical assistance grants of \$2.5 million, were approved. ADB also approved a \$1.0 million Japan Fund for Poverty Reduction project to develop nonformal skills training for unemployed youth and poor adults.

The country strategy and program aims to reduce poverty by supporting stable, broad-based growth, and socially inclusive development

Better Health for Mongolian Villagers

ADB is helping provide thousands of rural poor with access to improved health services.

ADB, in close partnership with the Government and key stakeholders, has been supporting the health sector in Mongolia since 1997. In 2003, ADB approved a \$14 million loan for the Second Health Sector Development Project to improve rural health services, especially for the poor and vulnerable, and to build the capacity of the health sector through reforms in sector efficiency, effectiveness, and sustainability.

The project has helped improve rural health services in five *aimags* (provinces) chosen because of their high levels of poverty, infant and maternal mortality, and infectious diseases.

More than 422,000 Mongolians—about 17% of the population—are benefiting from the project’s rural health component, which has raised vaccination rates to 98% among children under 5 years of age in

the project area, above the national target of 92%. The average length of hospital stay has come down from 10 to 8 days. Contraceptive use in the project *aimag* has reached 55% among women aged 15–44, above the national average of 43%.

The project also trains community nurses, district doctors, district and provincial administrators, economists of the health department, and staff of the health insurance organization to help the Ministry of Health build institutional capacity. The project supports key reforms in the sector, including strengthening primary health care through family group practices, improving hospitals, and developing human resources in the health sector. Twenty-three district health centers, five interdistrict hospitals, and four provincial center hospitals have been built or renovated, and equipped.

More than 422,000 Mongolians—about 17% of the population—are benefiting from the project’s rural health component



ADB has helped raise health standards in five of the poorest provinces in Mongolia



PACIFIC

Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, Vanuatu

ADB provides a range of services to its 14 Pacific developing member countries, with lending and grant operations supplemented by extensive technical assistance, analytical work, and policy advice. ADB's key result areas of stronger sustainable job growth, improved service delivery, and strengthened development processes were identified in ADB's *Pacific Strategy for 2005–2009: Responding to the Priorities of the Poor*.

ADB approved a supplementary loan of \$53.0 million for the Papua New Guinea Road Maintenance and Upgrading (Sector) Project (Table 18, Figure 5). It also approved two Asian Development Fund (ADF) grants: \$15.0 million for the HIV/AIDS Prevention and Control in Rural Development Enclaves Project in Papua New Guinea and \$350,000 for the Solomon Islands Road Improvement (Sector) Project. Cumulative lending for the region amounted to \$1.7 billion (Table 17). ADB also raised \$24.4 million in cofinancing from Australia and New Zealand for the 2 ADF-supported projects and approved 21 technical assistance grants of \$22.9 million for the Pacific countries. Of these, 5 were for project preparatory technical assistance at \$2.6 million, 12 for advisory technical assistance at \$8.5 million, and 4 for regional technical assistance at \$11.8 million. While the number of project preparatory and advisory technical assistance grants approved was lower than the annual average of 24 in 2001–2005, the total value was \$0.8 million higher.

ADB published two reports on the socioeconomic and poverty implications of HIV/AIDS in the Pacific. The reports concluded that, except for Papua New Guinea, the HIV/AIDS epidemic in the Pacific generally affects groups with high-risk behaviors. Papua New Guinea is particularly vulnerable and will require strong political commitment of the Government and development partners to combat HIV/AIDS. ADB approved the HIV/AIDS Prevention and Control in Rural Development Enclaves Project, which involves the public and private sectors and major development partners in Papua New Guinea.

Engaging the Private Sector

Throughout the Pacific, ADB has strengthened its role in promoting private sector development. Two regional technical assistance projects are driving this approach: Improving Delivery of Infrastructure Services, approved in 2005; and Private Sector Development Initiative, approved in 2006.

By approving the second of these projects, ADB strengthened its long-term commitment to the region. This initiative will be implemented in cooperation with the Government of Australia. The \$8.7 million technical assistance grant is promoting long-term economic growth by creating an enabling environment, including greater transparency, for private sector development in the Pacific. It is focusing on reforming state-owned enterprises, improving access to finance, and strengthening the business environment through legal and regulatory reforms. ADB will conduct diagnostic studies; provide technical expertise in priority reform areas; strengthen capacities in relevant government agencies and organizations; support regional initiatives; and disseminate information on good practices, reform opportunities, and results.

The Improving Delivery of Infrastructure Services Project made progress. A regional workshop was held in Sydney, Australia, in August 2006 for government officials and private sector representatives from 11 Pacific countries who are directly involved in infrastructure financing and planning. Participants discussed service delivery and efficiency, sustainable finance, and the role of the private sector. The workshop was a success, with outputs being used as a platform for the next phase of strategic action in the region.

Promoting Regional Cooperation and Integration

ADB supports Pacific regional cooperation and integration as a mechanism to meet national priorities, including poverty

TOP 5 ACHIEVEMENTS IN 2006

- Aggressively leveraged ADB grant resources by quickly processing the Solomon Islands Road Improvement (Sector) Project, which was well coordinated with partners and had significant cofinancing
- Employed an innovative approach to Public–Private Partnerships in the Papua New Guinea HIV/AIDS Project, which had significant cofinancing
- Drew up the first results-based country strategy and program for Papua New Guinea
- Conducted performance assessments in weakly performing countries, which serve as a basis for policy dialogue aimed at improving governance and development effectiveness
- Launched regional initiatives in private sector development, audit, statistics, and aviation

reduction. The Pacific strategy (2005–2009) provides the framework for ADB operations in the 14 Pacific developing member countries and for support for regional cooperation. Priority areas for ADB facilitation of regional cooperation in the Pacific are to be further identified in the regional cooperation strategy (2007–2011) due for completion in 2007.

ADB regional assistance in 2006 supported the Pacific's own development strategy, the Pacific Plan endorsed by leaders of 16 Forum Island countries in October 2005, and followed on from earlier ADB support for analytical input to the plan. Key priorities in the plan are supported by ADB's private sector development initiative and through ADB support for regional statistical development. Two other regional technical assistance projects were approved—one that focuses on improving governance and accountability in Pacific devel-

TABLE 16 Pacific: Portfolio Performance Indicators for Sovereign Lending, 2005–2006

Country	No. of Ongoing Loans (as of Dec 2006)	Contract Awards/Commitments		Disbursements		Loans at Risk	
		2006 (\$ million)	2005 (\$ million)	2006 (\$ million)	2005 (\$ million)	2006 (%)	2005 (%)
Cook Islands	1	0.01	0.63	0.33	1.17	—	—
Fiji Islands	4	9.07	19.70	9.68	14.07	50.0	—
Kiribati	1	—	0.94	0.15	1.56	—	—
Marshall Islands	1	—	1.45	0.10	0.80	100.0	—
Micronesia, Fed. States of	5	3.69	3.77	2.46	1.75	40.0	60.0
Papua New Guinea	12	23.07	24.95	29.28	21.50	8.3	10.0
Samoa	3	1.74	0.35	1.63	2.66	—	20.0
Solomon Islands	1	0.78	8.81	4.09	2.76	—	—
Tuvalu	2	3.18	—	1.18	0.10	—	100.0
Regional	1	—	—	0.15	—	—	—
Total	31	41.52	60.60	49.04	46.37	19.4	22.6

— = nil.

Note: Totals may not add up because of rounding.

oping member countries and one that aims to strengthen regional cooperation among them. A study on options to improve cooperation across the land border between Papua New Guinea and Indonesia was initiated. ADB continued its support to ongoing regional cooperation initiatives, including the Pacific Aviation Safety Office, Pacific Financial Technical Assistance Centre, and the regional HIV/AIDS strategy.

Pacific Aviation Safety Office

To promote regional cooperation and create shared capacity, ADB has helped eight Pacific countries—Cook Islands, Fiji Islands, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu—establish the Pacific Aviation Safety Office. The project, approved in 2005, is financed through a sovereign public sector regional loan to an intergovernmental organization and supported by guarantees by the participating countries. It is an example of how innovative intergovernmental finance can enable regional technical cooperation to improve service quality, reduce costs, and achieve financial sustainability. The project is now being implemented through an associated technical assistance grant for legal and regulatory harmonization, and is expected to conclude in 2010.

Managing the Environment

Pacific countries are highly dependent economically and culturally on their natural environment. However, the health and productivity of natural systems are

TABLE 17 Pacific: Cumulative Lending and Disbursements by Country as of the end of 2006
(\$ million)

Country	Lending	Disbursements
Cook Islands	29.50	26.48
Fiji Islands	249.90	170.24
Kiribati	15.14	13.70
Marshall Islands	78.13	64.09
Micronesia, Fed. States of	75.14	39.24
Nauru	5.00	2.30
Papua New Guinea	926.99	663.30
Samoa	129.98	104.29
Solomon Islands	79.31	62.00
Tonga	57.79	52.26
Tuvalu	7.82	5.44
Vanuatu	51.25	48.99
Regional	1.50	120.23
Total	1,707.43	1,372.56

Note: Totals may not add up because of rounding.

coming under increasing pressures. A broad consensus has been reached over the past decade on the most significant environmental problems facing the Pacific. Eight priority concerns consistently emerge: threats to freshwater resources, degradation of the marine and coastal environment, degradation of land and forest, urbanization and waste management issues, depletion of biological diversity, energy-related environmental concerns, adaptation to climate change, and weak environmental governance.

FIGURE 5 Pacific: ADB Lending by Country, 2005–2006 (Sovereign and Nonsovereign)
(\$ million)

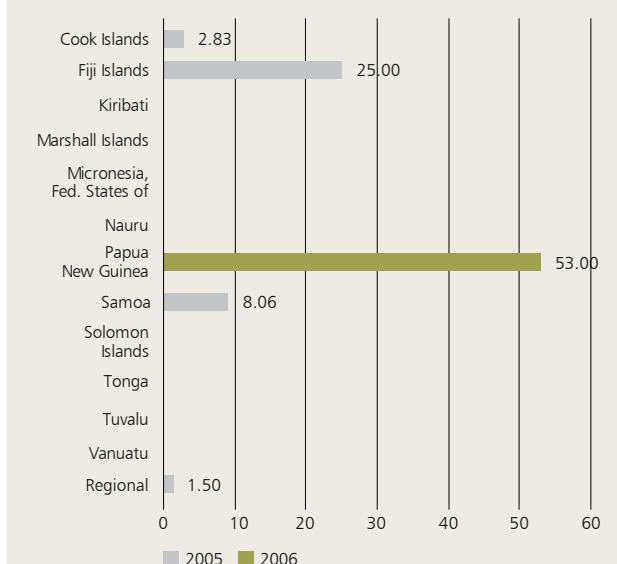
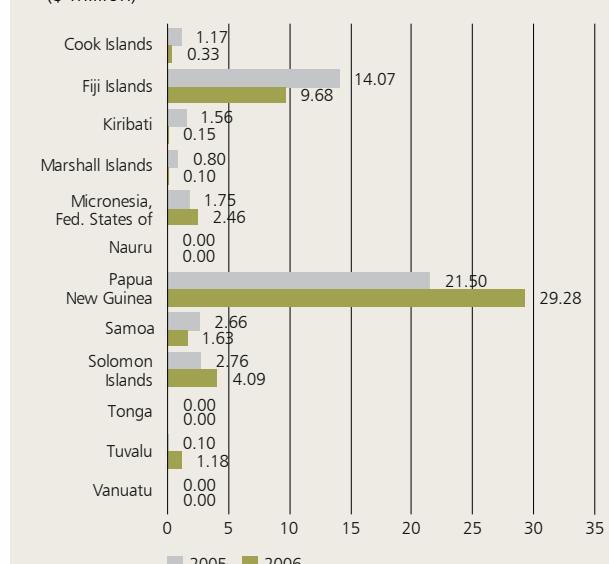


FIGURE 6 Pacific: ADB Disbursements by Country, 2005–2006 (Sovereign and Nonsovereign)
(\$ million)





Environmental management is crucial in Pacific countries, which are highly dependent economically and culturally on their natural environment

ADB has helped selected Pacific developing member countries prepare country environmental analyses, which provide inputs to country strategies and programs and updates, and medium-term development strategies, particularly in meeting the eight key environmental challenges. Country environmental analyses have been completed in 2006 in two countries—Kiribati and Samoa. The studies identify priority areas in policy, institutional, and legislative mechanisms, as well as in programs or projects that will help mainstream environmental concerns into economic development planning. Country environmental analysis recommendations have been incorporated into the country strategy and program (2006–2010) of Papua New Guinea and the strategy and program update (2007–2011) of the Marshall Islands.

ADB pays attention to compliance with its environmental safeguard policy, rigorously reviewing projects during processing and implementation. In one case in 2006, the review of a proposed Papua New Guinea gas project generated specific recommendations for protecting the unique tropical rainforests with high biodiversity and for ensuring compliance with ADB's forest policy.

ADB pays attention to compliance with its environmental safeguard policy, rigorously reviewing projects during processing and implementation

Improving Governance and Preventing Corruption

Following ADB's approval in July 2006 of the second governance and anticorruption action plan, the Pacific Department began preparing for its implementation. Discussions were held with the Government of Samoa, which agreed to participate in the first phase of the plan in 2007. This will involve preparing risk assessment and management plans for three themes (public financial management, procurement, and anticorruption measures) in key operational sectors.

ADB approved in December 2006 a regional technical assistance of \$1.6 million for Strengthening Governance and Accountability in Pacific Island Countries. Cofinanced by Australia, this project has two components. The primary

TABLE 18 Pacific: Sovereign Loan Approval, 2006

(\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
Papua New Guinea					
Road Maintenance and Upgrading (Sector) (Supplementary)	35.00	18.00	53.00	78.07	29 Jun
Total	35.00	18.00	53.00	78.07	

ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and subborrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

component is to strengthen public auditing capacity in Pacific island countries. The secondary component will strengthen the governance and anticorruption orientation of ADB's country partnership strategies in the Pacific region.

Portfolio Management

Actual performance achieved against projected targets in contract awards (\$41.5 million) and disbursements (\$49.0 million) has been more than 100% (Table 16). Papua New Guinea contributed 56% of contract awards and 60% of disbursements, and Fiji Islands, 22% and 20%. Six loans and seven technical assistance projects have been delegated to the resident missions. The number of active technical assistance projects has been substantially reduced from an average of 115 during the past 3 years to 87 in 2006. Technical assistance savings of about \$2.4 million were realized in 2006. Project-readiness criteria have been made mandatory for all projects being processed. Project administration unit meetings were held separately with resident missions.

COUNTRY HIGHLIGHTS

COOK ISLANDS

ADB assistance supports public sector management, private sector development, and improvement in infrastructure facilities in compliance with ADB's environmental safeguards. Preparation of the country partnership strategy for 2007–2009 began with an analysis of the economic conditions, development constraints, and opportunities.

A cyclone in 2005 led to broad acknowledgement of the need to climate-proof infrastructure. ADB's Cyclone Emergency Assistance Project was implemented and helped avert a shock to the economy. In particular, it catalyzed significant grant funding to finance the overall reconstruction plan. With technical assistance from ADB, a master plan for environmentally sustainable infrastructure was completed in 2006. Technical assistance for the Legal and Institutional Strengthening of Environmental Management Project was completed. The technical assistance helped the

In support of the new country partnership strategy, ADB prepared several thematic assessments, including the Fiji Islands country gender assessment



ADB supports an Alternative Livelihood Development Project in the Fiji Islands

Government develop an integrated system of regulations, by-laws, and laws that will provide the institutional mechanisms for implementing the Environment Act 2003. No loans or technical assistance projects were approved.

In April 2006, the Government, New Zealand's International Aid and Development Agency (NZAID), and Australian Agency for International Development (AusAID) invited ADB to participate as an observer in the 2007 High-Level Discussions between the Government and NZAID/AusAID. This sets the stage for possible joint programming beginning 2007.

FIJI ISLANDS

ADB and the Government agreed that a country partnership strategy to cover 2007–2011 would address macroeconomic stability and fiscal governance, inclusive growth through increased levels of investment, and private sector development.

In support of the new country partnership strategy, ADB prepared several thematic assessments, including the country gender assessment. ADB also helped foster coordinated assistance to the country, particularly in economic management. However, the military coup late in the year has given rise to some economic uncertainty.

The public sector's weaknesses in economic management were acknowledged and Fiji Islands' Strategic Development Plan defined far-reaching targets. Policy

dialogue with the Government led to the adoption of legislation that encourages private-public partnerships, support for state-owned enterprise reform and management of utilities, and development of a cohesive set of policies to reform economic management. The program continues to support economic infrastructure and the development of alternative livelihoods.

ADB approved \$1.5 million for three technical assistance projects: Preparing the Renewable Power Sector Development Project, Preparing Economic Restructuring Program Loan, and Improving Infrastructure Services. Ongoing projects included the Alternative Livelihood Development Project, approved for \$25.0 million in 2005.

KIRIBATI

ADB's strategy focuses on promoting balanced growth throughout the archipelago to relieve the stresses on the capital atoll, and on helping improve public finance management. The strategy aims to develop an economic growth center on Christmas Island and support sustainable urban development so that people can move out of the overcrowded capital. ADB's policy dialogue focuses on economic management, improvement of fiscal conditions in collaboration with development partners, and development of appropriate land allocation strategy for new development. ADB has participated in joint reviews of the public finance management with development partners to prepare coordinated assistance programs to help improve fiscal governance. It approved a technical assistance of \$630,000 for the Integrated Land and Population Development Program on Kiritimati Island.

MARSHALL ISLANDS

The continued emphasis of ADB's country strategy and program on enhanced consultation and participation of stakeholders appeared to bear fruit. Discussions on public policies and programs increased between all levels of government and civil society and helped enhance trans-

Discussions on public policies and programs increased between all levels of government and civil society and helped enhance transparency and accountability



A road upgrading project in the Fiji Islands

parency and accountability. The approved country strategy and program update (2007–2011) continues to focus on strengthening the environment for improved public and private sector performance. It also strengthens the focus on monitoring and managing for results. Technical assistance was approved for the Pilot Collaborative Public Services Delivery Project and for the Building Capacity for Independent Country Partnership Strategy and Country Performance Assessment Results Management in Republic of Marshall Islands—A Pacific Pilot Project.

The country has outstanding loan service payments that prevent further loan assistance from ADB.

FEDERATED STATES OF MICRONESIA

ADB assistance included five ongoing loans and three ongoing technical assistance projects. Activities under these technical assistance projects included the release of the *Federated States of Micronesia 2005 Economic Report* and the development of secured-transactions legislation and implementation of a secured-transactions registry accessible via the Internet.

No loan was approved. One technical assistance project to implement the public sector capacity-building road map was approved for \$600,000.

In March 2006, ADB supported a 3-day retreat for government, private sector, and civil society representatives that focused on governance and the strategic development of the Federated States of Micronesia. ADB hosted a consultative group meeting in November to examine progress and problems in implementing the country's Strategic Development Plan 2004–2023.

Pacific Leaders LEAP Forward

Leaders in ADB's Pacific developing member countries are finding better ways to implement development programs, thanks to the innovative Leadership Enhancement and Advancement Program (LEAP) funded by ADB.

The program has helped senior and middle-level executives from the public and private sectors in 13 of the 14 Pacific developing member countries understand and discuss common problems like poverty, slow growth, weak governance, weak regulatory frameworks, conflict of traditional systems and formal organizational processes, underdeveloped human resources, and brain drain.

The program has also helped officials from the 13 participating countries network with each other and share information and experience to tackle common issues.

Priscilla Maruariki, management accountant, Ministry of Finance and Economic Planning, Cook Islands, had this to say of the workshop she attended in October 2006: "We have learned a lot about leadership, the value of having visionary leaders and having a holistic approach to issues, and the need to connect various stakeholders and to uphold the principles of integrity and fairness. Maybe in future meetings we will be sharing our success stories. It's a long journey but I believe our journey starts today when we go back to our countries."

The program has helped provide demand-driven training courses for selected leaders, including in-service training organized jointly with partner

institutions, to meet the specific requirements of governments, the private sector, and civil society.

The program has assessed the training needs of Pacific officials, created benchmarks of leadership competencies, designed training courses, established a monitoring and evaluation framework to measure the impact of training, developed strategies to strengthen the network of learning institutions and service providers in the Pacific, and trained trainers to continue the program after ADB assistance ends.

The most recent LEAP workshop included 23 participants from seven Pacific developing member countries who met at ADB headquarters in October 2006 to gain practical insights, approaches, and tools to help implement strategic plans and programs; develop their own perspectives and models for successful implementation within their respective contexts; and design action points to improve implementation of plans and programs.

Ryke Solomon, deputy secretary, Department of Finance and Development Planning, Nauru, said of the workshop: "We learned much from the various experiences that had been shared in this workshop...hope we take them back to our respective countries and are able to implement our plans and programs effectively."

The program has helped officials from the 13 participating countries network with each other and share information and experience to tackle common issues



Executives from Pacific countries share information and experience

NAURU

One technical assistance project was completed in 2006: Reform of the Nauru Phosphate Corporation (cofinanced by the Government of Australia). Discussions on further assistance are under way. Nauru has an outstanding loan service payment that prevents further loan assistance from ADB at present.

PALAU

Palau's first country strategy and program update was endorsed in August 2006. The strategic focus of ADB's assistance to Palau during the update period of 2007–2009 is to strengthen economic and fiscal management, promote policies for private sector development, and facilitate sound infrastructure development and management.

ADB's major contribution in Palau over the medium term will involve policy advice and technical assistance. Country-specific and regional technical assistance projects with Palau's participation will be processed during the strategy and program update period. Palau is invited to participate in ongoing regional technical assistance projects, including Strengthening Poverty Analysis and Strategies in the Pacific, Strengthening Pro-Poor Policy in the Pacific, Diagnostic Studies for Secured Transactions Reforms in the Pacific Region, and Mainstreaming Environmental Considerations in Economic and Development Planning Processes in Selected Pacific Developing Member Countries.

PAPUA NEW GUINEA

With strong support from the Government, ADB drew up the first results-based country strategy and program for 2006–2010 based on the Government's medium-term development strategy. Consolidating earlier ADB program themes, the country strategy and program focuses on four strategic areas: public financial management, private sector development, the transport sector, and health and HIV/AIDS.

ADB increased its participation in policy dialogue and its assistance for the preparation of new projects. It approved the first ADF grant project for Papua New Guinea. The project, which Australia and New Zealand are cofinancing, will help prevent and control HIV/AIDS in rural development enclaves, strengthen surveillance, and introduce the social marketing of condoms.

SAMOA

ADB's three-pronged strategy for Samoa is designed to accelerate private sector growth and create a sound macroeconomic environment, strengthen basic social services by providing infrastructure, and provide access to quality education for all. The strategy is being implemented through the Second Education Sector Project, the technical assistance for Preparing the Power Sector Expansion Program, and continued implementation of the Drainage and Sanitation Project and the Small Business Development Project. To support macroeconomic management, ADB is providing technical assistance for Promoting Economic Use of Customary Land and is supporting privatization.

ADB was invited as an observer to join high-level strategy talks between the governments of Australia, New Zealand, and Samoa to help harmonize donor assistance.

SOLOMON ISLANDS

ADB's updated strategy for the Solomon Islands (2007–2009) focuses on transportation infrastructure and services, and private sector development. In early 2006, the scope of the ongoing Post-Conflict Emergency Rehabilitation Project was significantly expanded, with support from Australia and New Zealand. The Solomon Islands Road Improvement Project was approved, funded

ADB's major contribution in Palau over the medium term will involve policy advice and technical assistance



ADB continued its support to education in Samoa

jointly by ADB, Australia, and New Zealand, to restore and repair damaged infrastructure and improve the efficiency and effectiveness of the national transportation network. No loans or technical assistance projects were approved in 2006.

TIMOR-LESTE

ADB is intensifying its focus on infrastructure support in Timor-Leste. Reversing the decline in infrastructure assets and services is a high priority for the country. Meanwhile, capacity constraints restrict the Government's ability to fully utilize the capital development budget allocations. ADB and the Australian Agency for International Development are preparing a \$25 million 5-year joint technical assistance program to help infrastructure ministries execute their capital programs.

ADB's three-pronged strategy for Samoa is designed to accelerate private sector growth and create a sound macroeconomic environment, strengthen basic social services by providing infrastructure, and provide access to quality education for all

Political crises and violence affected ADB operations in Timor-Leste. Work was suspended on an ADB-supported road rehabilitation project and the start of a follow-on project was delayed. Technical assistance for preparing a proposed water supply and sanitation project for Dili under the Japan Special Fund was also suspended.

Work on preparing the water supply and sanitation project did not recommence in 2006 but resumed on the road rehabilitation project ahead of any other Government- or donor-funded project. By year-end, road works under the Second Emergency Infrastructure Rehabilitation Project were 95% complete and road connectivity had been maintained in very difficult terrain on several critical north-south routes.

TONGA

ADB's strategy supports macroeconomic stability and continuing economic and public sector reforms in the context of Tonga's Strategic Development Plan Eight, 2006/07–2008/09 (SDP-8) adopted in 2006 and the approved technical assistance for the implementation of SDP-8 and for Rationalization of Public Enterprises Phase III. ADB prepared an urban development project for processing, and reviewed the project's capacity to support the rebuilding effort in the aftermath of riots and the destruction of the capital's business district in late 2006. ADB is developing pilot models under a technical assistance for Youth Microenterprise Development.



The Tanavasa bridge is among those restored in the Solomon Islands under the Post-Conflict Emergency Rehabilitation Project

A Path to Progress in Timor-Leste

In one of the world's poorest countries, roads provide poor farming communities with a way to get their produce to market and the Government with the means to deliver essential services to rural communities. Timor-Leste has an extensive road network of about 6,000 km, but lack of maintenance during years of conflict, combined with torrential rains and difficult geological conditions in the mountainous country, has resulted in rapid deterioration of the roads. Only 24% of national roads and 11% of district roads are in good condition, leading to high operating and repair costs for providers of public transport. This means high passenger fares, creating particular difficulties for the poor.

The ADB-supported Emergency Infrastructure Rehabilitation Project (Phase 2), in operation since 2002, has helped provide much-needed work to the poorest of the poor while improving access to markets and to education, health, and other basic services.

Project implementation since September 2004 has mostly kept pace with the revised schedule. In 2006,

the country experienced extreme difficulties because of civil unrest, which began in the capital, Dili, in April and continued until September, with further occasional disturbances reported until the end of the year. As a result, public and private sectors companies based in Dili faced severe operational difficulties for a significant part of 2006. The ADB team remained in the country during the crisis and was able to remobilize several contractors in June 2006 and recommence works—the first works anywhere in the country to restart. By the end of December 2006, overall construction progress for the seven road contracts and Cassa Bridge had been 93% completed.

The project continues to create jobs, inject money into poor communities, connect them to services, and reduce economic costs.

The Emergency Infrastructure Rehabilitation Project has provided much-needed work to the poorest of the poor while improving access to markets and to education, health, and other basic services



The emergency infrastructure rehabilitation creates jobs and builds roads



Young people at the Maoro Community School on Malaita, Solomon Islands, where the community discussed the Post-Conflict Emergency Rehabilitation Project

TUVALU

ADB's operational strategy focuses on harmonizing efforts with other assistance agencies to improve governance and economic management; enhance job prospects through skills development, particularly through the Tuvalu Maritime Training Institute; and improve services on the outer islands, where poor and vulnerable groups are concentrated, partly through sustainable financing mechanisms such as the Falekaupule Trust Fund. A country partnership strategy (2007–2011) is being formulated jointly with the Government and the Australian Agency for International Development and in close consultation with New Zealand's International Aid and Development Agency. ADB hosts regular quarterly reviews with other development partners such as the European Union, United Nations Development Programme, France, and Japan. The interagency cooperation strategy focuses on joint commitment on macroeconomic performance benchmarks that will underpin technical assistance for tax reforms and other fiscal management issues. ADB prepared an assessment of the country's public finance management conditions, published in the *Pacific Islands Economic Report* series.

ADB approved technical assistance worth \$300,000 to support Capacity Building for Taxation Reforms. No loans

were approved. An abbreviated public expenditure and financial assessment study was undertaken in October–November 2006 and has been widely distributed for comments.

VANUATU

ADB's updated program for Vanuatu for 2006–2009 focuses on promoting sustainable economic growth led by the private sector. The 4-year country program consists of technical assistance grants amounting to \$2.5 million to improve regulatory institutions and increase access to finance. Technical assistance was approved to help modernize commercial and financial laws. ADB, in partnership with the National Bank of Vanuatu, has pioneered a project to create sustainable, profitable rural microlending. This rural microfinance project will be expanded in 2007. ADB is also working toward a plan to help reform the company registration process in 2008. This work complements ongoing activities to develop a secured transactions framework that will increase access to finance. No loans were approved.

Technical assistance was approved to help modernize commercial and financial laws in Vanuatu



SOUTH ASIA

Bangladesh, Bhutan, India, Maldives, Nepal,
Sri Lanka

ADB's assistance to the region further strengthened with the approval of \$1 billion—ADB's largest single loan from regular resources in 8 years—to make affordable financial services available to India's rural poor. The Rural Cooperative Credit Restructuring and Development Program involves a comprehensive reform of the cooperative credit structure to improve poor farmers' access to credit in five Indian states. The German Bank for Reconstruction and Development, which has worked with ADB in designing the project, will provide parallel financing of €140 million.

In its medium-term strategy and action plan for South Asia, ADB has proposed to be more selective and focused in its operations in each developing member country to achieve greater development results and impact. ADB approved 18 loans for \$2.0 billion for South Asian developing member countries, with 21.5% of this amount financed from ADB's concessional window, the Asian Development Fund (ADF) (Table 21, Figure 7). These loans support rural credit provision, primary and secondary education, rural roads, urban infrastructure, and the financial sector. Cumulative lending for the region amounted to \$31.1 billion (Table 20). In addition, ADB assistance to South Asia in 2006 included equity investments of \$72.6 million, grants of \$164.9 million, technical assistance of \$64.4 million, and four multitranche financing facilities of \$1.6 billion.

Regional Cooperation

ADB approved its first regional cooperation strategy and program for South Asia (2006–2008). ADB's strategy focuses on five key operational objectives: improve connectivity, facilitate trade and investment, develop regional tourism, facilitate cooperation in energy, and promote private sector cooperation.

The South Asia Subregional Economic Cooperation Program, which brings together Bangladesh, Bhutan, India, and Nepal, gained new momentum with the identification and implementation of projects as well as closer coordination with the South Asian Association for Regional Cooperation and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. ADB supported the dialogue of various South Asia Subregional Economic Cooperation working groups. These working groups prioritized four loan projects that will establish a hub and a training and research center on information and communications technology, develop tourism infrastructure, establish a transport link, and build trade facilitation infrastructure.

ADB further strengthened its cooperation with the South Asian Association for Regional Cooperation by implementing measures to improve regional multimodal transport connectivity and by exploring an investment financing mechanism. A \$1 million regional technical assistance was approved to facilitate energy sector dialogue and develop the capacity of the energy center of the South Asian Association for Regional Cooperation.

ADB also stepped up support to the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation to enhance transport and logistics in the region. A regional technical assistance for \$960,000 will help countries that are part of this initiative identify measures to enhance transport infrastructure, improve logistics, reduce transport time, and lower transport costs. This initiative will strengthen links between South Asia and Southeast Asia.

An important development in regional cooperation in South Asia was the ratification of the South Asian Free Trade Agreement, effective 1 January 2006. The agreement marks an important milestone for the region and is a key step toward greater regional integration and the formation of a South Asian economic union. Through the trade agreement, customs tariffs for goods will be reduced to 0–5% by 2016 and a free trade area established in South Asia.

Knowledge Management

ADB recognizes the critical importance of economic, thematic, and sector work as knowledge products that are fundamental to the preparation, design, implementation, and ultimate impact of ADB lending and nonlending to South Asia. Knowledge management initiatives in South Asia included the publication of *Annual Report: SARD Economic, Thematic and Sector Work, 2005*, which contains abstracts of 103 studies completed in 2005, and the creation of an intranet website that features an online economic, thematic, and sector work library and the latest economic indicators for South Asian countries, as well as recent external research and studies on South Asia.

TOP 5 ACHIEVEMENTS IN 2006

- Successfully led a joint effort with the Government and 10 other development partners to support primary education in Bangladesh
- Pioneered the implementation of the second ADB governance and anticorruption action plan in South Asia, developing a methodology that will become the template for ADB risk assessments
- Sharpened focus on outcomes that matter to developing member countries in South Asia by mainstreaming the managing for development results approach into country partnership strategies
- Promoted new financing instruments and modalities through road shows and workshops in Bangladesh, India, and the Maldives
- Attracted wide media attention with the *South Asia Economic Report*, a biannual publication on economics and development in the region

In December 2006, the third annual economists' conference brought together ADB's South Asia country economists to discuss papers on the South Asia development model and the regional trade and integration in South Asia. The Australia–ADB South Asia Development Partnership Facility is providing \$320,000 grant assistance for further research on intraregional trade and investment in South Asia.

Another important initiative is *South Asia Economic Report*, a series of biannual reports on economic and development issues in South Asia that provides a unique regional perspective. Against the background of increasing awareness of a regional identity, this series discusses common regional trends as well as differences among South Asian countries in socioeconomic development. Publication of *South Asia Economic Report* received wide attention in the international print and TV news media.

Portfolio Management

Focusing on results, ADB enhanced portfolio performance in South Asia by improving project readiness, strengthening

TABLE 19 South Asia: Portfolio Performance Indicators for Sovereign Lending, 2005–2006

Country	No. of Ongoing Loans (as of Dec 2006)	Contract Awards/Commitments		Disbursements		Loans at Risk	
		2006 (\$ million)	2005 (\$ million)	2006 (\$ million)	2005 (\$ million)	2006 (%)	2005 (%)
Bangladesh	40	367.89	366.84	321.73	257.63	10.0	10.5
Bhutan	6	2.60	2.48	4.60	12.45	—	—
India	32	1,714.75	1,037.36	701.41	641.00	6.3	24.2
Maldives	7	7.65	13.38	4.93	4.94	14.3	—
Nepal	23	101.59	69.59	108.01	43.66	17.4	30.4
Sri Lanka	47	144.89	201.27	180.42	206.00	17.0	8.3
Total	155	2,339.37	1,690.91	1,321.09	1,165.68	12.3	14.9

Note: Totals may not add up because of rounding.

procurement and public financial management, and introducing a results reporting system. New record levels were reached in contract awards and commitments (\$2.3 billion, a 38% increase over 2005) and disbursements (\$1.3 billion, a 13% increase over 2005) (Table 19, Figure 8).

Despite the challenging political situation in Bangladesh, portfolio performance was improved through ADB's concerted efforts with the Government to reduce start-up delays, prepare project proposals on time, and ensure project readiness during processing. Disbursements for sovereign loans increased to the highest level for Bangladesh over the past 10 years. A joint country portfolio review mission was conducted with the joint strategy and program partners, and an action plan was prepared in close consultation with the Government to improve portfolio performance.

Joint efforts by ADB and the Government of India resulted in improved project readiness, project implementation, and overall portfolio performance. A cluster technical assistance facility was created to prepare projects and develop capacity so that projects in the program for 2007–2009 are ready to award contracts by the time they become effective. Sector-focused, tripartite portfolio review meetings are held regularly with executing agencies, and implementation problems are discussed upfront, resulting in a marked improvement in contract awards and disbursements. Sovereign public sector loan disbursements increased to the highest level for India since ADB commenced lending operations in 1986.

The results-based country portfolio review for Nepal adopted a portfolio management strategy that provided a number of effective measures that clearly improved portfolio performance. Specific actions included improving



ADB supports human resource development in South Asia

TABLE 20 South Asia: Cumulative Lending and Disbursements by Country as of the end of 2006
(\$ million)

Country	Lending	Disbursements
Bangladesh	8,299.79	5,894.37
Bhutan	176.06	103.42
India	16,448.21	8,856.54
Maldives	91.48	62.18
Nepal	2,300.98	1,545.20
Sri Lanka	3,763.25	2,754.33
Total	31,079.77	19,216.04

FIGURE 7 South Asia: ADB Lending by Country, 2005–2006 (Sovereign and Nonsovereign)

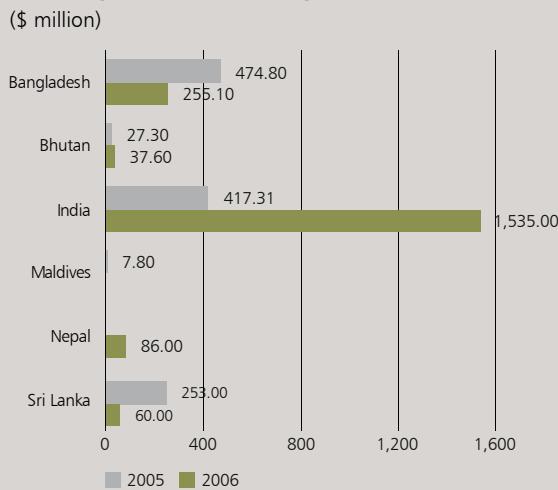
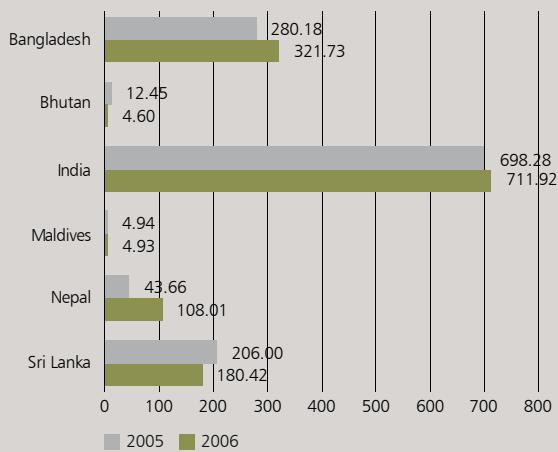


FIGURE 8 South Asia: ADB Disbursements by Country, 2005–2006 (Sovereign and Nonsovereign)
(\$ million)



project readiness, harmonizing with donors on procurement, intensively engaging with the Government, improving financial management, and intensive spring cleaning.

The Sri Lankan portfolio weakened mainly because of the security situation in the north and east of the country, which has slowed down reconstruction in all uncleared areas, and because the post-tsunami reconstruction boom continues to use up available construction materials and skilled labor. Government ministries are also confronted with increasingly scarce human resources to supervise and administer complex projects.

COUNTRY HIGHLIGHTS

BANGLADESH

The new country strategy and program (2006–2010), approved in 2005, was one of the first prepared using

a results-based approach. It was developed jointly with the United Kingdom's Department for International Development, Government of Japan, and World Bank. The joint country strategy and program allows ADB to be more selective and focused while providing coordinated support, along with the other country strategy and program partners, to reforms that are difficult but fundamentally important to poverty reduction and economic growth.

The political situation remained the main challenge to smooth program delivery, particularly in the last quarter of the year. However, close coordination with the Government helped mitigate the constraints. Policy dialogue with the Government helped foster reforms in the energy, education, and railways sectors. The dialogue focused on improvements in transparency and efficiency in public procurement, portfolio performance, and preparation of operational risk mitigation action plans to address key governance risks.

ADB operations helped remove critical constraints on the investment climate and on empowering the poor by

TABLE 21 South Asia: Sovereign and Nonsovereign Loan Approvals by Country, 2006
(\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
SOVEREIGN					
Bangladesh					
Improvement of Capital Market and Insurance Governance	—	3.00	3.00	4.00	9 Mar
Second Rural Infrastructure Improvement	—	96.10	96.10	260.50	18 Aug
Secondary Towns Water Supply and Sanitation Sector	—	41.00	41.00	71.10	16 Oct
Secondary Education Sector Development Program	—	85.00	85.00	113.33	26 Oct
- Project Loan	—	30.00	30.00	30.00	26 Oct
- Program Loan	—	—	—	—	—
Bhutan					
Urban Infrastructure Development	—	24.60	24.60	30.75	27 Sep
Financial Sector Development Program	—	—	—	—	—
- Program Loan	—	11.00	11.00	11.00	7 Dec
- Project Loan	—	2.00	2.00	2.50	7 Dec
India					
Rural Roads Sector II Investment Program (Subproject 1)	180.00	—	180.00	236.00	31 Jul
Rural Cooperative Credit Restructuring and Development Program	1,000.00	—	1,000.00	1,000.00	8 Dec
Kolkata Environmental Improvement (Supplementary)	80.00	—	80.00	113.60	14 Dec
Nepal					
Rural Finance Sector Development Cluster Program (Subprogram I)	—	56.00	56.00	64.70	26 Oct
Education Sector Program (Subprogram I)	—	30.00	30.00	32.00	1 Dec
Sri Lanka					
Secondary Towns and Rural Community-Based Water Supply and Sanitation (Supplementary)	13.50	46.50	60.00	93.20	29 Nov
Subtotal	1,273.50	425.20	1,698.70	2,062.68	
NONSOVEREIGN					
India					
NTPC Capacity Expansion Financing Facility	75.00	—	75.00	4,000.00	27 Jul
SREI Infrastructure Finance Limited, India	50.00	—	50.00	50.00	27 Jul
Dahej Liquefied Natural Gas Terminal Expansion	150.00	—	150.00	336.04	30 Aug
Subtotal	275.00	—	275.00	4,386.04	
Total	1,548.50	425.20	1,973.70	6,448.72	

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and subborrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

improving governance in the energy, transport, education, and integrated urban infrastructure sectors. Energy reforms aimed to help the Government restructure the power sector to ensure adequate and reliable power supply at competitive prices through increased private sector participation and more efficient management and operations. Successful implementation of the Second Primary Education Development Program, which will improve the quality of primary education and its accessibility to poor children is under way with ADB as the lead agency, together with 10 other development partners.

ADB approved four projects totaling \$255.1 million for rural infrastructure improvement, secondary education, secondary towns' water supply and sanitation, and improvement of capital market and insurance governance. In addition, a multitranche financing facility for the railways subsector (\$430.0 million) was approved. ADB also approved seven technical assistance grants totaling \$5.7 million.

The rural infrastructure improvement project will upgrade about 9,920 km of tertiary roads that make up the rural road network to help reduce poverty in 23 districts in north and central Bangladesh, providing the poor with ready access to services. In secondary education, the focus is on strengthening the sector's management and governance, the curricula and national examinations, and teacher education, as well as furnishing and equipping schools, training personnel, and upgrading the curricula. The secondary towns' water supply and sanitation sector project will help provide sustainable access to improved and safe water supply and sanitation services to about 1.6 million people in 16 towns, helping the Government meet the water-related Millennium Development Goals and its own poverty reduction targets. Finally, a loan to improve good governance practices in the capital market and the insurance sector will reinforce investor confidence in financial markets.

BHUTAN

ADB's country operations were consistent with the goals and objectives of the results-based country strategy and program, which focuses on transport, power, urban development, and financial and private sector development. ADB approved loans for two projects—the Urban Infrastructure Development Project (\$24.6 million) and the Financial Sector Development Program (\$13.0 million). The project aims to improve urban infrastructure facilities and basic urban services in Thimpu and Phuentsholing,

Bhutan's two largest cities, as well as in Dagana, a regional center. The program will improve governance, promote a better investment climate, and encourage greater private sector participation to ease constraints facing Bhutan's financial system.

ADB also approved five technical assistance grants for a total of \$1.9 million, four of which were for institutional strengthening and capacity development in urban infrastructure, the financial sector, and debt management. Grant assistance from the Japan Fund for Poverty Reduction amounting to \$1.0 million was approved for rural electricians' training. ADB also processed, through the Australia–ADB South Asia Development Partnership Facility, a grant assistance for \$0.5 million (part of the approved \$8.5 million Development Partnership Program for South Asia regional technical assistance) to support anticorruption efforts and good governance at the local level.

ADB's India program has supported the Government's efforts to combat poverty through infrastructure-led growth



ADB supports primary and secondary education in South Asia

INDIA

The country is one of the fastest-growing economies in the world. The approach paper to the 11th Five-Year Plan (2007–2011) reinforces the need for a broad-based and inclusive growth strategy to further reduce poverty. The need for good social and economic infrastructure to facilitate and sustain high and inclusive growth is critical.

Since 2003, ADB's India program has supported the Government's efforts to combat poverty through infrastructure-led growth. The strategy's continued relevance is borne out by the high priority given by the Government to infrastructure programs to improve power supply, build highways, and promote urban development. ADB's assistance program for 2007–2009 continues to focus on infrastructure.

In 2006, ADB approved six loans amounting to \$1.5 billion. In addition, three multitranche financing facilities amounting to \$1.1 billion were approved during the year. Sovereign assistance includes loans for the Rural Cooperative Credit Restructuring and Development Program (\$1.0 billion), Kolkata Environmental Improvement Project (supplementary financing) (\$80.0 million), and Rural Roads Sector II Investment Program (first periodic financing request) (\$180.0 million), as well as multitranche financing facility operations for the Uttaranchal Power Sector Investment Program (\$300.0 million), the Uttaranchal State Roads Project (\$550.0 million), and the North Karnataka Urban Sector Investment Program (\$270.0 million). ADB also approved 12 technical assistance grants to India totaling \$30.6 million.

The Rural Cooperative Credit Restructuring and Development Program will address the problems faced by farmers by undertaking a comprehensive reform of the cooperative credit structure, which is impaired on the governance, managerial, and financial fronts. The Uttaranchal Power Project will harness the capacity of one of India's poorest states, which has undeveloped hydropower potential estimated at 20,000 megawatts, to meet the state's needs for clean and efficient energy and enable it to export power to surrounding states. The Uttaranchal State Roads Project will help improve the living standards of the rural population of Uttaranchal through road upgrading. The North Karnataka Urban Sector Program will rehabilitate existing, and construct new, urban infrastructure in the north of the state.

The private sector accounts for three fourths of both gross domestic product and investment in India. Development of the sector is therefore critical for growth.



A broad-based and inclusive growth strategy is critical to reducing poverty

ADB's strategy under its private sector window is to support infrastructure and financial sector projects by providing long-term financial assistance. Approved loans included two nonsovereign private sector loans amounting to \$200.0 million, one with \$75.0 million reinsurance. In addition to these loans, \$72.6 million was provided for equity investments. Nonsovereign operations also included a \$75.0 million loan to National Thermal Power Corporation, a state-owned enterprise, with \$225.0 million in complementary financing under ADB's B-loan program to finance its power generation capacity expansion program and reduce the country's power shortfall.

MALDIVES

ADB is promoting energy, education, regional development, and private sector development.

In October 2005, the Government requested ADB to defer all project-related assistance for 2006 and instead consider providing a quick-disbursing program loan to help stabilize the macroeconomic situation. ADB positively responded to this request and developed the Public Sector Resource Management Program operation. The policy dialogue is continuing, with special emphasis on fiscal policy. ADB is also helping the Government transform its role from providing social services to setting policy. A technical assistance for Restructuring and Privatization of State-Owned Enterprises amounting to \$400,000 was approved in December 2006. During the year, ADB continued to strengthen the capacity of the Public Service Division and the Ministry of Finance and Treasury.

Lighting Up Lives in Rural Bhutan

Darkness used to fall early in the Himalayan country of Bhutan. In remote villages without electricity, this meant parents stopped work early and children could not do much studying at home. The lack of electricity also limited the work of hospitals and the availability of school facilities.

Since 2003, ADB and other international organizations such as the Japan International Cooperation Agency have helped dispel some of the darkness through a program of rural electrification. The Rural Electrification and Network Expansion Project has brought electricity to over 8,000 new consumers, including poor households, hospitals, and schools.

Part of the loan included a special feature to provide electrification kits to the poorest households. A large barrier for the poorest households is the cost to connect the house to the distribution system in the village, which was about \$75, as well as the cost of doing internal wiring in the house. To address this, the loan developed criteria to identify the poorest households and provide them with the electrification kits, which included a load limiter switch (instead of a meter), cables for connecting to the distribution system, and wires and outlets for wiring the house.

As more villagers use electricity for light, cooking, and heating, people fall sick less often. In particular, fewer women now suffer from eye and respiratory ailments caused by kerosene lamps and wood fires.

As women increasingly use electrical appliances like rice cookers, they have more time to augment their meager family incomes with cottage industries like weaving and tailoring. Both men and women are able to work longer hours, thanks to electric lighting. Other income-earning activities that have increased in the project areas are microenterprises and cottage industry, including carpentry and carving.

Dorji Wangmo of Decheling Gewog village is delighted that she can now put on the rice cooker

and sit to weave. "Sometimes I keep on weaving till late night because during the day I have to attend to other household works," she said.

Educational opportunities have improved for children and adults: children can study after sundown and adults attend evening classes conducted by the Department of Education in the project areas.

A villager in Gelephu village said, "Now we don't have to depend on timber for cooking and our children can also do their studies in a better way."

The project's environmental benefits include less pressure on forests as a source of household fuel. Since 1995, when ADB first supported a rural electricity project in Bhutan, kerosene use has come down from an average of 10 liters a month to 1 liter.

Electrified villages have also reported a drop in theft, burglary, and vandalism with light deterring criminals.

Fewer women now suffer from eye and respiratory ailments caused by kerosene lamps and wood fires



Economic activity has picked up with the provision of electricity

NEPAL

Significant political changes took place. An alliance of seven political parties assumed power and Parliament was reinstated following a political movement. These developments facilitated peace negotiations with the Communist Party of Nepal/Maoist, resulting in a historic peace accord in November 2006 and an end to the decade-long conflict.

The peace accord has increased Nepal's development prospects. The improved security situation and environment for development have helped revive rural livelihoods and economic and development activities. The peace process also promises a conducive political and security environment for postconflict reconstruction and rehabilitation and for the tackling of longer-term issues of poverty, social exclusion, and weak governance—some of the root causes of the conflict.

ADB prepared a country operations business plan—which updates the 2005 country strategy and program—to guide its operations from 2007 to 2009 in the changed political and development context. The business plan retains the strategic priorities of the country strategy and program: reducing poverty and addressing the root causes of the conflict through broad-based economic growth, promoting inclusive social development, and improving governance. The business plan seeks to strengthen the results orientation of ADB's assistance to help make development effective.

ADB approved a total of \$169.9 million in ADF assistance. For the first time in Nepal, about 50% was in the form of ADF grants



Education is a core sector for ADB operations in Sri Lanka

ADB approved a total of \$169.9 million in ADF assistance for four projects. For the first time in Nepal, about 50% of this assistance was in the form of ADF grants. The significantly high assistance resulted mainly because of the rollover from the 2005 country program, the processing of which was hampered by the prevailing political and security situation. ADB also approved 13 technical assistance grants totaling \$6.4 million. A project funded by the Japan Fund for Poverty Reduction to improve the livelihoods of poor farmers and disadvantaged groups was also approved for \$1.0 million. In the medium term, ADB will support the Government in its postconflict reconstruction and rehabilitation activities.

SRI LANKA

The core sectors of ADB's operations are transport, education, water supply and sanitation, energy, and rural development (small and medium-sized enterprises and agriculture). The emphasis of the Government, voted into power in November 2005, is spreading development to rural areas to achieve the Millennium Development Goals and reduce regional inequality and income poverty. The Government intends to finalize its 10-year development plan by early 2007. The plan will form the basis for ADB's country partnership strategy, which will be finalized in late 2007. The security situation is likely to have an impact on ADB's project implementation and processing in the north and east of the country. The ADB strategy will need to take into account the security situation and its possible overall impact on fiscal management.

ADB approved supplementary financing of \$60.0 million for the Secondary Towns and Rural Community-Based Water Supply and Sanitation Project. It has a significant community participation component, involving all stakeholders in project design, which is especially relevant for its components in the north and east of the country. Considerable progress in processing was made in three further loans. The project to expand Colombo Port moved ahead with a memorandum of understanding signed between the minister of ports and aviation and ADB in September 2006, and the request for proposals for the breakwater issued in January 2007. The bulk of the work for a small and medium-sized enterprise development project was completed in 2006. Major progress has been made on the upgrading of a major expressway to the south to four lanes. ADB approved four technical assistance grants in 2006 for a total of \$2.3 million.

Women's Empowerment Supports Good Governance in South Asia

A regional technical assistance project has demonstrated that encouraging participation of citizens, particularly of women and poor people, is good for local government. By the time ADB funding ended in 2004, the project had clearly improved governance and empowered women in the project areas in Bangladesh, Nepal, and Pakistan. As a result, development partners came forward in each country to continue the project.

Under the ADB-supported Gender and Governance Issues in Local Government Project, elected women officials brought together government line officers and the poorest constituents at regular village and district forums to discuss local needs and identify ways to mobilize government resources.

As a result of this participatory process, in 2 years, women local council members in Bangladesh have helped train more than 9,500 poor women and young people through agriculture, livestock, and fishery extension programs. Another 6,000 poor women gained access to income-generating activities through various poverty reduction programs from 2002 to 2004.

Female representatives mediated in nearly 4,000 cases to settle issues important to villagers, including disputes over land, dowry, early marriage, and polygamy.

In Nepal, women's forums mobilized funds from village development councils to fund 199 projects ranging from infrastructure development and income generation to forest and environmental management. They also mediated disputes relating to domestic violence and polygamy.

Women representatives from union councils in Pakistan mobilized resources for 190 development schemes, including water supply, road pavement, sewerage and sanitation, school renovation, street lighting, and vocational training center for girls. These representatives also helped resolve cases of domestic violence and divorce.

The project has demonstrated the advantages of citizen participation at the grassroots level and is enthusiastically supported by its major stakeholders—local government, local communities, and civil society. It is now being implemented by a nongovernment organization (NGO) in Bangladesh. In Nepal, the Ministry for Local Government provided seed money to continue the work of the elected women's forums. In Pakistan, an NGO has integrated the forums into its community organizing activities.

Encouraging participation of citizens, particularly of women and poor people, is good for local government



Women's forums mobilized funds from village development councils for 199 projects in Nepal



SOUTHEAST ASIA

Brunei Darussalam, Cambodia, Indonesia,
Lao People's Democratic Republic, Malaysia,
Myanmar, the Philippines, Singapore, Thailand,
Viet Nam

ADB's Mekong and Southeast Asia Departments were merged in May 2006 as part of the realignment of ADB's regional departments. The merger placed the 10 countries in Southeast Asia under a single department (Southeast Asia Department).

Southeast Asia is an economically dynamic and socioculturally diverse region. Its countries have demonstrated strong economic performance, with an aggregate gross domestic product growth rate of over 5% in 2006. They have also made progress in implementing their reform agenda, including macroeconomic management, legal and regulatory frameworks, and governance. Development opportunities and challenges are different from one country to another.

Southeast Asia is known for its success in regional cooperation and integration. Its countries, which are at different development stages and have various needs, have benefited from working together toward common development goals. ADB's realigning regional departments and Brunei Darussalam's joining ADB in 2006 brought new opportunities to promote regional cooperation and integration. ADB worked closely with the governments to solve development problems facing countries eligible only for Asian Development Fund (ADF) resources as well as countries eligible for ordinary capital resources (OCR), while strengthening partnership with others, including Malaysia and Singapore. ADB's closer engagement with these countries strengthened the programming approach to promoting connectivity and competitiveness and made it more meaningful, and increased the region's sense of community by enhancing the countries' links with each other.

ADB provided a total of \$1.8 billion in loans to countries in Southeast Asia, of which 28% was from the concessional ADF resources. Lending operations financed under the ADF and OCR were 48% higher than average lending over the past 4 years. Cofinancing of \$790.4 million was mobilized for lending operations. ADB provided 59 technical assistance projects totaling \$51.4 million for project preparation (\$13.6 million), advisory (\$27.2 million), and regional technical assistance (\$10.6 million). It also processed six Japan Fund for Poverty Reduction projects for \$10.4 million, two Japan Fund for Information and Communication Technology projects for almost \$1.0 million, and one project of \$1.0 million for Indonesia from the Asian Tsunami Fund.

Greater Mekong Subregion (GMS). Two loans for the GMS were approved: the \$42 million loan for the GMS Rehabilitation of the Railway in Cambodia, and the \$60 million loan to Viet Nam for the GMS Kunming–Hai Phong Transport Corridor: Yen Vien–Lao Cai Railway Upgrading Project. ADB extended 11 technical assistance projects for project preparation, and studies and advisory support for regional cooperation from the Technical Assistance Special Fund and Japan Special Fund amounting to \$6 million for the GMS. Key knowledge products were also upgraded and updated, including the GMS webpage, e-newsletter, and development matrix of priority subregional projects. The GMS governments finalized the transport sector strategy study. The GMS energy strategy study commenced and is expected to be completed in March 2007. The GMS Core Agriculture Support Program was prepared for endorsement by GMS agriculture ministers in April 2007. Support for the GMS Strategic Framework for Action on Trade Facilitation and Investment was initiated in 2006.

The GMS Core Environment Program started during the year. It is a 10-year program endorsed by the GMS Environment Ministers Meeting in May 2005 and by the Second GMS Summit of Leaders in July 2005. The program supports the broad-based sustainable development of GMS countries by mainstreaming the environment in the GMS Program. The Biodiversity Conservation Corridors Initiative, which aims to establish sustainable development and management regimes in five GMS biodiversity corridor sites, is the flagship program of the core environment program. The Working Group on Environment, whose members include representatives from the environment ministries of the GMS countries, is the steering and oversight body for implementing the core environment program. The Environment Operations Center was established in Bangkok, Thailand, in April 2006 to serve as the secretariat of the Working Group on Environment. The center also coordinates and facilitates the timely and

TOP 5 ACHIEVEMENTS IN 2006

The merger of Mekong Department and Southeast Asia Department under the 2006 realignment produced operational synergies that helped deliver services to DMCs more efficiently and effectively. These included:

- Three results-based country strategies and programs and one country operations business plan, and an enhanced engagement with Indonesia and the Philippines
- An updated regional cooperation strategy and program for the Greater Mekong Subregion and strengthened links with Association of Southeast Asian Nations members and programs
- Emergency assistance to Indonesia, the Philippines, and Viet Nam, and support for their long-term disaster preparedness programs
- Enhanced inclusive development through projects and programs that help ethnic minorities in Cambodia, the Lao People's Democratic Republic (Lao PDR), and Viet Nam, particularly in combating HIV/AIDS
- Support for good governance and reform in the Lao PDR, the Philippines, and Viet Nam

effective implementation of the core environment program in collaboration with various partners in governments, non-government organizations (NGOs), and local communities.

Greater synergy between the GMS and national programs and strategies has been a strategic priority of the country strategy and program papers for the Lao People's Democratic Republic (Lao PDR) and Viet Nam, which the Board endorsed in October 2006. The strategies and programs were closely aligned with the GMS regional cooperation strategy and program update, which was approved in September 2006. The update includes an indicative lending pipeline totaling about \$1.6 billion over 2007–2009. The lending program covers investments in power interconnection and transmission, subregional roads and highways,

TABLE 22 Southeast Asia: Portfolio Performance Indicators for Sovereign Lending, 2005–2006

Country	No. of Ongoing Loans (as of Dec 2006)	Contract Awards/Commitments		Disbursements		Loans at Risk	
		2006 (\$ million)	2005 (\$ million)	2006 (\$ million)	2005 (\$ million)	2006 (%)	2005 (%)
Cambodia	21	39.10	96.40	54.55	84.47	4.8	—
Indonesia	35	780.97	914.51	861.48	1,014.99	—	—
Lao PDR	25	56.18	87.03	76.06	78.74	8.0	—
Malaysia	—	—	2.15	0.70	7.52	—	—
Philippines	21	844.13	238.59	832.98	239.57	9.5	4.3
Thailand	—	5.30	15.62	5.20	12.93	—	—
Viet Nam	37	252.14	209.80	184.07	223.66	10.8	11.1
TOTAL	139	1,977.81	1,564.10	2,015.04	1,661.86	6.5	3.4

Note: Totals may not add up because of rounding.

sustainable tourism development, and flood management and mitigation. The technical assistance program for the 3 years totals \$16.2 million and consists of 19 projects, including 10 to prepare investment projects and 9 to support advisory, research, and coordination work. ADB also carried out a concerted program of outreach activities, including Mekong development forums in Singapore in March and in Stockholm in April 2006, which provided a venue for engaging development partners, civil society, and the private sector on specific areas of interest in the GMS program. An Agence Française de Développement (French Development Agency)–ADB retreat was held in January 2006 to improve coordination and effectiveness of the cofinanced programs of the two organizations in the Mekong. ADB also discussed with the Australian Agency for International Development the agency's plan to intensify its involvement in the subregion.

The GMS program continued to promote inclusive development through regional technical assistance projects. In recognition of the risks of human trafficking in the subregion, it supported a regional anti-trafficking and safe migration project in cooperation with the United Nations Inter-Agency Project on Trafficking and several NGOs. It supported capacity building of developing member country agencies to combat human trafficking. It worked with NGOs to develop safe migration initiatives and community-based referral systems. It supported research on links between loss of land, livelihoods, and unsafe migration leading to trafficking. Under another regional initiative, ADB cooperated with national research institutions to carry out in-depth research on the impacts of regional economic integration on poverty in the GMS.



A participatory poverty assessment of the Tonle Sap was done in partnership with national research and statistics institutes in Cambodia

TABLE 23 Southeast Asia: Cumulative Lending and Disbursements by Country as of the end of 2006 (\$ million)^a

Country	Lending	Disbursements
Cambodia	912.24	619.14
Indonesia	21,513.30	16,138.83
Lao PDR	1,218.34	990.53
Malaysia	1,987.54	1,403.98
Myanmar	530.86	411.83
Philippines	9,249.03	7,116.92
Thailand	5,388.07	4,204.65
Viet Nam	4,040.56	2,139.23
Total	44,839.94	33,025.11

^a Loan component of regional projects distributed to the countries.

FIGURE 9 Southeast Asia: ADB Lending by Country, 2005–2006 (Sovereign and Nonsovereign)



FIGURE 10 Southeast Asia: ADB Disbursements by Country, 2005–2006 (Sovereign and Nonsovereign)



Indonesia–Malaysia–Thailand Growth Triangle.

The growth triangle comprises Sumatra (Indonesia), the eight southernmost provinces of Thailand, and eight states in Peninsular Malaysia, with a total population of more than 65 million. The year witnessed a substantial deepening of the relationship between ADB and the growth triangle cooperation initiative. Following their first summit in December 2005, the leaders of the countries asked ADB to help them develop a 5-year road map and action plan to rebuild dynamism and refocus the initiative. This road map was prepared and submitted for endorsement at the second Indonesia–Malaysia–Thailand Leaders' Summit held in Cebu, Philippines, January 2007. The sum-

mit endorsed ADB's status as a development partner of the growth triangle. The ministerial meeting in September 2006 in Selangor, Malaysia, requested ADB's assistance in implementing the road map after its formal endorsement, including the development of flagship cooperation projects and the creation of financial mechanisms for increasing public and private investments in infrastructure and other sectors. Under a new regional technical assistance, ADB will also help the countries improve project implementation, coordination, and monitoring, and identify sectoral opportunities for private investment in regional projects.

Brunei Darussalam–Indonesia–Malaysia–Philippines

East ASEAN Growth Area. ADB is the regional adviser

TABLE 24 Southeast Asia: Sovereign and Nonsovereign Loan Approvals by Country, 2006
(\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
SOVEREIGN					
Cambodia					
Second Power Transmission and Distribution	–	20.00	20.00	52.36	4 Oct
Greater Mekong Subregion: Rehabilitation of the Railway in Cambodia	–	42.00	42.00	73.00	13 Dec
Indonesia					
Infrastructure Reform Sector Development Program (Subprogram I)					
- Program Loan	400.00	–	400.00	400.00	21 Nov
- Project Loan	–	26.50	26.50	38.76	21 Nov
Sustainable Aquaculture Development for Food Security and Poverty Reduction	–	33.30	33.30	44.52	12 Dec
Madrasah Education Development	–	50.00	50.00	71.43	15 Dec
Second Development Policy Support Program (Subprogram I)	200.00	–	200.00	200.00	20 Dec
Lao PDR					
Forest Plantations Development	–	7.00	7.00	15.35	16 Jan
Rural Finance Sector Development Program					
- Program Loan	–	7.68	7.68	7.68	17 Aug
- Project Loan	–	2.32	2.32	3.36	17 Aug
Northern Region Sustainable Livelihoods through Livestock Development	–	9.30	9.30	18.40	29 Sep
Basic Education Sector Development Program	–	8.90	8.90	8.90	20 Dec
Philippines					
Financial Market Regulation and Intermediation Program (Subprogram I)	200.00	–	200.00	200.00	6 Dec
Power Sector Development Program (Subprogram I)	450.00	–	450.00	450.00	8 Dec
Viet Nam					
Support the Implementation of the Poverty Reduction Program III	–	15.00	15.00	15.00	5 Oct
Forests for Livelihood Improvement in the Central Highlands Sector	–	45.00	45.00	90.66	26 Oct
Central Region Small and Medium Towns Development	–	53.22	53.22	66.72	17 Nov
Emergency Rehabilitation of Calamity Damage	–	50.97	50.97	59.89	21 Nov
Agriculture Science and Technology	–	30.00	30.00	40.00	11 Dec
Small and Medium Enterprise Development Program (Subprogram II)	–	20.00	20.00	20.00	12 Dec
Upper Secondary and Professional Teacher Development	–	34.00	34.00	43.18	18 Dec
Greater Mekong Subregion Kunming–Hai Phong Transport Corridor: Yen Vien–Lao Cai Railway Upgrading	–	60.00	60.00	160.00	19 Dec
Subtotal	1,250.00	515.19	1,765.19	2,079.21	
NONSOVEREIGN					
Indonesia					
South Sumatra to West Java Phase II Gas Pipeline	75.00	–	75.00	652.50	10 Aug
Subtotal	75.00	–	75.00	652.50	
Total	1,325.00	515.19	1,840.19	2,731.71	

– = nil.

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and sub-borrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

to the growth area. At the countries' second summit held in December 2005, a road map and action plan were endorsed for subregional cooperation. ADB helped implement the road map, in part by launching a trade and investment database. The database is an important tool for decision makers to monitor and quantify developments in the area, and to prioritize investment projects. Stakeholders can now access the database through the website of the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area Facilitation Center. Cooperation in easing trade also gained momentum. Senior customs, immigration, quarantine, and security officials from the area attended the first task force meeting on customs, immigration, quarantine, and security in August 2006, organized with technical assistance from ADB and the German Agency for Technical Cooperation (GTZ). They agreed to accelerate developing the area's cooperation framework for customs, immigration, quarantine, and security to pilot-test the implementation of ASEAN agreements on easing cross-border movement of passengers and freight across land and maritime borders.

ADB helped prepare a draft action plan for development of the transport and energy sectors. In 2007, ADB will continue to support the area's infrastructure development (transport and energy sectors); trade facilitation (harmonization of customs, immigration, quarantine, and security; and cross-border transport facilitation); and its efforts to improve coordination and monitoring with technical assistance approved in 2006. ADB will also explore opportunities in cooperation with other donors in the areas of agro-industrial development and environmental management.

Portfolio Management

Monitoring of portfolio performance and focus on the quality of projects were intensified. Regular portfolio review meetings were held at the division, department, and country levels, and the resident missions were further empowered, including through greater delegation of loans for administration, for more intensive and on-the-ground attention to portfolio management issues and quicker response time. The Southeast Asia Department's Portfolio Management Unit within the Office of the Director General, established in March 2005 to better coordinate portfolio management, undertakes rigorous monitoring to ensure that targets are met and issues are quickly resolved. Portfolio performance in the region significantly improved over the previous year. Disbursements amounted to \$2.0 billion by the end of 2006, showing a 21% increase over 2005 while contract awards increased by 26%, reaching almost \$2 billion (Table 22). The higher disbursements and contract awards are largely attributable to a considerable expansion of the Philippine portfolio (Figure 10). ADB disbursed \$833.0 million in 2006, the highest annual disbursement ever to the Philippines, including \$750.0 million in program loan tranches and \$83.0 million in project loans (Table 22). This resulted in the first positive net resource transfer of \$268.5 million from ADB to the Philippines since 1997. Performance indicators for the 21 active loans remained sound, making the Philippines portfolio one of ADB's best, and one of the lowest proportions of projects at risk. The percentage of loans at risk in the region is much lower than the ADB-wide average.

COUNTRY HIGHLIGHTS

CAMBODIA

With the country's overall incidence of poverty at 34.7% and rural areas' at 39.2%, ADB's overarching goal is poverty reduction. The country strategy and program for 2005–2009 emphasizes support for broad-based economic growth, inclusive social development, and good governance. It focuses



ADB's program in Cambodia for 2007–2009 includes a focus on education

Four crosscutting themes—governance, private sector development, gender, and the environment—support the poverty reduction objectives of Cambodia's country strategy and program

on the Tonle Sap basin, one of the poorest and most environmentally sensitive areas of Cambodia, as well as on the subregion so that the country can benefit from the broader opportunities provided by the GMS program. Four crosscutting themes—governance, private sector development, gender, and the environment—are incorporated to support the poverty reduction objectives of the country strategy and program. ADB's program in Cambodia for 2007–2009 will focus on agriculture and natural resources, education, finance, small and medium-sized enterprises, rural water supply and sanitation, and interventions in the Tonle Sap basin.

The Government has continued to adopt laws and regulations to increase private sector activity and fulfill its commitments to the World Trade Organization. The Commercial Arbitration Law, adopted in May 2006, is expected to promote confidence in financial transactions and commercial activities, and will help reduce lending costs. The law also provides an alternative dispute resolution mechanism, and ADB is helping the Government set up a national arbitration center. ADB's ongoing Financial Sector Cluster Program has directly contributed to the passage of these laws. An online secured-transaction filing system has been developed and is ready for launch in 2007. The National Bank of Cambodia changed its regulations in the last quarter of 2006 to allow banks and microfinance institutions to have licenses for an unspecified duration. The Government has also adopted a licensing review plan that would pave the way to remove duplicate and unnecessary licenses for businesses.

A participatory poverty assessment of the Tonle Sap was done in partnership with national research and statistics institutes. It included long village stays by researchers in 24 sites in 6 provinces. The participatory nature of the research enabled detailed interactions with the poorest and most vulnerable sections. The output consists of a wealth of data on the extent, nature, causes, and manifestations of poverty in the areas around the Tonle Sap. Serious issues regarding obstacles to poverty reduction have been highlighted by the poor themselves. There are also remarkable suggestions for empowering the poor to enable them to participate effectively in decision making, and for allocating resources.

Particular attention is given to supporting Indonesia's reform program, and to increased private sector participation in financing development needs, especially in infrastructure



ADB supports a results-based program in Indonesia that encourages responsible environment and natural resources management

The outputs of the technical assistance have been presented at a national launch workshop with high-level government participation. These will form part of a national poverty data base for systematic monitoring of the Government's National Poverty Reduction Strategy.

The total assistance program reached \$76.1 million (including \$42.0 million from the GMS program), with an emphasis on easing critical infrastructure transport and energy bottlenecks and on supporting the Government's decentralization and deconcentration initiative. ADB approved a \$7.8 million grant for the Commune Council Development Project Phase II, a \$20.0 million loan for the Second Power Transmission and Distribution Project, and a \$42.0 million loan to rehabilitate the railways in Cambodia. ADB also provided \$6.3 million for three project preparatory technical assistance grants for agriculture and natural resources, education, and finance; and five advisory technical assistance grants for education; energy; industry and trade; transport and communications; and law, economic management, and public policy. ADB approved Cambodia's first indicative rolling country operations business plan for 2007–2009.

INDONESIA

ADB prepared a results-based country strategy and program for 2006–2009, which is fully aligned with the Government's medium-term development plan. The country strategy and program addresses a selected number of constraints on achieving higher pro-poor, sustainable economic growth, and improved social development. The focus is on five areas of engagement, including infrastructure development, financial sector deepening, decentralization, faster achievement

A Tentative New Beginning in Aceh

On the tragic morning tsunami waves ripped through the village of Meunasah Tuah in Indonesia's Aceh region, little more than devastation was left in their wake.

"The water was as high as the coconut trees," says Mohamed Zein, who lost his wife and every member of his immediate family, save one brother, to the violent torrents on 26 December 2004.

Only 170 of the village's 3,000 families had any surviving members, and every last family suffered the loss of a loved one. Not a single family survived intact.

"The greatest gift we can give to these families who have already been through so much is simply an opportunity to create a better and lasting future for themselves," says ADB Managing Director General Rajat Nag. To this end, a key component of ADB's \$382 million assistance program for Aceh, of which \$331 million is in grant form, is helping tsunami-affected families earn a living through farming and livestock rearing.

For Mohamed Zakir and his family, this has meant a chance to start their lives anew. He was at sea in his fishing boat when the tsunami struck. While his wife, Nurjanna, miraculously survived by grabbing on to a passing truck tire, the couple lost their only child to the ferocious waters.

Like many men who once fished the rugged waters off Aceh, Mohamed Zakir has lost his love for life at

sea. Under this ADB-supported initiative, impoverished families receive training and support so they can earn a dependable living raising livestock.

In Meunasah Tuah, 200 goats were divided among 25 of the community's neediest families for them to breed and sell. Goat curry is one of Aceh's most popular dishes, and there is never a shortage of demand at local markets, so families can depend on a steady source of income. The fact that Mohamed Zakir has been able to change his trade from fishing to goat breeding has also helped allay the worries of his wife, who says she never wants her husband or their newborn son to ever have to rely on the ocean for survival.

Although nothing can take away the pain Mohamed and Nurjanna continue to endure, the recent addition to the family is a source of new joy, and they take comfort in the fact that they now have the resources they need to provide for their son.



Wreckage after the tsunami

of the Millennium Development Goals, and environment and natural resources management. Particular attention is given to supporting the Government's reform program, and to increased private sector participation in financing the country's development needs, especially in infrastructure.

ADB, in coordination with other development partners, helped the Government formulate policy reforms concerning the investment climate, infrastructure development, and financial sector deepening. The Government announced three policy packages in these areas. The infrastructure policy package sets out reform goals in nine infrastructure sectors, supplemented by measures to boost investment.

The investment climate policy package supports broad-ranging reforms on tax, customs, investment law, and labor. The financial sector reform package aims to strengthen the banking and nonbanking sectors and diversify sources of financial intermediation. A small and medium-sized enterprise reform package is being prepared.

ADB loan approvals reached \$784.8 million, with emphasis on supporting the Government's reform program to strengthen macroeconomic management, governance, and the investment climate, and to accelerate infrastructure development. This includes a \$75.0 million nonsovereign public sector loan and \$125.0 million in commercial loans under

ADB's B-loan program for the South Sumatra to West Java Phase II Gas Pipeline Project. ADB also provided \$7.1 million for seven technical assistance projects. In November 2006, ADB approved an Infrastructure Reform Sector Development Program worth \$400.0 million, to improve the investment climate and promote infrastructure development. As part of this program, ADB provided an investment loan of \$26.5 million—supplemented by a \$7.6 million cofinancing grant from the Government of the Netherlands—to establish the Infrastructure Project Development Facility.

Under its medium-term development plan for 2005–2009, Indonesia aims to boost sustainable economic growth to 7%. ADB provided \$200 million for the second Development Policy Support Program in conjunction with World Bank assistance of \$600 million, and additional proposed assistance from the Government of Japan. The assistance focuses on improving the investment climate and strengthening public financial management to improve the use of fiscal resources.

ADB also approved a \$50 million loan for public and private madrasahs at the primary, junior, and secondary levels in 27 poor districts in 3 provinces. The project will enable the madrasahs to meet national education standards for personnel, facilities, and teaching–learning materials; and give 120,000 students access to education.

Another loan for \$33.3 million supports a project to develop small-scale and low-cost aquaculture production systems that are economically sound and environmentally friendly. The project will also increase the incomes and improve the health of 14,000 poor fish farmers by enhancing aquaculture production, supply, and productivity.

In response to the earthquake that hit Yogyakarta and Central Java in May 2006, ADB, together with other development partners, took the lead in helping the Government prepare the damage and loss assessment.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

The Lao PDR recorded robust GDP growth estimated at 7.3%, attributable to a broader base of economic activities. Increasingly resilient to external shocks, the country was able to absorb the recent rise in global oil prices without resorting to government subsidy or suffering serious inflation. In June

ADB approved a new country strategy and program for the Lao PDR, which reflects lessons from ADB's experience in the country



ADB supports basic education in the Lao PDR

2006, the Government approved its Sixth National Socio-Economic Development Plan 2006–2010, which includes a strategy for poverty reduction and sustainable development.

In October 2006, ADB approved a new country strategy and program, which reflects lessons from ADB's experience in the country. It introduces greater sector selectivity and focus, and proposes a move toward a programmatic approach. ADF lending and grants to the Lao PDR amounted to \$62.2 million. Disbursement amounted to \$76.1 million. ADB approved a \$10.0 million sovereign public sector loan for the Rural Finance Sector Development Program, a \$9.3 million sovereign sector loan for the Northern Region Sustainable Livelihoods through Livestock Development Project, a \$7.0 million loan and \$3.0 million grant for the Forest Plantations Development Project, and an \$8.9 million loan and \$12.7 million grant for the Basic Education Sector Development Program. ADB also provided eight technical assistance grants amounting to \$4.6 million for project preparation and capacity development in priority areas.

MALAYSIA

Malaysia is an important player in ADB's regional activities, including the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area and Indonesia–Malaysia–Thailand Growth Triangle programs. ADB provided advisory technical assistance worth \$150,000 for the Support of Improved Economic Modeling. This assistance aims to help the Ministry of Finance carry out its core functions more effectively by developing a macroeconomic

model that will allow for improved consistency and transparency in planning and policy making. ADB also conducted a policy dialogue with Malaysia.

MYANMAR

ADB continued to monitor economic development and will formulate an operational strategy when appropriate. ADB approved the last loan projects in 1986 and the last technical assistance projects in 1987.

PHILIPPINES

The economy has grown steadily in the past 2 years. GDP grew at 5.4% because of strong services performance and the sustained momentum of manufacturing. Record levels of remittances (\$12.8 billion) from overseas workers have allowed higher household spending. Increased merchandise exports have also driven growth.

Fiscal consolidation has been moving well with better tax collection and tighter government spending. The aggressive tax reform program, begun in 2005, produced significant results. Gains in fiscal consolidation keep the Government on track for achieving its target of a balanced budget by 2008. The significance of the success with fiscal consolidation extends well beyond contributing to macroeconomic stability. It has the potential to be the tipping point that moves the Philippines onto a path of accelerated growth performance in the medium term. Already, the improved fiscal situation has given space for new ADB program loans in the power and finance sectors; it has also provided the headroom for the Government to expand spending in infrastructure and social expenditure needed by the poor.

The country strategy and program (2005–2007) is designed to support high-impact projects. Key features include a strategic focus on the most urgent development constraints, including fiscal consolidation, an improved investment climate, and achieving the Millennium Development Goals; alignment of ADB's program with government strategy and priorities; reducing transaction costs through harmonization with domestic systems and activities of other development partners; and working within a results framework emphasizing development impacts and outcomes. Implementation of reforms, especially macroeconomic reforms, has improved, as recent ADB-supported policy-based operations have indicated.

ADB approved two program loans for power and finance totaling \$650.0 million, the highest annual lending since 1998. In addition, ADB approved five technical assistance

projects (including one supplementary) for \$4.7 million, and three investment grants, funded by the Government of Japan, for \$4.4 million. The latter included support for the Southern Leyte landslide disaster under a \$3 million investment grant financed by the Japan Fund for Poverty Reduction. ADB also reprogrammed \$570,000 from approved but unused technical assistance grants for disaster-related assistance to finance the rehabilitation work following the landslide in Southern Leyte in early 2006 and in the Mayon area after a typhoon, and for country-wide long-term disaster preparedness.

THAILAND

The resident mission's first full year of operations was marked by significant strengthening of the collaboration between the Government and ADB as reflected in an expanded knowledge-sharing program and continued policy dialogue on addressing the development challenges and opportunities that Thailand faces as a middle-income country.

Several major technical assistance projects were successfully completed in 2006, including the preparation of a long-term development plan for three tsunami-affected provinces, the design of a comprehensive pension system, and the analysis of options for integrating Bangkok's urban mass transit system and maximizing private sector participation in the construction and operation of an expanded network. ADB approved four technical assistance grants (including one supplementary), amounting to \$1.5 million. One of these will support the implementation of a newly approved capital market development plan while another will strengthen the capacity of Thailand's Neighbouring Countries Economic Development Cooperation Agency to become a lead government donor agency. ADB also maintained its prominent role in the domestic capital market with the issuance of a second baht bond in the amount of B6.50 billion. No loans were provided, but discussions to develop a business pipeline for both sovereign and nonsovereign lending progressed well during the year.

In the context of joint efforts to prepare a new country partnership strategy, consultations with the Government have reconfirmed that there is scope for an expanded, yet tightly focused, role for ADB in Thailand. Policy dialogue has centered on building a partnership with ADB that helps strengthen Thailand's competitiveness in the global economy by removing key constraints on greater productivity and creating a more conducive environment for private sector investment. At the national level, the Government seeks ADB's support in core strategic areas, such as structuring private-public sector partnerships for

Thailand desires to increase its role, capacity, and effectiveness as a regional donor and global development partner

complex, large-scale infrastructure projects; addressing key structural and regulatory reforms to further develop the domestic capital market; and introducing innovative approaches and technologies for improving environmental management and promoting energy efficiency initiatives.

As a middle-income country, Thailand desires to increase its role, capacity, and effectiveness as a regional donor and global development partner. ADB brings considerable added value to the partnership by sharing its extensive experience and expertise in supporting subregional cooperation programs and regional economic integration. At the regional level of partnership, Thailand and ADB will work together to cofinance development projects in neighboring countries, facilitate increased subregional trade and investment, and contribute to the development of more efficient and liquid bond markets in Asia. Continued progress on these initiatives will also serve to strengthen the role of the resident mission as a hub for ADB's operations in the GMS and in the region.

VIET NAM

The year was a period of transition with the approval of the new Five-Year Socio-Economic Development Plan 2006–2010. Viet Nam was accepted as the 150th member of the World Trade Organization. ADB prepared its first results-based country strategy and program for 2007–2010 for Viet Nam in full alignment with the development plan. To help achieve the development plan's targets, the country strategy and program focuses its operations on pro-poor, business-led economic growth; social equity and balanced development; and proper environmental protection and management.

The country strategy and program emphasizes promotion of good governance and anticorruption efforts in all operations, with appropriate multifaceted support for regional cooperation. The country strategy and program also focuses more on creating an enabling environment for pro-poor private sector operations and on improving links between private and public sector operations.

ADB approved \$308.2 million in loans and \$32.5 million in grants, including a GMS loan of \$60.0 million for improving railways linking Ha Noi with Lao Cai at the border with the People's Republic of China, and a grant of \$20.0 million for

HIV/AIDS prevention. ADB also approved a loan of \$51.0 million for Emergency Rehabilitation of Calamity Damages for Viet Nam. ADB approved 15 technical assistance projects (including 2 supplementary) for \$16.5 million. The HIV/AIDS Prevention among Youth Project aims to stop the spread of the disease in 15 provinces through an integrated plan involving mass media and community campaigns. It will be complemented by a comprehensive program of activities and services to bring about widespread behavior changes among young people.

ADB continued to support the Government by creating a favorable private sector environment through a program loan of \$20.0 million supporting small and medium-sized enterprise development and a loan of \$30.0 million supporting the development of agriculture science and technology. ADB supported social inclusiveness through an ADF loan of \$34.0 million to upper secondary and professional teacher development, a loan of \$45.0 million for Forests for Livelihood Improvement in the Central Highlands, and a loan of \$53.2 million for Central Region Small and Medium Towns Development. The technical assistance program to help develop a lending program and build capacity is highlighted by a high degree of cofinancing: every dollar under ADB technical assistance financing is matched by another dollar from cofinanciers.

ADB actively participated in initiatives of the five-bank group of ADB, African Development Bank, Kreditanstalt für Wiederaufbau (KfW), Japan Bank for International Cooperation, and the World Bank. The group helped implement the Hanoi Core Statement by actively participating in the thematic groups, particularly those dealing with procurement and environmental and social safeguards. The banks also helped revise regulations to ensure efficiency in investments financed by official development assistance, and contributed considerably to drafting the procurement law and its implementation guidelines, and to improving project management unit structures, their transparency, and accountability to support the Government's anticorruption efforts.

Under the technical assistance's results-based monitoring of poverty and growth, ADB has worked closely with the Government and other donors to help develop the monitoring and evaluation framework for the new Five-Year Socio-Economic Development Plan (2006–2010).

ADB prepared its first results-based country strategy and program for 2007–2010 for Viet Nam in full alignment with the development plan

Strengthening Good Governance in Viet Nam

Good governance is one of the strategic thrusts of ADB operations in Viet Nam. It is also a priority for the Government. The 10th Party Congress in April 2006 stressed the urgent need to strengthen governance to ensure that public resources are used more effectively and efficiently, and minimize their misuse; and to control corruption. The conference emphasized that government officials must be more accountable.

Although new laws have considerably strengthened regulatory and institutional frameworks to deal with corruption, in July 2006 Viet Nam was ranked 102 out of 144 in Transparency International's corruption perception index. Clearly, much remains to be done and ADB is helping Viet Nam in its anticorruption efforts.

Recognizing the importance of continued administrative reform to achieve economic growth and reduce poverty, Prime Minister Nguyen Tan Dung indicated at the last Cabinet meeting of 2006 (26–27 December) that strengthening administrative reforms, sustaining economic growth, and continuing the fight against corruption will be the Government's key tasks for 2007.

ADB has helped the Government draft key legislation and implementing regulations, including an anticorruption law that the National Assembly passed in 2006. With ADB support, a civil service bill is now being drafted to go before the National Assembly in 2007.

ADB's current assistance builds on the support it has lent Viet Nam in this sector since January 2003, when ADB approved a program loan supporting the implementation of the Government's Public Administration Reform Master Program (2001–2010).

The program aims to build a professional, effective, and efficient public administration system.

Viet Nam also endorsed the regional Anti-Corruption Action Plan that ADB and the Organisation for Economic Co-operation and Development initiated.

The program comprises institutional reform, organizational reform, civil service reform, salary reform, improvement of the quality of civil servants by training and retraining, public financial management, and modernization of public administration, including computerization of state administration.

ADB has supported the program mainly by training and retraining public officials, by helping develop more effective training modules to meet skill needs, and by supporting e-government initiatives.



The program includes computerization of state administration



INTERNAL INITIATIVES

ADB's human resources management supported its reform agenda, particularly the aim of making the institution more results-focused. A dual career path was introduced to strengthen strategic leadership in key technical areas. ADB completed an enhanced separation program that responds to a shift in sector focus under the second medium-term strategy (2006–2008).

Knowledge management efforts were strengthened with an agreement to increase coordination among the four knowledge-focused departments and the mainstreaming of knowledge management into ADB's operations.

Information technology (IT) systems were improved and IT security strengthened. A new IT product was launched to enhance knowledge sharing in ADB and with external partners: the C-Cube is designed to allow easier information sharing within communities of practice. Financial control mechanisms were strengthened.

Through seminars and workshops, ADB raised awareness of, and compliance with, its anticorruption policy and procedures.

More efficient procedures and processes increased workplace safety and security, improved administrative services, and led to substantial savings.

HUMAN RESOURCES

The human resources strategy is a key element of ADB's reform agenda. The strategy aims to establish a merit-based human resources management system that supports ADB's vision and objectives. It commits ADB to improving the effectiveness of its human capital, to introducing a new performance management and rewards system, and to improving leadership throughout ADB.

ADB improved the quality and timeliness of recruitment and selection by introducing several changes, including a two-panel structured interview process for external candidates, results-based job descriptions, and interview skills training. Further improvements to the recruitment and selection process will be implemented.



To help its senior staff to take on more demanding roles, ADB provided learning and development support on managerial and leadership skills

The shift in sector focus under the second medium-term strategy requires an adjustment in the staff skills mix. ADB completed an enhanced separation program, involving 32 professional and 85 local staff members. Furthermore, 30 positions were sequestered and strategically reallocated to operations departments and other priority areas. ADB prepared to launch a strategic recruitment initiative to fill the gaps in its talent and skills.

The second cycle of the new performance management system was implemented to continue the effort to promote a results-oriented work culture. Implementation proved to be managerially demanding. Revisions are under way to support a more merit-based culture.

ADB reviewed its learning and development program to identify better ways to meet its business needs. To enable its managerial leaders to take on more demanding roles, ADB provided learning and development support on managerial and leadership skills.

ADB has established a systematic talent management process for identifying potential leadership and managing their development. An assessment and development center will be established in 2007 to provide the foundation for the developmental growth of ADB's potential managerial leaders.

A nonmanagerial dual career path was introduced to provide leadership in strategic technical areas and to respond to the need to professionally reward and retain

ADB's highly valued technical talent. Initiatives to support an inclusive environment were implemented.

During the first 2 years of the strategy's implementation, ADB has carried out a significant number of activities to improve the effectiveness of its human capital and introduce a new performance management and rewards system. Strengthening of leadership and accountability throughout ADB to initiate and sustain the culture change is an ongoing process and challenge that will require more time. The implementation of most of the strategy's action plans or initiatives will be completed or under progress by the end of 2007 as planned. ADB will continue to implement several ongoing initiatives beyond 2007 to achieve the strategy's objectives.

Staffing

At the end of 2006, ADB's staff totaled 2,405 from 54 of its 66 member countries: 5 members of Management,

Thirty positions were sequestered and strategically reallocated to operations departments and other priority areas. ADB prepared to launch a strategic recruitment initiative to fill the gaps in its talent and skills

A modest real budget growth in 2007 ensures adequate funding for high-priority work programs and initiatives

and 856 professional and 1,544 local staff members, of whom 465 or about 19.3% are in field offices. There were 2 appointments and 1 departure in Management, 70 appointments and 97 departures of professional staff members, while 122 local staff members joined ADB and 147 left. The share of women professional staff members has remained constant at 29%.

COMPENSATION

Consistent with ADB's market-based compensation system, the Board approved a 4.4% increase in the salary budget for 2007 for professional staff, 3.5% of which will be used for performance-related salary increases and the balance for performance and team bonuses. The Board also approved a weighted average increase of 9.2% for national officers and administrative staff at headquarters for 2007. An overall weighted average increase of 13.8% for national officers and administrative staff in 25 field offices will be implemented in 2007.

The Board approved a new pension plan effective 1 October 2006 for staff hired from this date onward. The new plan is similar to the current one but provides fewer ADB-guaranteed benefits and more staff-directed contributions. The new scheme will have a lower pension accrual rate and will be noncontributory for staff participants, with an option to contribute to the discretionary benefit scheme to top up their staff retirement plan benefits.

Changes were made to the Group Medical Insurance Plan for pensioners. The reimbursement rate was reduced from 80% to 75%, and the stop-loss benefit was reintroduced but at slightly higher limits with no ADB subsidy. Cost-effective improvements to the plan were introduced, such as more advantageous reimbursement rates for generic drugs and the inclusion of phytomedicines, additional services for physiotherapy and ultrasound, and expansion of the vaccination program for staff and dependents at the ADB Medical Center.

Benefits administration was streamlined by introducing more self-service facilities—the certification request system, benefits self-service, staff loan system, and home country travel system—which allow easier online access by staff to their personal benefits information. The ADB

alumni portal was expanded from an e-mail forwarding service for former ADB staff to an information portal for pensioners on their retirement and insurance benefits.

INTERNAL ADMINISTRATIVE EXPENSES

Internal administrative expenses totaled \$299.4 million, with savings amounting to \$13.5 million against the original budget of \$312.9 million. Overall savings were primarily attributed to lower-than-expected staff-related costs because of lower staff years resulting from the implementation of enhanced separation program; and lower-than-anticipated relocation costs, business travel, and administrative expenses. About \$1.4 million was transferred from the general contingency to the offices of the directors (\$0.8 million) and the Operations Evaluation Department (\$0.6 million) to meet increase in staff related costs.

For 2007, the net internal administrative expenses budget is \$332.9 million. The increase over the 2006 budget reflects a price growth of 5.2% and a volume growth of 1.2%. An estimated \$4.1 million is expected to be recoverable from administrating trust funds of multilateral and bilateral institutions.

A modest real budget growth in 2007 ensures adequate funding for high-priority work programs and initiatives, including aligning priorities with the second medium-term strategy through country partnership and regional cooperation strategies; strengthening support to portfolio management, including continued delegation of projects and country portfolio management to resident missions; ensuring quality at entry of new projects; supporting the increasing demand for private sector operations in ADB's developing member countries; strengthening risk management, especially credit risk management; and improving ADB's catalytic role through financing partnerships that mobilize resource commitments from cofinanciers to ADB's developing member countries.

The 2007 budget also includes an annual capital budget of \$3.7 million, mainly to fund cyclical capital expenditures for headquarters facilities and information technology equipment, and to meet the replacement and acquisition requirements of field offices.

The Board approved a new pension plan effective 1 October 2006 for staff hired from this date onward

ADMINISTRATIVE SERVICES

The strategic work program of the Office of Administrative Services focused on improving workplace safety and security and delivering responsive, high-quality administrative services across ADB.

The office continued its programs to improve and streamline business processes. A more efficient monitoring and control mechanism for mailing documents generated annual savings of about \$300,000. ADB reduced the number of computer printers, standardized the use of toner, and enhanced copiers' capability, leading to annual savings of \$80,000. Outsourcing opportunities were identified, leading to further savings in staff resources. The continued implementation of the International Organization for Standardization (ISO) objectives and programs contributed to savings in electricity, water, and paper consumption, amounting to \$117,000.

KNOWLEDGE MANAGEMENT

In the second year of the implementation of the knowledge management framework, ADB continued to mainstream knowledge management into its operations while strengthening the coordination of the four departments that focus specifically on this issue.

In November 2006, ADB launched a knowledge management tool that enables staff to share and disseminate



Staff discuss the challenges of improving access to ADB documents

information gathered or needed in project or working groups. C-Cube can also be used for secure knowledge sharing with external stakeholders. The external community of practice for managing for development results used C-Cube technology to discuss with developing member country government officials issues related to managing

ADB continued to mainstream knowledge management into its operations while strengthening the coordination of the four departments that focus on this issue



Many staff members upgraded their technical skills through extensive training programs

for development results, good practices, and lessons learned. C-Cube allows users to chat and hold virtual conferences or meetings. Users can access files or documents from anywhere, anytime; hold online discussions; monitor the task performance of other group members; plan or schedule meetings; and search for information.

The four knowledge departments—Asian Development Bank Institute, Economics and Research Department, Office of Regional Economic Integration, and Regional and Sustainable Development Department—established arrangements to strengthen coordination among themselves to avoid duplication and improve synergies in their knowledge management work. The departments agreed to examine existing quality control processes and to jointly and regularly prepare major publications, preferably one publication a year. The first one—Infrastructure for Regional Cooperation in Asia—slated for completion in 2008, will be led by the Asian Development Bank Institute.

Four other ADB departments established knowledge management units, and all departments appointed knowledge management coordinators. These arrangements were designed to promote best practices and mainstream knowledge management into ADB's operations.

To disseminate knowledge in developing member countries, ADB established five regional knowledge hubs in partnership with government and nongovernment development partners in key areas of operational relevance: clean energy at The Energy and Resources Institute (India); the 3Rs—reduce, reuse, recycle—at the Asian Institute of Technology (Thailand), with support from the United Nations Environment Programme Regional Resource Centre for Asia and the Pacific; public finance at the Center for Public Finance and Regional Economic Cooperation at the Asian Institute of Management (Philippines); climate change at Tsinghua University (People's Republic of China); and public-private partnership in infrastructure at the Emerging Markets Forum (Singapore).

The e-Asia and Knowledge Partnership Fund, set up with a \$20 million contribution from the Government of the Republic of Korea, will also support knowledge management in the Asia and Pacific region. The fund, administered by ADB, will, among other things, help developing member countries reduce the digital gap and share knowledge and experience.

Asian Development Bank Institute (ADBI). The mission of the Tokyo-based ADBI is to identify effective development strategies and improve the capacity of development agencies and organizations in ADB's developing member countries. ADBI retained its focus on its

four priority theme areas of poverty reduction, regional cooperation, governance, and private sector development, choosing infrastructure for regional cooperation as an area of specialization. ADBI responds to stakeholders' requests for assistance in research, capacity building, and training.

Among the books the ADBI published were *Poverty Strategies in Asia and Policies and Institutions for Advancing Regional Development: The Philippines in Comparative Asian Context*. It also released studies on cross-border infrastructure, contract farming, market facilitation for the poor, and renminbi revaluation. Work on the private sector and governance included a study on comparative corporate governance in the banking sector.

ADBI actively collaborates with the World Bank, Inter-American Development Bank, UN agencies, and other international organizations and development partners on research and training (e.g., in conducting distance-blended learning courses). Its capacity-building and training program focused on strengthening policy implementation and management capacity for development programs under the four priority themes. ADBI conducted 20 training courses, trained more than 1,600 participants, produced 8 workshop reports, 68 CD-ROMs, and, for the first time, offered 3 distance learning courses.

ADBI was actively involved in strengthening the knowledge management framework with ADB's knowledge departments. As part of knowledge management activities, about 90 independent expert reviews of development-oriented CD-ROMs have been posted on ADBI's website. The website received international recognition with an honorable mention in the inaugural Web for Development awards.

Economics and Research Department. The department's main role is to conduct policy research and disseminate the outputs, both in ADB and in the Asia and Pacific region. The department launched the Portal for Statistics Resources, a one-stop service on statistics available to all ADB staff. It also coordinated the international comparison program for the Asia and Pacific region. The program is a system for comparing GDP and its components, converted into a single currency using purchasing power parities,

ADBI's capacity-building and training program focused on strengthening policy implementation and management capacity for development programs under the four priority themes

eliminating the shortcomings of using market exchange rates. Regular publications included the *Asian Development Outlook* and its update, with assessments of the economic outlook for the region as well as discussions of topical issues such as the impact on the region's economies of rising oil and commodity prices, the effect of the end of quotas on Asia's textile and clothing industries, and the challenges and opportunities created by free trade agreements.

Office of Regional Economic Integration. The office is ADB's focal point for knowledge management related to regional cooperation and integration, a key priority under the second medium-term strategy. The office's knowledge products helped promote regional policy dialogue on cooperation and integration. It published six working papers on regional economic integration as well as two issues each of its regular publications, the *Asia Economic Monitor* and the *Asia Bond Monitor*. The office disseminated information and analyses through its two websites: the Asia Regional Integration Center and AsiaBondsOnline. It helped build capacity in developing member countries through a series of seminars.

Regional and Sustainable Development Department. The department is responsible for knowledge management across ADB and coordination of regional public goods. It supports quality and efficiency in all ADB operations. It focuses on sector and thematic issues and has a strong operational orientation. The department's knowledge management center coordinated the discussions of the four knowledge departments during 2006. As such,

it helped reach agreement on closer cooperation between these departments, mainly by coordinating work programs and holding regular meetings of department heads.

INFORMATION SYSTEMS AND TECHNOLOGY

The Office of Information Systems and Technology continued to streamline operations, respond to technology changes and user demands, and accelerate the implementation of the information systems and technology strategy capital expenditure program. The new Technology Division within the office introduced an enterprise architecture road map to guide technology decisions for the organization.

The Information Technology (IT) Committee approved 12 principles to align ADB's IT goals with its overall operations. Financial control mechanisms were strengthened in line with the internationally recognized COBIT (control objectives for information and related technology) framework.

The implementation of IT rules and regulations received Management approval and formed the basis for high-level data and information security. Security simulations, penetration tests, and audit reviews performed on business systems and equipment substantiate the progressive and comprehensive strengthening of information and communications systems security. Intensified awareness of information security risks and password protection were communicated through road shows to further improve IT security throughout ADB.



Business processes were improved and streamlined

Staff skills in new technologies were upgraded through extensive training programs

In the area of knowledge management, key projects completed under information systems and technology strategy include a collaborative software solution for communities of practice and the initial release from the document repository system. The document repository is envisioned as the sole, common, easily accessible repository for key ADB documents. It features a search and retrieval facility as well as an enterprise-wide classification structure used to identify, track, and retrieve information. Four departments have started using the repository.

The office adopted a proactive relationship with its client departments to provide better and higher levels of service. A performance management system using the balanced scorecard was initiated to improve internal performance and accountability. Under the e-mail server upgrade project, users benefited from increased e-mail capacity, additional firewall protection, and printer optimization.

To ensure better alignment between business and IT, the office embarked on a business improvement program that is expected to eliminate redundancies in processes, data entry, and reporting. The engagement model introduced allows users to be directly involved with the development and execution of their IT needs.

Staff skills in new technologies and specialized areas such as COBIT, performance management scorecard, IT service, and project management were upgraded through extensive training programs.

AUDIT AND INTEGRITY

The Office of the Auditor General, through its Financial, Administrative and Information Systems Division, conducted independent appraisals of ADB's operations. These appraisals have helped strengthen internal controls and efficiencies in the financial, operational, and IT areas. Through its Integrity Division, the office addressed alleged incidents of corruption and fraud in ADB activities, conducted staff workshops, initiated a series of regional anticorruption seminars, and worked with national audit institutions of developing member countries in carrying out project procurement-related audits. These activities have helped increase staff's as well as borrowers' aware-

ness and compliance with the anticorruption policy and procedures, and enhanced their capacity to detect and prevent fraud and corruption.

The Financial, Administrative and Information Systems Division completed 25 audits in 2006, including audits of internally managed investments, operations of a resident mission, technical assistance trust or grant funds, and several consultant contracts. IT reviews covered data security of ADB's network environment, selected databases and operating systems, and disaster recovery testing of critical systems. The office also monitored the progress of outstanding recommendations and verified that corrective actions have been undertaken.

ADB barred 37 firms and 31 individuals in 2006 as a result of corruption investigations, making a total of 311 firms and individuals currently ineligible to participate in ADB-financed activities. The Integrity Division, which enforces ADB's anticorruption policy, received 171 complaints during the year.

The Integrity Division also conducted five project procurement-related audits to reduce weaknesses that may allow fraud, corruption, or abuse in ADB-financed projects. Supreme audit institutions of borrower countries participated in some of these audits, reinforcing ADB's ability to share this audit knowledge and support capacity development.

The Integrity Division further contributed to a Joint International Financial Institutions Anticorruption Task Force comprising seven multilateral development banks and international financial institutions. As a result, ADB approved harmonized definitions of fraud and corruption with those of the other international financial institutions and agreed on common principles and guidelines for investigation.

The Integrity Division's 2006 Annual Report is at: www.adb.org/Documents/Reports/Anticorruption/OAGA-Annual-Report-2006.pdf.

ADB barred 37 firms and 31 individuals in 2006 as a result of corruption investigations, making a total of 311 firms and individuals currently ineligible to participate in ADB-financed activities



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Appendix 1
Members, Capital Stock, and Voting Power
(as of 31 December 2006)

Member	Year of Membership	Subscribed Capital ^a (% of total)	Voting Power ^b (% of total)	Member	Year of Membership	Subscribed Capital ^a (% of total)	Voting Power ^b (% of total)
REGIONAL							
Afghanistan	1966	0.034	0.330	Austria	1966	0.341	0.576
Armenia	2005	0.299	0.542	Belgium	1966	0.341	0.576
Australia	1966	5.793	4.937	Canada	1966	5.237	4.493
Azerbaijan	1999	0.445	0.659	Denmark	1966	0.341	0.576
Bangladesh	1973	1.022	1.121	Finland	1966	0.341	0.576
Bhutan	1982	0.006	0.308	France	1970	2.330	2.167
Brunei Darussalam	2006	0.353	0.585	Germany	1966	4.331	3.768
Cambodia	1966	0.050	0.343	Italy	1966	1.809	1.751
China, People's Republic of	1986	6.451	5.464	Ireland	2006	0.341	0.576
Cook Islands	1976	0.003	0.305	Luxembourg	2003	0.341	0.576
Fiji Islands	1970	0.068	0.357	The Netherlands	1966	1.027	1.125
Hong Kong, China	1969	0.545	0.739	Norway	1966	0.341	0.576
India	1966	6.338	5.374	Portugal	2002	0.341	0.576
Indonesia	1966	5.452	4.665	Spain	1986	0.341	0.576
Japan	1966	15.625	12.803	Sweden	1966	0.341	0.576
Kazakhstan	1994	0.807	0.949	Switzerland	1967	0.584	0.770
Kiribati	1974	0.004	0.306	Turkey	1991	0.341	0.576
Korea, Republic of	1966	5.043	4.338	United Kingdom	1966	2.045	1.939
Kyrgyz Republic	1994	0.299	0.543	United States	1966	15.625	12.803
Lao People's Democratic Republic	1966	0.014	0.314	Subtotal Nonregional		36.735	35.146
Malaysia	1966	2.726	2.484	Total		100.000	100.000
Maldives	1978	0.004	0.306				
Marshall Islands	1990	0.003	0.305				
Micronesia, Federated States of	1990	0.004	0.306				
Mongolia	1991	0.015	0.315				
Myanmar	1973	0.545	0.739				
Nauru	1991	0.004	0.306				
Nepal	1966	0.147	0.421				
New Zealand	1966	1.538	1.533				
Pakistan	1966	2.181	2.048				
Palau	2003	0.003	0.306				
Papua New Guinea	1971	0.094	0.378				
Philippines	1966	2.385	2.211				
Samoa	1966	0.003	0.306				
Singapore	1966	0.341	0.576				
Solomon Islands	1973	0.007	0.308				
Sri Lanka	1966	0.581	0.768				
Taipei, China	1966	1.090	1.175				
Tajikistan	1998	0.287	0.532				
Thailand	1966	1.363	1.393				
Timor-Leste	2002	0.010	0.311				
Tonga	1972	0.004	0.306				
Turkmenistan	2000	0.253	0.506				
Tuvalu	1993	0.001	0.304				
Uzbekistan	1995	0.674	0.843				
Vanuatu	1981	0.007	0.308				
Viet Nam	1966	0.342	0.576				
Subtotal Regional		63.265	64.854				

Note: Numbers may not add up because of rounding. For other details, see tables on pages 36 and 37, Volume 2.

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

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

Appendix 2

Resolutions of the Board of Governors Adopted in 2006

Resolution No.	Subject	Date Adopted
313	Amendment to Section 7(B)(a) of the By-Laws	17 January
314	Retirement Benefits for President	17 January
315	Membership of Ireland and Increase in Authorized Capital Stock	2 April
316	Membership of Brunei Darussalam and Increase in Authorized Capital Stock	16 April
317	Financial Statements and Independent Auditors' Reports	6 May
318	Allocation of Net Income	6 May
319	Earmarking of Ordinary Capital Resources Surplus for Reconstruction of Yogyakarta and Central Java Provinces	3 July
320	Membership of Georgia and Increase in Authorized Capital Stock	25 August
321	Election of President	22 September
322	Decisions Relating to Section 5 of the By-Laws	11 November
323	Amendment to Section 7(B)(a) of the By-Laws	11 November

Appendix 3

Selected Policy, Strategy, and Financial Papers Discussed by the Board in 2006

Title	Board Discussion Date
Revising the Procurement Guidelines	6 February
Use of Consultants by ADB and its Borrowers	6 February
Medium-Term Strategy II (2006–2008)	31 March
Review of ADB's Loan Charges and Allocation of 2005 Net Income	3 April
ADB's Financing Partnership Strategy	18 July
Regional Cooperation and Integration	25 July
Enhancing ADB Support to Middle-Income Countries and Borrowers from OCR	22 August
Review of ADB's Credit Enhancement Operations	29 August
Asset and Liability Management Policy of ADB	5 September
Work Program and Budget Framework 2007–2009	3 October
Enhancements for ADB's Loan and Debt Management Products	16 November
Review of ADB's Liquidity Policy	16 November
Review of ADB's Investment Strategy and Authority	16 November
Borrowing Program for 2007	7 December
Budget of the Asian Development Bank for 2006	15 December

OCR = ordinary capital resources.

Appendix 4
Board of Governors
(as of 31 March 2007)

Koji Omi (Japan) Chair	Nickel Lee-Hang (Samoa) Vice Chair	Pedro Solbes Mira (Spain) Vice Chair
------------------------------	--	--

Member	Governor	Alternate Governor
Afghanistan	Anwar Ul-Haq Ahady	Wahidullah Shahrani
Armenia	Vardan Khachatryan	David Avetissian
Australia	Peter Costello	Greg Hunt ¹
Austria	Wilhelm Molterer ²	Marcus Heinz
Azerbaijan	Heydar Babayev	Samir Sharifov ³
Bangladesh	A.B. Mirza Md. Azizul Islam ⁴	Md. Aminul Islam Bhuiyan ⁵
Belgium	Didier Reynders	Gino Alzetta
Bhutan	Lyonpo Wangdi Norbu	Sonam Wangchuk ⁶
Brunei Darussalam	Pehin Dato Abdul Rahman Ibrahim ⁷	Dato Ali Apong ⁷
Cambodia	Keat Chhon	Aun Porn Moniroth
Canada	Peter MacKay	vacant
China, People's Republic of	Jin Renqing	Li Yong
Cook Islands	Terepai Maoate	Sholan Ivaiti ⁸
Denmark	Ole E. Moesby	Sus Ulbæk
Fiji Islands	Jone Yavala Kubuabola	Savenaca Narube
Finland	Marjatta Rasi	Anneli Vuorinen
France	Thierry Breton	Xavier Musca
Georgia	Aleksi Aleksishvili ⁹	George Arveladze ¹⁰
Germany	Karin Kortmann	Rolf Wenzel
Hong Kong, China	Henry Tang	Joseph Yam
India	P. Chidambaram	A. K. Jha
Indonesia	Sri Mulyani Indrawati	Paska Suzetta ¹¹
Ireland	Brian Cowen T.D. ¹²	Robert Bradshaw
Italy	Mario Draghi	Ignazio Angeloni
Japan	Koji Omi ¹³	Toshihiko Fukui
Kazakhstan	Natalya Artemovna Korzhova	Marat Apsemetovich Kusainov
Kiribati	Nabutu Mwemwenikarawa	Taam Biribo ¹⁴
Korea, Republic of	O-Kyu Kwon ¹⁵	Seongtae Lee ¹⁶
Kyrgyz Republic	Akylbek Japarov	Sabyrbek A. Moldokulov
Lao People's Democratic Republic	Chansy Phosikhham	Somphao Phaysith ¹⁷
Luxembourg	Jean-Louis Schiltz	Arsene Jacoby
Malaysia	Dato' Seri Abdullah Haji Ahmad Badawi	Dato' Dr. Wan Abdul Aziz bin Wan Abdullah ¹⁸

1 Succeeded Teresa Gambaro in February 2007.

2 Succeeded Grasser Karl-Heinz in February 2007.

3 Succeeded Avaz Alekperov in August 2006.

4 Succeeded Shoaib Ahmed in January 2007. Shoaib Ahmed succeeded Akbar Ali Khan in December 2006. Akbar Ali Khan succeeded M. Saifur Rahman in November 2006.

5 Succeeded Rafiqul Islam in February 2007. Rafiqul Islam succeeded Md. Ismail Zabihullah in November 2006.

6 Succeeded Daw Tenzin in June 2006.

7 Appointed in April 2006.

8 Succeeded Kevin Carr in March 2007.

9 Appointed in February 2007.

10 Appointed in February 2007.

11 Succeeded Burnahuddin Abdullah in September 2006.

12 Appointed in July 2006.

13 Succeeded Sadakazu Tanigaki in October 2006.

14 Succeeded Taneti Maamau in February 2007.

15 Succeeded Duck-Soo Han in July 2006.

16 Succeeded Seung Park in April 2006.

17 Succeeded Phouphet Khamphounvong in January 2007.

18 Succeeded Dato' Izzuddin bin Dali in February 2007.

Member	Governor	Alternate Governor
Maldives	Mohamed Jaleel ¹⁹	Riluwan Shareef
Marshall Islands	Brenson S. Wase	Amon Tibon
Federated States of Micronesia	Nick L. Andon	Lorin Robert
Mongolia	Nadmid Bayartsaikhan ²⁰	Ochirbat Chuluunbat
Myanmar	Hla Tun	Daw Myo Nwe
Nauru	David Adeang	Jonathon Kirkby
Nepal	Ram Sharan Mahat ²¹	Vidyadhar Malik ²²
The Netherlands	Wouter Bos ²³	Bert Koenders ²⁴
New Zealand	Michael Cullen	John Whitehead
Norway	Anne Margareth Fagertun Stenhammer	Henrik Harboe ²⁵
Pakistan	Omar Ayub Khan	Akram Mallik ²⁶
Palau	Elbucel Sadang	Marino Rechesengel
Papua New Guinea	Rabbie Namaliu ²⁷	Simon Tosali
Philippines	Margarito B. Teves	Amando M. Tetangco, Jr.
Portugal	Fernando Teixeira dos Santos	Carlos Costa Pina
Samoa	Nickel Lee-Hang ²⁸	Hinauri Petana
Singapore	Tharman Shanmugaratnam ²⁹	Teo Ming Kian ³⁰
Solomon Islands	Gordon Darcy Lilo ³¹	Luma Darcy ³²
Spain	Pedro Solbes Mira	David Vergara Figueras
Sri Lanka	Mahinda Rajapaksa	P. B. Jayasundara
Sweden	Joakim Stymne ³³	Johanna Brismar Skoog ³⁴
Switzerland	Jorg Al. Reding ³⁵	Adrian Schlaepfer
Taipei, China	Fai-nan Perng	Teng-Cheng Liu ³⁶
Tajikistan	Matlubkhon S. Davlatov	Nagmatjon Kh. Buriev
Thailand	Chalongphob Sussangkarn ³⁷	Suparut Kawatkul
Timor-Leste	Maria Madalena Brites Boavida	Aicha Bassarewan
Tonga	Siosiuia T.T. 'Utoikamanu	Aisake Eke
Turkey	Ali Babacan	Ibrahim H. Çanakçı
Turkmenistan	Geldymurat Abilov	vacant
Tuvalu	Lotoala Metia ³⁸	Aunese Makoi Simati
United Kingdom	Hilary Benn	Gareth Thomas
United States	Henry M. Paulson, Jr. ³⁹	Josette S. Shiner
Uzbekistan	Saidakhmat Rakhimov	Ulugbek Rozukulov
Vanuatu	Willie Jimmy Tapangararua	Simeon Athy
Viet Nam	Le Duc Thuy	Phung Khac Ke

19 Succeeded Ismael Shafeeu in April 2006.

20 Succeeded N. Altankhuyag in April 2006.

21 Succeeded Roop Jyoti in May 2006.

22 Succeeded Bhoj Raj Ghimire in August 2006. Bhoj Raj Ghimire succeeded Bhanu Prasad Acharya in May 2006.

23 Succeeded Gerrit Zalm in February 2007.

24 Succeeded Agnes van Ardenne-van der Hoeven in February 2007.

25 Succeeded Nils Haugstveit in July 2006.

26 Succeeded Khalid Saeed in October 2006.

27 Succeeded Bart Philemon in August 2006.

28 Succeeded Misa Telefoni Retzlaff in April 2006.

29 Succeeded Raymond Lim Siang Keat in October 2006.

30 Succeeded Lim Siong Guan in October 2006.

31 Succeeded Bartholomew Ulufa'alu in October 2006. Bartholomew Ulufa'alu succeeded Peter Boyers in July 2006.

32 Appointed in December 2006.

33 Succeeded Annika Soder in November 2006.

34 Succeeded Anders Oljelund in April 2006.

35 Succeeded Oscar Knapp in August 2006.

36 Succeeded Shuh Chen in October 2006.

37 Succeeded M.R. Pridiyathorn Devakula in March 2007. M.R. Pridiyathorn Devakula succeeded Thanong Bidaya in November 2006.

38 Succeeded Bikenibeu Paeniu in August 2006.

39 Succeeded John W. Snow in August 2006.

Appendix 5
Board of Directors and Voting Groups
(as of 31 January 2007)

Director	Alternate Director	Members Represented
Emile Gauvreau	Pasi Hellman	Canada, Denmark, Finland, Ireland, The Netherlands, Norway, Sweden
Agus Haryanto	Richard Stanley	Cook Islands, Fiji Islands, Indonesia, Kyrgyz Republic, New Zealand, Samoa, Tonga
Sibtain Fazal Halim	Marita Magpili-Jimenez	Kazakhstan, Maldives, Marshall Islands, Mongolia, Pakistan, Philippines, Timor-Leste
Md. Saad Hashim ¹	Siew Juan Aw ²	Brunei Darussalam, Malaysia, Myanmar, Nepal, Singapore, Thailand
Chol-Hwi Lee	Tsuen-Hua Shih ³	Republic of Korea; Papua New Guinea; Sri Lanka; Taipei, China; Uzbekistan; Vanuatu; Viet Nam
Masaki Omura	Atsushi Mizuno	Japan
Patrick Pillon	João Simões de Almeida ⁴	Belgium, France, Italy, Portugal, Spain, Switzerland
Ashok Saikia	Nima Wangdi	Afghanistan, Bangladesh, Bhutan, India, Lao People's Democratic Republic, Tajikistan, Turkmenistan
Stephen Sedgwick	Richard Moore	Australia; Azerbaijan; Cambodia; Federated States of Micronesia; Hong Kong, China; Kiribati; Nauru; Palau; Solomon Islands; Tuvalu
David Taylor ⁵	Sebastian Paust ⁶	Austria, Germany, Luxembourg, Turkey, United Kingdom
Vacant ⁷	Paul W. Curry ⁸	United States
Xiaosong Zheng	Xiaolong Mo	People's Republic of China

1 Succeeded Chaiyuth Sudthitanakorn on 6 November 2006.

2 Succeeded Sein Tin on 16 July 2006.

3 Succeeded Batir Mirbabayev on 2 October 2006.

4 Succeeded Niklaus Zingg on 4 August 2006..

5 Succeeded Volker Ducklau on 1 July 2006 .

6 Succeeded David Taylor on 1 July 2006.

7 Paul W. Speltz resigned effective 29 September 2006.

8 Succeeded Troy Wray on 20 January 2006.

Appendix 6
Committees of the Board of Directors
(as of 31 December 2006)

Standing Committees	
Audit Committee	Budget Review Committee
Patrick Pillon (<i>Chair</i>)	Ashok Saikia (<i>Chair</i>)
Md. Saad Hashim	Sibtain Fazal Halim
Paul W. Curry	Masaki Omura
Tsuen-Hua Shih	Paul W. Curry
Atsushi Mizuno	Pasi Hellman
Richard Stanley	Xiaolong Mo
Board Compliance Review Committee	Development Effectiveness Committee
Stephen Sedgwick (<i>Chair</i>)	Agus Haryanto (<i>Chair</i>)
Chol-Hwi Lee	Emile Gauvreau
Siew Juan Aw	Xiaosong Zheng
Marita Magpili-Jimenez	Richard Moore
Sebastian Paust	David Taylor
Joao Simoes de Almeida	Nima Wangdi
Ethics Committee	
Agus Haryanto (<i>Chair</i>)	
Emile Gauvreau	
Ashok Saikia	
Sibtain Fazal Halim	
David Taylor	
Working Group on the Annual Report for 2006	
Pasi Hellman (<i>Chair</i>)	
Paul W. Curry	
Marita Magpili-Jimenez	
Xiaolong Mo	
Richard Moore	
Nima Wangdi	

Appendix 7
ADB Institute Advisory Council
(as of 31 December 2006)

Masahiko Aoki	Stanford University
Victor H. Frank, Jr.	JHS Associates, Washington DC
Eric Girardin	University Aix-Marseille 2
Ajit K. Jain	Secretary to Government of India ¹
Li Yong	Vice Minister of Finance, People's Republic of China
Andrew MacIntyre	Australian National University
Ifzal Ali	Asian Development Bank

ADB Institute Dean

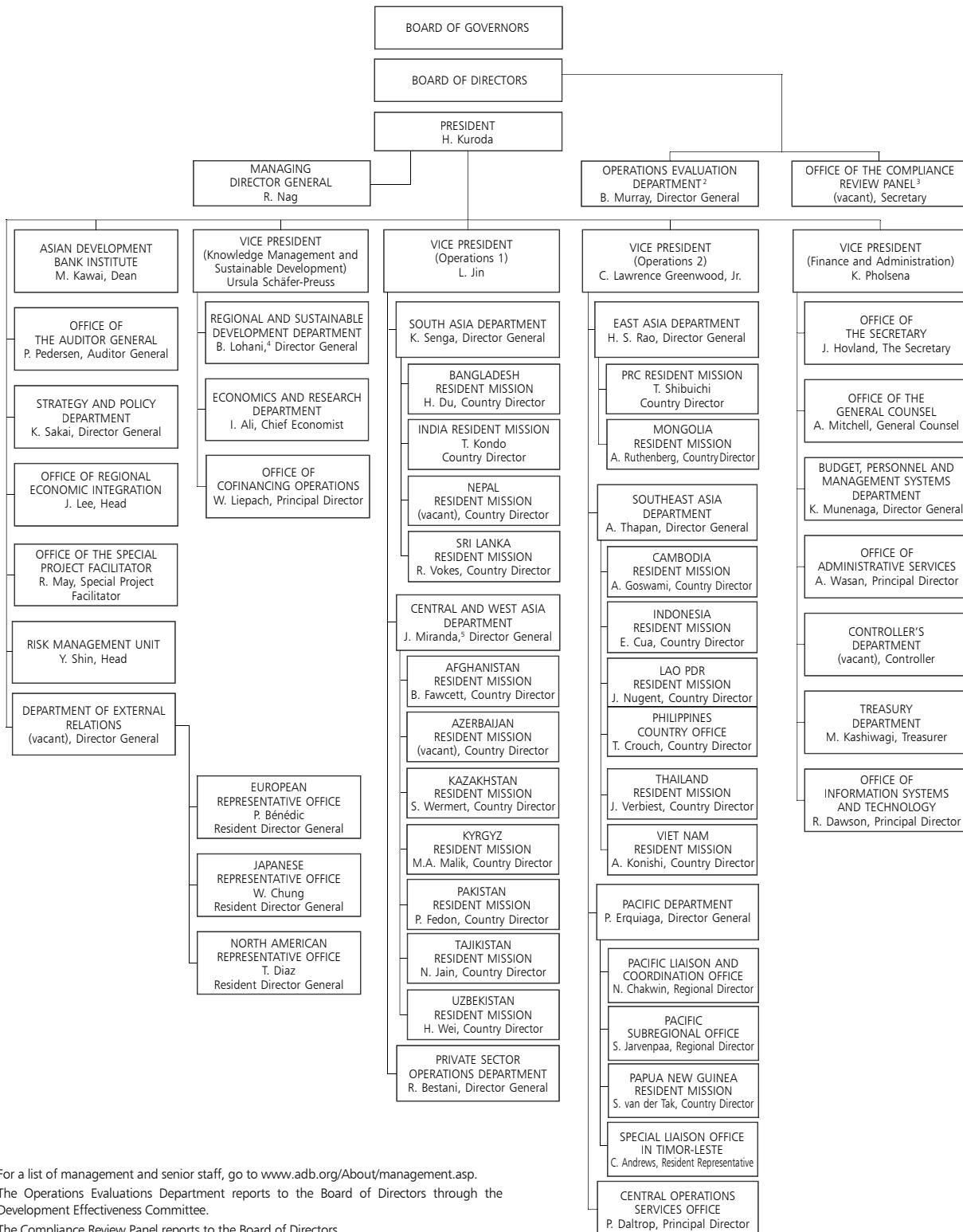
Masahiro Kawai (16 January 2007–present)
Peter McCawley (2003–January 2007)

¹ Retired from the Government of India.

Appendix 8

Organizational Structure¹

(as of 1 March 2007)



1 For a list of management and senior staff, go to www.adb.org/About/management.asp.

2 The Operations Evaluations Department reports to the Board of Directors through the Development Effectiveness Committee.

3 The Compliance Review Panel reports to the Board of Directors.

4 Concurrent chief compliance officer and special advisor to the President on clean energy and environment.

5 Concurrently in charge of the innovation and efficiency initiative.

Appendix 9

Former ADB Presidents and Vice Presidents

(as of 31 December 2006)

President

Takeshi Watanabe	24 November 1966–24 November 1972
Shiro Inoue	25 November 1972–23 November 1976
Taroichi Yoshida	24 November 1976–23 November 1981
Masao Fujioka	24 November 1981–23 November 1989
Kimimasa Tarumizu	24 November 1989–23 November 1993
Mitsuo Sato	24 November 1993–15 January 1999
Tadao Chino	16 January 1999–31 January 2005

Vice President

C. S. Krishna Moorthi	19 December 1966–31 March 1978
A. T. Bambawale	1 April 1978–28 October 1985
M. Narasimham	1 November 1985–31 July 1988
S. Stanley Katz	1 April 1978–28 September 1990
In Yong Chung	1 August 1988–31 July 1993
William R. Thomson	1 October 1990–30 June 1994
Günther G. Schulz	1 April 1983–30 June 1995
Bong-Suh Lee	1 August 1993–31 July 1998
Pierre Uhel	1 July 1995–24 November 1998
Peter H. Sullivan	6 July 1994–20 September 2000
Myoung-Ho Shin	1 August 1998–31 July 2003
John Lintjer	18 January 1999–16 January 2004
Joseph B. Eichenberger	15 December 2000–23 December 2005
Geert H.P.B van der Linden	1 September 2003–31 August 2006

Appendix 10
Summary of Budget for 2007
Internal Administrative Expenses
(\$ thousand)

	2006			
	Budget	Budget After Transfers ^a	Actual	2007 Budget
I. BOARD OF GOVERNORS	1,350	1,350	969	1,400
II. BOARD OF DIRECTORS	19,540	20,892	20,614	21,499
Offices of the Directors	11,692	12,478	12,478	12,647
Accountability Mechanism	1,926	1,926	1,648	2,022
Operations Evaluations	5,922	6,488	6,488	6,830
III. OPERATIONAL EXPENSES	:236,123	236,123	227,892	250,509
Salaries	123,606	123,606	119,739	129,796
Benefits	65,008	65,008	64,380	71,773
Staff Development	3,697	3,570	3,270	4,016
Relocation	4,848	4,848	3,834	5,242
Consultants	19,327	19,454	19,454	19,370
Business Travel	19,259	19,259	16,901	19,930
Representation	378	378	315	382
IV. ADMINISTRATIVE EXPENSES	56,566	56,566	53,808	60,196
Communications	6,540	6,540	6,227	6,549
Office Occupancy	11,945	12,451	12,451	13,690
Library	694	916	916	950
Office Supplies	1,771	1,771	1,767	1,840
Office Equipment	5,518	5,518	4,892	5,694
Contractual Services	10,941	10,941	9,555	11,831
Insurance	3,483	3,483	3,193	3,054
Depreciation	15,271	14,413	14,273	15,973
Miscellaneous	403	533	533	615
V. TOTAL BEFORE GENERAL CONTINGENCY	313,579	314,931	303,283 ^b	333,604
VI. GENERAL CONTINGENCY	3,136	1,784	–	3,336
VII. Less: Fee Reimbursement from Trust Funds	(3,818)	(3,818)	(3,907) ^c	(4,076)
TOTAL	312,897	312,897	299,376	332,864

– = 0 or not applicable.

^a Transfers were made between budget items without exceeding the original amount of each category. An amount of \$1,352,000 was transferred from the general contingency to meet overruns in the budget category of Board of Directors: offices of the directors (\$786,000) and operations evaluation (\$566,000).

^b 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 (-\$2,364,000); (ii) accumulated compensated absences (\$640,000), and accrued resettlement or repatriation allowances (-\$1,691,000); (iii) adjustments of actuarially determined assessment of benefit obligations with respect to pension costs (\$18,376,000) and postretirement medical benefits (\$22,491,000); (iv) expenses related to the enhanced separation program (\$6,711,000); and (v) adjustments related to the Afghanistan Resident Mission Guest House (\$68,000). Total administrative expenses, as shown in the financial statements, amounted to \$347,514,000. This amount, after deducting \$1,178,000 directly charged to Japan Special Fund (\$1,098,000) and Japan Scholarship Program (\$80,000), has been distributed as follows: OCR - \$127,669,000 (Ref. OCR-2) net of \$28,434,000 as front-end fee offset against loan origination costs and recognized as a reduction in administrative expenses; ADF - \$190,233,000 (Ref. ADF-2).

^c This amount (\$3,907,000) reflects the estimated total expenses apportioned for administering the trust funds during the year.

Appendix 11

Professional Staff Representation of ADB Members

(as of 31 December 2006)

Member	Management	Professional Staff	Administrative Staff	Total	National Officers/				
					Member	Management	Professional Staff	Administrative Staff	Total
A. Regional					B. Nonregional				
Afghanistan	0	0	10	10	Austria	0	0	0	0
Armenia	0	0	0	0	Belgium	0	7	0	7
Australia	0	43	6	49	Canada	0	10	0	10
Azerbaijan	0	1	6	7	Denmark	0	46	0	46
Bangladesh	0	9	44	53	Finland	0	6	0	6
Bhutan	0	3	0	3	France	0	4	0	4
Brunei Darussalam	0	0	0	0	Germany	1	23	0	23
Cambodia	0	0	16	16	Ireland	0	36	3	40
China, People's Rep. of	1	52	34	87	Italy	0	0	0	0
Cook Islands	0	0	0	0	Luxembourg	0	0	0	0
Fiji Islands	0	3	9	12	Netherlands	0	13	0	13
Hong Kong, China	0	4	0	4	Norway	0	5	0	5
India	0	58	37	95	Portugal	0	4	0	4
Indonesia	0	32	36	68	Spain	0	9	0	9
Japan	1	119	2	122	Sweden	0	8	0	8
Kazakhstan	0	5	5	10	Switzerland	0	6	0	6
Kiribati	0	0	0	0	Turkey	0	32	0	32
Korea, Rep. of	0	32	1	33	United Kingdom	0	107	3	111
Kyrgyz Republic	0	3	7	10	United States	2	341	6	349
Lao PDR	1	0	12	13	Subtotal	5	856	1,544	2,405
Malaysia	0	20	0	20	Overall Total				
Maldives	0	0	0	0					
Marshall Islands	0	0	0	0					
Micronesia, Fed. States of	0	1	0	1					
Mongolia	0	4	7	11					
Myanmar	0	3	0	3					
Nauru	0	0	0	0					
Nepal	0	7	25	32					
New Zealand	0	13	0	13					
Pakistan	0	24	34	58					
Palau	0	0	0	0					
Papua New Guinea	0	1	5	6					
Philippines	0	28	1,166	1,194					
Samoa	0	1	1	2					
Singapore	0	7	0	7					
Solomon Islands	0	0	0	0					
Sri Lanka	0	13	18	31					
Taipei,China	0	6	0	6					
Tajikistan	0	1	10	11					
Thailand	0	10	9	19					
Timor-Leste	0	0	3	3					
Tonga	0	1	0	1					
Turkmenistan	0	0	0	0					
Tuvalu	0	0	0	0					
Uzbekistan	0	5	13	18					
Vanuatu	0	1	0	1					
Viet Nam	0	5	22	27					
Subtotal	3	515	1,538	2,056					

GLOSSARY

B-loan. An ADB loan funded by third parties without recourse to ADB. ADB's complementary financing scheme (CFS) involves the prearranged sale to commercial lenders of participation in a cofinanced or "complementary" ADB loan without recourse to ADB for debt service. The CFS is used solely to facilitate commercial cofinancing of ADB-assisted private sector projects. ADB is the "lender-of record," since the complementary loan is made in ADB's name. Complementary loans are sometimes referred to as "B" loans to distinguish them from the direct, or "A" loans, provided by multilateral institutions.

Direct value-added cofinancing. Cofinancing with active coordination and formal agreements among financing partners that bring about defined client benefits, including contractual commitments by ADB (such as for credit enhancement, syndication, or financial administration) to facilitate mobilization, administration, or participation in cofinancing.

Loans at risk. Loans rated as unsatisfactory or partly satisfactory for impact and outcomes or implementation progress as articulated in the design and monitoring framework or those that might slip into those categories.

Multitranche financing facility. A debt-financing facility to target discrete, sequential components of large stand-alone projects; slices (or tranches) of sector investment programs over a longer time frame than the current norm; financial intermediary credit lines; and guarantees.

Sovereign/nonsovereign. ADB lending is classified as sovereign and nonsovereign. A sovereign loan is guaranteed by the national government, while a nonsovereign loan is not guaranteed by the national government. Nonsovereign operations refer to an ADB-financed transaction with a subsovereign, state-owned enterprise, other public private entity, or private sector entity as obligor or investee, normally without direct sovereign indemnity. In 2006, ADB's nonsovereign operations supported the infrastructure, capital market, and banking sectors, among others.

ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
ASEAN	-	Association of Southeast Asian Nations
GDP	-	gross domestic product
GMS	-	Greater Mekong Subregion
HIV/AIDS	-	human immunodeficiency virus/ acquired immune deficiency syndrome
IT	-	information technology
km	-	kilometer
Lao PDR	-	Lao People's Democratic Republic
NGO	-	nongovernment organization
OCR	-	ordinary capital resources
PRC	-	People's Republic of China

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