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ADB THROUGH THE DECADES

ADB'S SECOND DECADE (1977-1986)

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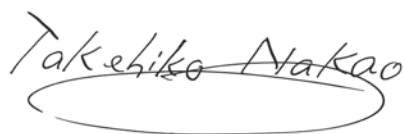
FOREWORD

The year 2016 marks the 50th anniversary of the Asian Development Bank (ADB). To commemorate this event, ADB has produced *ADB Through the Decades*, a series of volumes to provide a corporate chronicle over the past 5 decades of how ADB has evolved to engage its shareholders and other development partners in delivering financial and advisory services to its developing member countries in the Asia and Pacific region. Organized around key themes and topics for each decade, the series documents ADB's past work in such areas as strategic, operational, financial, and institutional developments.

The series synthesizes materials from many different sources, building from ADB's annual reports. The five volumes serve as decadal background notes for ADB's corporate history book, *Banking on the Future of Asia and the Pacific: 50 Years of the Asian Development Bank*, to be launched in 2017. Together, the history book and these volumes provide the first comprehensive corporate narrative on ADB's history since the previous ADB history book, *A Bank for Half the World*, was published in 1987.

Looking over the past 50 years, ADB has demonstrated a strong corporate continuity of being a multilateral development bank with an Asian character and global outreach. More significantly, the leadership of ADB has undertaken profound changes for the institution to stay relevant and responsive in serving the changing needs and expectations of its developing member countries. This spirit of change and innovation shall continue to drive ADB in the years ahead.

Reflecting on our history will give us a better insight for our work in the future. I hope that this *ADB Through the Decades* series becomes a key reference for ADB staff as well as other stakeholders from member countries, academic institutions, development partners, and civil society organizations.

A handwritten signature in black ink that reads "Takehiko Nakao". The signature is written in a cursive style and is enclosed within a hand-drawn oval.

TAKEHIKO NAKAO

December 2016

ACKNOWLEDGMENTS

This series, *ADB Through the Decades*, began as background research for the history book project chronicling the first 50 years of the Asian Development Bank (ADB). In the last 50 years, ADB has continuously evolved in response to dynamic changes across the Asia and Pacific region. The story of ADB's transformation became evident as the team tasked to support the ADB corporate history book project sifted through ADB's annual reports, past and present President's speeches, official and personal correspondences, loan documents, policy and strategy papers, evaluation reports, transcripts of interviews, historical records, and other archival materials. Drawing from the rich but fragmented sources of information, the team prepared background notes for each decade as an effort to capture and synthesize the significant developments and key turning points in ADB's history.

President Takehiko Nakao encouraged the team to publish the series as a stand-alone reference to a wider audience, including ADB staff. This work was done in parallel with the drafting of the ADB history book and took more than 2 years to complete. What were intended as internal supporting documents for the history book project in the end became five volumes that comprise the *ADB Through the Decades* series. This series provides the first comprehensive institutional record of the different facets of ADB's work—strategic, operational, financial, and organizational—spanning 50 years of ADB's history.

The first four volumes of the series were led by Valerie Hill, Director of the Strategy, Policy and Business Process Division (SPBP), Strategy, Policy and Review Department (SPD) with Edeena Pike, Strategy and Policy Specialist, Office of the Director General, SPD. The fifth volume was led by Ananya Basu, Principal Economist at the Pacific Department (PARD). Jade Tolentino, Research Consultant, provided substantive analytical support on all the volumes. Xianbin Yao, Director General, PARD, provided overall guidance and shared his insights on ADB's history to further enrich the notes. Peter McCawley, main author of the ADB history book, gave useful comments throughout the process.

This series benefited from comments and suggestions received from various departments and offices, as well as thematic and sector groups across ADB, during the interdepartmental review process. The volumes received written contributions from an interdepartmental focal group composed of Kinzang Wangdi (Budget, Personnel, and Management Systems Department [BPMSD]); Shanny Campbell and Noriko Sato (Central and West Asia Department); David Kruger (Department of External Relations [DER]); David Sobel (East Asia Department); Jesus Felipe and Juzhong Zhuang (Economic Research and Regional Cooperation Department [ERCD]); Medardo Abad, Jr. (Office of Administrative Services [OAS]); Nariman Mannapbekov (formerly of the Office of the Secretary [OSEC]); Emma Veve (Pacific Department [PARD]); Kiyoshi Taniguchi (Private Sector Operations Department [PSOD]) and Elsie Araneta (formerly of PSOD); Hiranya Mukhopadhyay (South Asia Department); Jason Rush (Southeast Asia Department); K. E. Seetharam (Sustainable Development and Climate Change Department [SDCC]) and Roshan Shahay (formerly of SDCC); and Mina Oh (Treasury Department [TD]).

Access to important historical records and data was vital in completing the *ADB Through the Decades* series. Technical inputs were provided by SPD (Vanessa Dimaano, Marvin de Asis, Socorro Regalado, and Grace Sevilla); Controller's Department (Setijo Boentaran and Lani Gomez); TD (Fean Asprer); BPMSD (Melanie dela Cruz and Kinzang Wangdi); and ERCD (Kaushal Joshi, Rana Hasan, Arturo Martinez, Pilipinas Quising, and Editha Lavina) in vetting the data used. The discussions on financial matters were largely drawn from the specialized report commissioned by TD on *A History of Financial Management at the Asian Development Bank*. Excellent support was extended by the OAS Records and Archives Unit (Medardo Abad, Jr., Richard Dimalanta, and Heidi Dizon) and Library Services (Marilyn Rosete and Voltere Serrao), who were always quick and resourceful in sourcing and screening historical photos and institutional documents; and OSEC (Nathaniel Casuncad, Genedyn Ebreo), who were ready to assist in Board document retrieval.

Overall production was supervised by Edeena Pike. DER (Robert Hugh Davis and Cynthia Hidalgo) helped in managing the volumes' production, particularly at the initial stages. Cherry Lynn Zafaralla was the copyeditor of the five volumes as well as publication coordinator. Joe Mark Ganaban provided the layout, graphics design, and typesetting, and Anthony Victoria of DER conceptualized the covers and box packaging design. Rowena Agripa, Lorena Catap, Esmeralda Fulgentes, Ma. Carolina Faustino-Chan, and Sharlene Guinto provided administrative assistance at various stages. Finally, the Logistics Management Unit of OAS (Razel Gonzaga and Wyn Lauzon) provided indispensable assistance in the printing of the volumes.

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ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
BOD	–	Board of Directors
DFI	–	development finance institution
DMC	–	developing member country
GCI	–	general capital increase
IBRD	–	International Bank for Reconstruction and Development
ICT	–	information and communication technology
OCR	–	ordinary capital resources
PCR	–	project completion report
PEO	–	Post-Evaluation Office
PPAR	–	Project Performance Audit Report
PPTA	–	project preparatory technical assistance
PRC	–	People's Republic of China
RETA	–	regional technical assistance
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

DATA NOTES

Lending approvals data used in the five volumes in this series, *ADB Through the Decades*, refer to loan, grant, equity investment, and guarantee approvals of the Asian Development Bank (ADB). They include sovereign and nonsovereign operations of ADB from 1967 to 2016. Approvals include ADB-funded lending operations from ordinary capital resources (OCR) and the Asian Development Fund. Cofinancing resources are discussed separately in the section “Financial Policies and Mobilization Efforts.”

For both lending and technical assistance (TA) operations, regional breakdown is based on current member economy groupings of ADB. Central and West Asia includes Afghanistan, Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. East Asia is composed of the People’s Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei, China. South Asia covers Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka. Southeast Asia includes Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. Finally, the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu comprise the Pacific developing member countries.

Lending data were sourced from two ADB databases, which use slightly different methodologies in recording project information. The operational approvals from 1967 to 1996 (volumes 1–3) were culled from the ADB loan, technical assistance, grant, and equity approvals database, which excludes terminated instruments (loans, grants, equity investments, and guarantees that were approved but terminated before their signing date). This database uses ADB’s old sector classification system. Meanwhile, the operational approvals from 1997 to 2016 (volumes 4 and 5) were downloaded from ADB’s Suite of Strategy 2020 Report of eOperations database which records gross approvals and follows a new project sector classification. All data are as of 31 December 2016.

Technical assistance operations data refer to TA approvals funded by the Technical Assistance Special Fund and Japan Special Fund only. For the first four volumes, the sources for the data are the loan, technical assistance, grant, and equity approvals database (as of 31 December 2016.); and for the fifth volume, ADB’s Operations Planning and Coordination Division, Strategy, Policy and Review Department.

Staff information include management, international, and national and administrative staff. They include director’s advisors and assistants, staff on special leave without pay, and on secondment status. Staff data are sourced from ADB’s Budget, Personnel, and Management Systems Department, and may not tally with the numbers from ADB’s annual reports, which used different classifications of staff data.





I. REGIONAL BACKGROUND

- The region had to deal with the impacts of a second oil shock in 1979, followed by an international debt crisis.
- Countries adjusted to the external environment with major policy initiatives, and showed considerable resilience.

The Asia and Pacific region is composed of countries with widely differing levels of development, but they do share common features. By the second decade, the newly industrializing economies, namely, Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China, had managed to maintain robust growth rates, relying on open and market-oriented policies to gain access to international markets. The Association of Southeast Asian Nations joined the race and experienced a period of impressive transformation. In 1979, new economic reforms toward greater economic openness were launched in the People's Republic

of China (PRC). South Asia grew more slowly, sometimes following policies that were inclined to be more inward-looking and interventionist (Table 1).¹ At the same time, development policy at the international level was dominated by an international debt crisis, a growing emphasis on the need for structural adjustment, and a further broadening of the development agenda. Overall, the impact of the debt crisis on individual countries varied but the region continued to grow. This was primarily attributed to strong leadership coupled with sound policies and pragmatic measures tailored to specific country circumstances.

¹ See Appendix Tables A1.1 and A1.2 on selected economic and social indicators of the region.

Table 1: Population and Gross Domestic Product, Selected Regional Groupings, 1966–2015

Regions	1966	1976	1986	1996	2006	2015
Developing Asia						
GDP (\$ billion)	163	426	1,014	2,937	6,412	18,063
Population (million)	1,718	2,173	2,626	3,124	3,555	3,903
GDP per capita (\$)	95	196	386	940	1,804	4,628
Share of world GDP (%)	8	7	7	9	13	25
Share of world population (%)	51	52	53	54	54	53
Asia's share of world GDP (constant, 2010 \$) (%)	14	16	19	24	25	31
Latin America and Caribbean (excluding high-income economies)						
GDP (\$ billion)	117	411	706	1,894	3,030	4,855
Population (million)	244	314	392	471	544	605
GDP per capita (\$)	481	1,306	1,800	4,024	5,569	8,020
Share of world GDP (%)	6	6	5	6	6	7
Share of world population (%)	7	8	9	11	13	15
Sub-Saharan Africa (excluding high-income economies)						
GDP (\$ billion)	42	142	235	348	798	1,571
Population (million)	264	342	454	600	783	1,001
GDP per capita (\$)	158	416	518	581	1,019	1,570
Share of world GDP (%)	2	2	2	1	2	2
Share of world population (%)	8	8	9	10	12	14

GDP = gross domestic product.

Notes: Gross domestic product is expressed in current \$ billion. Developing Asia includes developing member economies of ADB. Asia includes ADB's regional developing and developed members (Australia, Japan, and New Zealand).

Source: The World Bank. World Development Indicators. <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (accessed 7 December 2016).



II. INSTITUTIONAL OVERVIEW

- The Bank began to build considerable strength and confidence as it increased its lending significantly.
- ADB underwent major reorganization to deal more effectively with its expanding operations. There was growing interest in the institution to diversify resources to a broader range of countries and activities.
- Two key milestones occurred at the end of the decade: India requested ADB to initiate lending, and after long and difficult negotiations, the People's Republic of China became a member.

At the end of the first decade, in November 1976, President Taroichi Yoshida became the third President of ADB. He would lead ADB for 5 years until 1981, when he would be succeeded by President Masao Fujioka. Under their leadership, ADB began to build considerable strength and confidence. In response to the difficult external environment, ADB increased its lending considerably and expanded its range of activities. Membership also widened. Resource mobilization efforts continued, but these efforts became more difficult. The rapidly changing

economic environment and the strengthening dynamism of the region encouraged much debate about development priorities. To support these discussions as well as provide information for policymakers in ADB member countries, ADB sponsored various studies, ultimately seeking to become a regional resource center providing analyses and assessments of issues relevant to developing member countries (DMCs). ADB also pursued greater and deeper policy dialogue and put more emphasis on institutional capacity building in its DMCs.

A. Membership

New members joined ADB over the period. These included Maldives (1978), Vanuatu (1981), Bhutan (1982), and Spain (1986). In 1986, the People's Republic of China (PRC) also joined ADB. Unlike other agencies related to the United Nations, ADB retained the membership of Taipei, China under its current designation. By the end of the second decade, ADB had 47 members (32 regional and 15 nonregional) covering half the global population. Upon joining in 1986, the PRC subscribed 114,000 shares equivalent to 7.16% of total subscribed capital and 6.15% of voting power, making it the third largest shareholder after Japan (holding 15.13% of subscribed capital and 12.53% of voting power) and the United States (US) (with 14.91% of subscribed capital and 12.36% of voting power). The fourth largest shareholder was India with 7.03% of subscribed capital and 6.05% of voting power; followed by Australia with 6.43% of subscribed capital and 5.57% of voting power.

B. Leadership

Taroichi Yoshida was unanimously elected on 28 July 1976 by the Board of Governors as the third President to succeed Shiro Inoue (Box 1). He assumed office on 24 November 1976.

Vice-Presidents. Soon after President Yoshida took office, Vice-President (VP) C.S. Krishna Moorthi announced that he would retire at the end of his second term in March 1978. President Yoshida asked him to name a successor and he recommended A.T. Bambawale, who was the Indian alternate executive director on the ADB Board of Directors (BOD) from 1971 to 1976. Bambawale was immediately accepted by the President and BOD. Prior to his appointment, Bambawale had worked in the Indian Administrative Service in Bombay state, and in the Ministry of Finance in New Delhi, where he spent 12 years in the Department of Economic Affairs. To facilitate the transition, he joined ADB in November 1977 as

Box 1: Third ADB President Taroichi Yoshida (24 November 1976–23 November 1981)

Taroichi Yoshida had just retired as Japan's Vice-Minister of Finance for International Affairs when he was appointed President of the Asian Development Bank (ADB). Born in Kyoto in 1919, President Yoshida had a law degree from Tokyo University. He joined Japan's Ministry of Finance in 1944. In the late 1950s, he worked at the International Monetary Fund in Washington, DC, then returned to Japan to serve in the Ministry of Finance in various senior positions before becoming Vice-Minister in 1974. In the years immediately before joining ADB, he had represented Japan at annual meetings at the World Bank and ADB. As chairman of Japan's International Finance Mission to Asia and Oceania, he had visited several developing member countries (DMCs) in Asia and acquired first-hand knowledge of their development problems.



President Yoshida was concerned from the outset with agriculture and rural development. He balanced this with strategies to promote industrial development, emphasizing appropriate linkages between agriculture and industry. During his administration, he focused on poverty (including unemployment) and basic needs issues in the Asia and Pacific region and started to increase the social component of ADB projects. Under his leadership, operations were restructured to take a more country-focused view, and multiproject loans and sector lending were introduced. In 1978, after difficult negotiations, donors agreed to a second replenishment of the Asian Development Fund under his skillful coordination. President Yoshida led ADB's response to the second oil shock in 1979, bolstering further ADB's support for the development of new energy sources and energy efficiency.

President Yoshida served one 5-year term as ADB President. He passed away on 14 March 2014 in Japan at the age of 94.

Sources: D. Wilson. 1987. *A Bank for Half the World: The Story of the Asian Development Bank*. Manila: ADB; other ADB sources.

Special Advisor to the President, and assumed the VP position on 1 April 1978. While very thorough, he carried his duties with charm, and staff admired him, even those whose work he had to criticize. Bambawale served ADB from 1978 until his retirement in 1985, when he was succeeded by M. Narasimham, the former finance secretary of India.

At the time Bambawale was easing into the new post vacated by Krishna Moorthi, the BOD, upon recommendation of President Yoshida, approved the creation of an additional VP post to take over responsibilities for financial, administrative, and other services functions. Stanley Katz assumed office on 1 April 1978. Before joining ADB, Katz had served as Deputy Assistant Secretary for International Economic Policy and Research in the Department of Commerce of the United States. Earlier, he had worked as an economist for the International Bank for Reconstruction and Development (IBRD) in Washington, DC, and the Organisation for Economic Co-operation and Development in Paris.

In January 1983, the Board agreed to create a third VP post. Gunther Schulz was appointed, effective 1 April of the same year. Prior to joining ADB, Schulz (from Germany) served in the Inter-American Development Bank, first as director of the External Review and Evaluation Office, then as board executive director. With the appointment of a third VP, the responsibilities at top the management level were redistributed. Operational responsibilities were divided into two groups: VP Operations (covering development policy, country economic and general economic work, country programming and central loan administration, procurement and consulting services); and VP Projects (responsible for sector work and processing and implementation of loan and technical assistance [TA] projects).

Masao Fujioka took over the Presidency of the Bank on 24 November 1981 (Box 2). He would resign after 8 years in office, upon reaching 65 years of age.

Box 2: Fourth ADB President Masao Fujioka (24 November 1981–23 November 1989)

Masao Fujioka was a man in a hurry when he took over in 1981 as the Asian Development Bank's (ADB) fourth President. Upon his arrival at the airport, he sent his bags home and was driven straight to the office. President Fujioka was well prepared for the post. Soon after graduating from Tokyo University, he had spent a year in the University of Chicago studying public finance and economics, and in 1960, the Ministry of Finance seconded him to the International Monetary Fund. While working with the Ministry of Finance, in May 1966, he was also sent to work for the Economic Commission for Asia and the Far East and was involved in preparing for the establishment of ADB. In November of the same year, when the Bank was established in Manila, he was appointed as its first director, in the Administration Department, a position he served for two and a half years.

President Fujioka then moved to the Overseas Economic Cooperation Fund, before serving for most of the 1970s in the Japan Finance Ministry's International Finance Bureau, of which he eventually became director general. He had also served as temporary Alternate Governor for Japan both at the World Bank and ADB. At the end of the 1970s, he was made Executive Director of the Export-Import Bank of Japan and the Japan International Cooperation Agency.

President Fujioka came to ADB with clear ideas of where he wanted to go. He was instrumental in promoting greater coordination of ADB operations and increasing cofinancing and equity investments to private enterprise. He had a vision of establishing ADB as a repository of knowledge and expertise as a "regional resource center." In 1986, the People's Republic of China joined ADB, and a first loan was approved for India. Under President Fujioka, additional replenishments to the Asian Development Fund were made, and the Japan Special Fund was created. In 1983, he also presided over a third general capital increase, which raised ADB's capital by 105%.

President Fujioka was the second longest serving President (after Haruhiko Kuroda, ADB's eighth President), leading ADB for a total of 8 years. He wrote a book (in Japanese) entitled *Diary of the President of ADB: Returning Home in Manila* in 1986. President Fujioka currently lives in Japan.



C. Budget, Staffing, and Other Organizational Matters

1. Budget

As both membership and operations broadened, ADB's budget expanded. The average annual increase in the administrative budget reached 25% in the first half of the decade (1977–1981). The generally restrictive financial climate of the 1980s combined with a relative flattening out of ADB's lending brought pressure on management to keep administrative spending within bounds. The Budget Review Committee was established in 1984, after a similar ad hoc committee had operated for the previous 2 years. The Budget Review Committee undertook a detailed review of the proposed 1985 budget and made recommendations to improve and refine ADB's budgetary procedures. Since then, each November, the committee has been carefully reviewing ADB's annual administrative budget proposed by management for the coming year. During the second half of the decade (from 1982 to 1986 under President Fujioka), the average annual increase in ADB's administrative budget was reduced to 9%. In 1986, ADB annual internal administrative expense budget amounted to \$89.3 million, compared to \$19.7 million a decade earlier (in 1976).

2. Staffing

The staff complement more than doubled over the second decade, reaching 1,604 staff from 37 member countries by the end of 1986 (599 international; four from management; and 1,001 local staff), compared to 760 staff by the end of 1976. In 1980, ADB formulated a comprehensive personnel management policy. The Board approved a new salary system for local staff following the introduction of a new position classification program. A comprehensive review of professional staff compensation systems was similarly conducted over a 2-year period, in 1981–1982, with the help of external consultants. Following the review, a new position evaluation and classification system was introduced. The Board also approved significant changes in a number of staff allowances and benefits, in order to encourage longer service, maintain international competitiveness, and compensate

for specific costs associated with ADB's location. The Young Professionals Program was inaugurated in 1984. Throughout the decade, training and development programs were strengthened and expanded in specific areas to meet the developmental and operational needs of staff.

3. Organizational Matters

Office Accommodations. In June 1976, the BOD agreed in principle to construct a new office building to accommodate the projected future needs of the Bank, given its rapidly growing staff. It was agreed that the Philippine government would purchase a plot of land next to the headquarters building on Roxas Boulevard, on which ADB would construct an additional office building. In the meantime, the Philippine government offered the temporary rent-free use of space in the Central Bank building complex. Several ADB units were transferred to these premises in 1978. To accommodate the continuing growth of staff, additional office space in the vicinity of the headquarters complex was rented. Meanwhile, ADB and the host government explored the possibility of constructing a new building on the Manila Bay reclamation area, rather than constructing an annex to the existing headquarters building. In mid-1982, the Philippine government advised that it had to limit its financial involvement in the project, but would nevertheless support efforts to construct the building on another site. In February 1983, the Board approved a general proposal to construct the Bank's new headquarters building in Mandaluyong City. Six hectares of land were purchased for this purpose. In March 1984, the Board approved final sketch plans for the new building that could accommodate 2,400 people and a number of special facilities. The project was to be completed by early 1988.

Resident Missions. The first resident mission was established in Dhaka, Bangladesh in 1982 to facilitate ADB's operations in that country. An interim review of its operations in 1984 concluded that first, within its limited capacity, the resident mission had made a useful contribution to ADB's operations and activities in Bangladesh, particularly in the area of project implementation, monitoring, and loan administration. Second, the experience

showed that the establishment of field offices could improve ADB operations. This conclusion validated the resident mission concept and provided the basis for future expansion. Following a review of ADB operations in the South Pacific, the BOD approved the opening of the South Pacific Regional Mission in 1984 in Port Vila, Vanuatu.² In 1986, the BOD approved a policy paper that set out formal criteria for establishing resident missions, namely, the resident mission should be opened in a DMC if that DMC receives over 10% of ADB's annual lending, and the DMC has a loan portfolio with over 10% of ADB's total ongoing loans by value and number.³ The policy paper recognized that smaller borrowing countries may not meet these criteria and allowed for special circumstances, especially in case of project implementation problems. A poor disbursement ratio (25% below ADB average) was considered to be an appropriate indication of such problems, but it was not the only special circumstance possible. Others included (i) enhancement of policy dialogue through close government contact; (ii) aid coordination, especially participation in consultative meetings; (iii) the need to help ensure counterpart funding; (iv) special needs of transitional economies; (v) the need to explain ADB procedures to governments; and (vi) better identification of cofinancing opportunities.

Computerization. In the second half of 1977, a consulting firm conducted a comprehensive study of ADB's electronic data processing requirements to develop a computerization plan. Following the review, a Computer Services Unit was established in 1978 and an advisor was appointed to guide the computerization efforts. The Computer Services Unit was upgraded to an Office of Computer Services in 1980, and ADB's first computer system was installed and became operational in June 1981. The information and office system was expanded to support a wide range of activities. By the end of 1986, there were 330 computers Bankwide (including 70 portable microcomputers for use during missions) for 1,580 staff.

Important Organizational Changes. ADB reorganized its operational functions in 1978 to deal

more effectively with its expanding operations and to strengthen its policy formulation and review function. A Development Policy Office was established, while the Operations Department was renamed the Country Department. Project Departments I and II were reorganized into three departments: Agriculture and Rural Development, Infrastructure, and Industry and Development Banks. In addition, a Central Projects Services Office was established. These changes aimed at increasing ADB's capacity to handle new and ongoing loans and TA operations, as well as to give greater attention to project supervision and loan administration. The Post-Evaluation Unit was converted into a separate office, reporting directly to the President. Owing to an increased workload and expanding responsibilities, administrative functions were also reorganized. Effective 1 January 1979, the former Administration Department was divided into the Budget, Personnel and Management Systems Department, and the Office of Administrative Services. A committee on administrative matters relating to members of the Board was also established to review and report on general policy or operational issues on the services of directors and alternate directors.

Reorganization was again undertaken in 1982. A new Cofinancing Unit was established in the Country Department in line with ADB's new emphasis on promoting cofinancing. The diversification and volume of activities such as education, urban planning, and health in the Infrastructure Department led to the bifurcation of the Social Infrastructure Division and the creation of a separate Education Division. Also in 1982, a Financial Policy Division was established in the Treasurer's Department to devote full attention to financial policy and financial planning and management functions; and to coordinate work on capital increases, Special Funds replenishments, and other important financial issues.

In March 1986, a Private Sector Division was established in the Industry and Development Banks Department to provide a focal point for all private sector activities in the DMCs.

The organizational chart of ADB at the end of the second decade is provided on pages 44–45.

² ADB. 1983. *A Review of Bank's Operations in the South Pacific Developing Member Countries*. Manila

³ ADB. 1986. *Establishment of Bank Resident Offices in Developing Member Countries*. Manila.



III. OPERATIONAL OVERVIEW

- The decade was marked by a substantial expansion in ADB lending operations. Energy and agriculture remained top priorities, accounting for over half of total lending. Support to the social sectors increased.
- ADB sponsored various research studies and seminars, ultimately seeking to become a regional resource center.
- ADB also pursued greater and deeper policy dialogue and put more emphasis on institutional capacity building in its developing member countries.

A. Operational Priorities and Plans for the 1980s

In 1981, ADB took stock of its experience, reviewing the entire range of its operational policies and procedures, and developing medium-term strategies up to the end of 1987. A landmark study, the *Study of Operational Priorities and Plans of the Asian Development Bank for the 1980s*, would have a profound influence on ADB operations, particularly during the second half of the decade.⁴ President Yoshida highlighted its importance during the 1981 Annual Meeting: “In

my first address to the Annual Meeting, in 1977, I said that ‘no institution can progress unless it takes stock of itself from time to time, reviews its past and postulates its future’.... One of the strengths of the ADB has been its willingness to review what it had been doing, and to plan new initiatives based on careful reviews of its past performance. Accordingly, the Bank has decided to undertake a comprehensive review and assessment of its operational priorities and plans. In undertaking this study, the Bank is seeking to identify ways in which it can best assist its DMCs to meet the new and more challenging economic circumstances they will face in the coming decade.”⁵

⁴ ADB. 1983. *Study of Operational Priorities and Plans of the Asian Development Bank for the 1980s*.

⁵ T. Yoshida. 1981. Address by the President of the Bank. Speech delivered at the 14th Annual Meeting of the ADB Board of Governors. Honolulu. 30 April–2 May.

The study was carried out by an interdepartmental team coordinated by the newly created Development Policy Office. An external advisory group of five eminent experts, chaired by John P. Lewis, a professor at Princeton University, was commissioned to provide overall guidance. DMCs were selectively consulted through five in-depth country studies on Bangladesh, the Republic of Korea, Malaysia, Nepal, and Thailand. The review was completed in 1982, the first full year of President Fujioaka's term of office. It provided an opportunity for the new President to draw from its findings and chart new directions for ADB. The study made far-reaching recommendations. It suggested a new corporate strategic planning approach that was country-centered and based on an analysis that moved logically from an examination of the country's macroeconomic situation, to sector and other cross-cutting priority issues, and only then to project selection. It called for greater flexibility in ADB's lending modalities. Finally, it redefined ADB's developmental role by blending its traditional lending function with provision of knowledge and advice to countries in Asia and the Pacific.

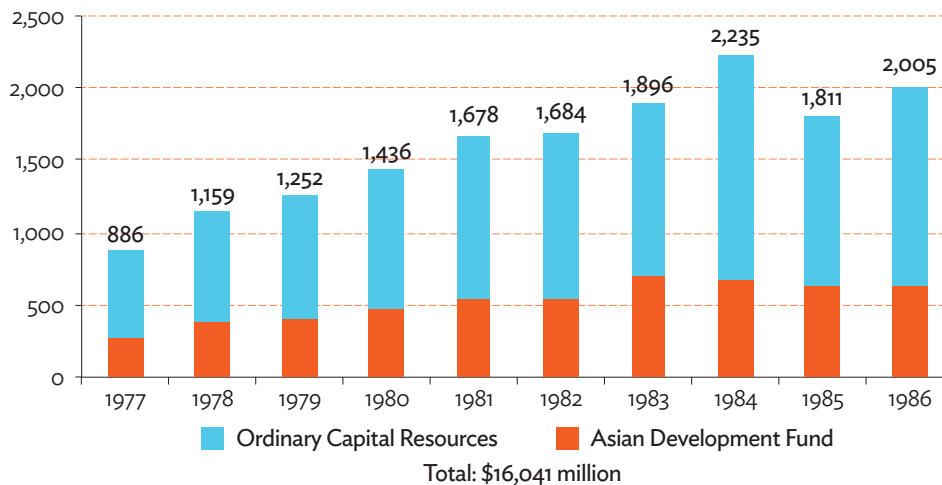
The study findings would lead to various policy and strategy changes, as well as new ways of doing business within the institution. In particular, the study recommended that ADB

- (i) ensure maximum concessional assistance to the poorest DMCs in light of ADB's resource constraints and anticipated decline in external aid flows;
- (ii) continue its emphasis on agriculture and rural development, energy, and social infrastructure as priority concerns;
- (iii) adopt a multiyear country programming approach based on detailed sectoral analysis and strategies at the country level;
- (iv) pursue greater and deeper policy dialogues with DMCs;
- (v) promote institutional development within DMC executing agencies;
- (vi) increase the amount of local cost financing as well as the amount of program and sector lending;
- (vii) improve ADB's project implementation by delegating certain procurement activities to borrowers and executing agencies;
- (viii) play a catalytic role by helping to mobilize additional resources for development in the region, taking new initiatives such as cofinancing with commercial and export credit sources, equity investments and providing partial guarantees and nonguaranteed loans; and
- (ix) become a "regional resource center" that would provide analyses and assessments of issues relevant to the development of DMCs (see section III.F).

B. Lending Overview

The second decade was marked by a substantial expansion in ADB's lending operations. In 1978, annual lending level exceeded \$1 billion for the first time. For the entire second decade, ADB lending operations reached over \$16 billion, an almost fivefold increase from the previous decade. A third of this amount was sourced from the Asian Development Fund (ADF), representing a slightly higher ratio of concessional lending compared to the first decade (27%). The Bank had indicated its intent to progressively increase the share of its concessional lending in its total operations, as ADF operations were found to be relatively low compared to the World Bank's International Development Association lending to ADB's borrowing DMCs. The Bank's lending commitments leveled off slightly in 1985 and 1986, reflecting generally slower world economic conditions as well as high debt levels and budgetary constraints in many DMCs. The decline was more pronounced for ordinary capital resources (OCR), as lending was lower to most traditional major borrowers (Figure 1).⁶

⁶ The Philippines did not borrow in 1985. Lending resumed in 1986.

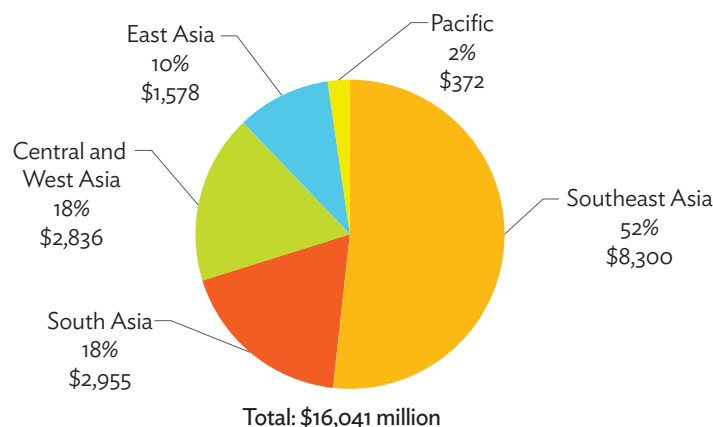
Figure 1: Lending Operations by Fund Type, 1977–1986
 (\$ million)


Note: Lending operations include loan, grant, equity investment, and guarantee approvals.
 Source: ADB loan, technical assistance, grant, and equity approvals database.

C. Geographic Distribution

In terms of geographic distribution, ADB lending remained heavily concentrated in Southeast Asia, with more than half (52%) of total lending going to that region. South Asia and Central and West Asia, however, overtook East Asia, each accounting for 18% of total lending versus 10% for East Asia as seen in Figure 2. Both Hong Kong, China and Singapore received relatively modest amounts of OCR lending, consistent with their increased ability to borrow from

private capital markets. Both stopped borrowing from ADB over the decade.⁷ ADB's last loan to Taipei, China, meanwhile, was in 1971, during the first decade. The Republic of Korea graduated from marginal ADF eligibility (hard blend) to noneligibility (OCR lending only) in 1978. The top five borrowers over the decade were Indonesia (21%), Pakistan (17%), the Philippines (12%), Bangladesh (11%), and the Republic of Korea (9%) (Appendix Tables A2.1 and A2.2 provide more detailed data on lending and technical assistance approvals by country).

Figure 2: Lending Operations by Region, 1977–1986
 (\$ million)


Notes: Regional breakdown is based on current country groupings of ADB. Lending operations include loan, grant, equity investment, and guarantee approvals.
 Source: ADB loan, technical assistance, grant, and equity approvals database.

⁷ The last loans to both Hong Kong, China and to Singapore were approved in 1980.

1. Special Attention to the South Pacific

While the Pacific subregion accounted for the smallest share of total lending (2% or \$372 million over the entire period), ADB continued to pay special attention to this subregion, in line with the ADB Charter provision to give special consideration to small and less developed countries. In 1978, ADB started a review of its operations in the agriculture sector in the South Pacific.⁸ These countries were not covered in the *Second Asian Agriculture Survey* (published in 1978) as it was felt that the special features and distinct development needs of South Pacific DMCs warranted a separate study by experts familiar with the subregion. The study was published by the Australian National University Press in 1980, generating keen interest in the subregion from its key findings, among which were (i) the need for increased adoption of the plantation mode of management for major crops and new forms of landholding; (ii) the shortage of rural labor in some areas and the consequent need for capital intensive development; (iii) the generally poor state of the coconut industry; (iv) the need for rural service centers to coordinate the development of transport and agriculture; (v) the problem of providing services in economically nonviable locations; (vi) the role of government in national development (including national development banks); and (vii) the scope for regional cooperation, especially in marketing.

Multiproject loans were introduced in 1978 as a financing option for smaller DMCs. Under this form of financing, a number of very small projects

were grouped together under one loan agreement. This new instrument was expected to provide a more effective way for ADB to support projects that individually would be below the scale normally considered appropriate for Board review. The first such loan was made in Tonga in 1979 to finance small but high priority subprojects in the transport and communications, industry, health, and water supply sectors. In 1980, another multiproject loan was made to the Cook Islands for the construction of a drainage and flood control system, new wharf and health centers, and improvement of plantation roads. Over the period 1977–1986, total multiproject loans were over \$31 million. All of them were in Pacific DMCs, with the exception of Bhutan.

ADB also conducted a *Study of the Bank's Role in the South Pacific DMCs in the 1980s* (completed in 1983).⁹ The study confirmed the validity of ADB's existing operational framework that focused on (i) concessional lending with flexible implementation; (ii) building productive capacities of South Pacific DMCs with priority to fisheries and forestry projects; (iii) supporting the main rural development thrust using less sophisticated approaches and technology; and (iv) tailoring its approach to the respective size, potential, and circumstances of each Pacific DMC. The study also recommended establishing a modest-sized regional office with appropriate delegation of authority (which eventually led to the opening of a Regional Office in Port Villa in 1984).

2. Start of Operations in India

A major landmark occurred in 1986, when ADB began operations in India (Box 3).

⁸ ADB. 1980. *Bank Operations in the Agriculture Sector in the South Pacific*. Manila.

⁹ ADB. 1983. *A Review of the Bank's Operations in the South Pacific Developing Member Countries*. Manila.

Box 3: The Beginning of the India–ADB Relationship

Although a founding member of the Asian Development Bank (ADB) in 1966, India opted to be a nonborrowing member for 2 decades. This was due in part to the perception by the Government of India that India's borrowing would strain ADB's resources, without contributing much to addressing India's requirements. In the mid-1980s, however, India reconsidered and decided to borrow from ADB mainly due to (i) the need for increased foreign borrowings to finance the investment needs of its economy, which had started to grow at higher rates; (ii) the views of some ADB shareholders that India's participation in ADB's lending operations would strengthen ADB's role and profile as a regional institution; (iii) potential access to the Asian Development Fund (ADF) at a time when the World Bank Group had reportedly advised India to diversify its sources of concessional financing; and (iv) the possibility of the People's Republic of China joining ADB.

For its part, ADB needed to familiarize itself with India's administrative and government system. It was aware that India was highly experienced in dealing with multilateral financial agencies, was one of the largest borrowers of the World Bank Group, and had enjoyed considerable leeway in shaping its borrowing operations. ADB's first country operational strategy covering 1986–1990 did not attempt to explicitly link ADB lending to policy or institutional reforms. Planned operations over 1986–1990 remained confined to areas of ADB's traditional strength, particularly in core infrastructure sectors. ADB's first loan (a \$100 million lending facility to the Industrial Credit and Investment Corporation of India) was approved in 1986 for onlending to private enterprises in the industrial sector. Although India was qualified to apply for concessional loans, it did not do so to avoid crowding out existing beneficiaries of ADF loans.

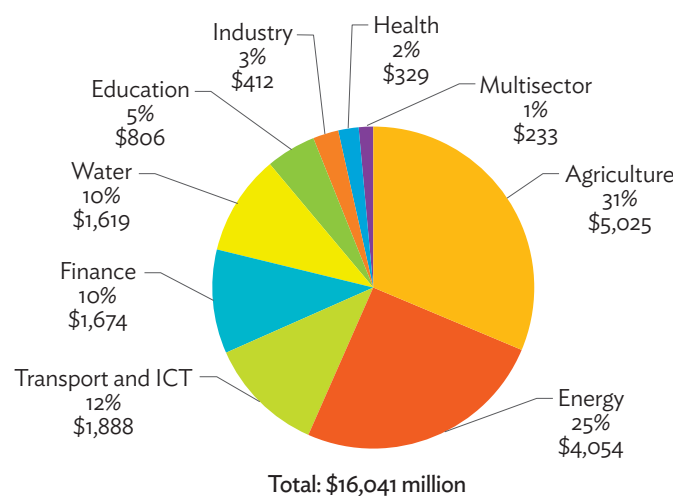
Source: ADB. 2007. *Country Assistance Program Evaluation for India*. Manila.

D. Sectoral Developments

Energy and agriculture remained top priorities, accounting for over half (56%) of total lending over the decade. The rest went to transport and information and communication technology (ICT) (12%), finance (10%), water (10%), education (5%),

industry (3%), health (2%), and multisector (1%). Significant changes compared to the previous decade included an even greater emphasis on agriculture; and a relative shift in lending toward the social sectors (education and health) with a corresponding reduction in share of lending going to transport, finance, and industry (Figure 3).

Figure 3: Lending Operations by Sector, 1977–1986
(\$ million)



ICT = information and communication technology.

Note: Lending operations include loan, grant, equity investment, and guarantee approvals.

Source: ADB loan, technical assistance, grant, and equity approvals database.

1. Agriculture

The priority given to agriculture continued and even intensified. President Yoshida, in his first Annual Meeting address in 1977 said, “Any effort to solve the problems of development in the Bank’s region must focus on the role of the agricultural sector.”¹⁰ In response to the recommendations of the Second Asian Agricultural Survey, ADB completed in 1979 a broad review of its operations to support agriculture and rural development and decided to increase its lending in this area by 20% annually from 1979 to 1982.¹¹ Another review of ADB’s role in the sector was undertaken in 1983, leading to a new policy paper that reconfirmed the following priority areas for ADB: (i) accelerating and sustaining agricultural production and growth, (ii) ensuring participation of small farmers in production and income expansion, (iii) providing employment for the rural workforce, (iv) increasing foreign exchange earnings and savings, (v) meeting essential energy needs, (vi) optimizing land use and environmental protection, and (vii) strengthening intersectoral linkages.¹² To better respond to the individual needs of each DMC, given the wide economic diversity across the region, the policy recommended that ADB develop country-specific operational strategies aligned with DMC sector planning, in close consultation with other donor agencies.

ADB also completed more targeted studies on the role of forestry in the socioeconomic development of the region in 1978.¹³ In 1979, ADB reviewed its experience in the fisheries sector and defined the principal elements of the Bank’s *Framework for Assistance to the Fisheries Sector*, which included continued emphasis on the development of marine fisheries with increasing attention to aquaculture and inland fisheries.

Consequently, ADB significantly increased its agriculture lending (reaching over \$5 billion over 1977–1986, an almost eightfold increase compared to the previous decade). About half (49%) of total lending was financed from ADF. Lending was heavily

concentrated in five countries: Indonesia (28%), Pakistan (17%), Bangladesh (14%), the Philippines (13%), and Malaysia (8%). ADB’s strategy in the sector emphasized an integrated approach to irrigation, rural development, land utilization, water management, and expansion of rural employment. Irrigation projects (which alone comprised almost 39% of total lending in the agriculture sector) along with rural sector development (6%) were targeted to increase or stabilize food crop production, generate rural employment, and conserve foreign exchange. Agriculture production and markets was another important area of focus (27%), with ADB continuing its work to support the diversification and modernization of the sector. It assisted crop intensification; agroprocessing and marketing programs; and the production of cotton, oil palm, sugar, rubber, rice, tea, and coconut. Fisheries and livestock accounted for 16% of total lending for sector. Through fisheries loans, ADB sought to increase domestic consumption of fish products and to generate more gainful employment, thereby raising the income of fishermen. Land-based and water-based natural resources management accounted for 8%, while forestry received only 4%. ADB’s strategy for forest development emphasized rural development and integration of forestry with other land uses. It also focused on the development and improvement of relevant local institutions.

The second decade also saw the start of sector lending. This trend was particularly important for agriculture, as it enabled ADB to support a large number of rural water supply and sanitation development projects that would have otherwise been challenging to finance because of their small scale.

2. Energy and Mineral Development

ADB’s support to the energy sector became more comprehensive in the second decade, with increasing assistance to develop indigenous energy resources, improve existing facilities, strengthen infrastructure, promote energy conservation,

¹⁰ T. Yoshida. 1977. Address by the President of the Bank. Speech delivered at the 10th Annual Meeting of the ADB Board of Governors. Honolulu. 21–23 April.

¹¹ ADB. 1978. *Sector Paper on Agriculture and Rural Development*. Manila.

¹² ADB. 1983. *Review of the Bank’s Role in Agriculture and Rural Development*. Manila.

¹³ ADB. 1978. *Role of the Bank in Forestry and Forest Industries Development*. Manila.

and enhance the capacities of national energy institutions to formulate and implement energy plans and policies. During the decade, the main thrust of ADB operations in the energy sector reflected a strategy of assisting DMCs to carry out adjustments necessitated by major changes in the world energy situation since 1973, with particular emphasis to support the development of DMCs' indigenous energy resources, mainly hydropower, but also natural gas and coal. ADB also started to support private sector participation in the development of energy and power generation.

A *Regional Energy Survey* was published in 1981 and would help shape ADB's future assistance in the sector.¹⁴ It mapped the energy problems of borrowing countries after the second oil shock of 1979 and included (i) a broad assessment of the existing and prospective energy demand and supply situation in DMCs, (ii) a review of their indigenous energy resources, (iii) an evaluation of various energy development and demand management options available to them, and (iv) identification of areas where external assistance was most needed. The survey also highlighted the massive investments required to sustain moderate economic growth. Investment requirements in new commercial energy systems and those needed to develop renewable energy resources were projected to reach \$13 billion a year during the 1980s. This would require the mobilization of vastly increased resource, and had far-reaching implications for ADB's operations.

Consequently, ADB reviewed its role in the energy sector and committed to significantly increase and diversify its lending by (i) shifting emphasis from direct investment in power generation, transmission, and distribution toward development of the hydrocarbon subsector (coal, gas, and oil); (ii) developing biomass and nonconventional energy; and (iii) supporting energy conservation and efficient energy use.¹⁵ TA

operations were expected to increase along with greater emphasis on sector lending, cofinancing, and resource mobilization activities. Efforts toward regional cooperation in energy development were to be pursued in parallel. Organizational and staff capabilities would also be reviewed given the significantly larger and more complex operations expected in the sector.¹⁶

In 1986, a review of investment needs in the power subsector over 1986–1990 was completed.¹⁷ Again, the study highlighted the substantial investments required to meet DMCs' growing demand for power and to improve the quality and reliability of existing power supplies. The study recommended that ADB assistance in the power subsector be increased further.

Most DMCs were known to have substantial mineral resources, which remained largely untapped. ADB therefore decided in 1978 that it could perform a useful role in helping DMCs explore this potential, particularly with respect to nonfuel mineral and coal resources. Operational guidelines were developed calling for TA resources for surveys and economic evaluations of discovered mineral reserves, and “seed” capital financing for the development of mining facilities and other related infrastructure development. It was decided that ADB would not be involved in petroleum exploration, prospecting, production, and marketing. However, ADB support could be considered for the rehabilitation or expansion of existing petroleum production facilities, if financing for such projects was not available. ADB would work with other aid agencies and prospective investors to increase the flow of capital and TA to its DMCs for mineral development.¹⁸

Total ADB lending to the energy sector reached over \$4 billion over the decade, with five countries (Bangladesh, Indonesia, Pakistan, the Philippines, and Thailand) receiving 80% of total lending. From

¹⁴ ADB. 1981. *Regional Energy Survey*. Manila.

¹⁵ At the time, a major share of energy sector lending focused on increasing generation facilities. Efforts in the hydrocarbon subsector were more limited and directed mostly to natural gas development.

¹⁶ ADB. 1981. *Role of the Bank in the Energy Sector in the Region*. Manila.

¹⁷ ADB. 1987. *Annual Report 1986*. Manila. p. 36.

¹⁸ ADB. 1978. *Bank's Assistance for Mineral Projects in DMCs*. Manila. See also ADB. 1980. *Role of the Bank in Promoting Mineral Development in Developing Member Countries*. Manila.

1977 to 1986, 43% of total energy loans went to electricity transmission and distribution; 27% to conventional energy (including thermal power, natural gas development, and distribution); while the remaining assistance was shared by energy sector development (14%), large hydropower (12%), pipelines (2%), and renewable energy (1%). Around three-fourths of energy loans were financed from OCR.

3. Transport and ICT

In the second decade, the share of transport and ICT declined from 20% in the first decade to only 12%. Still, by the end of the decade, operations in the transport and ICT sector had reached \$1.9 billion, sourced primarily from OCR. ADB operations in the transport sector remained focused on roads (61%) and water transport (26%). The rest went to ICT (9%), rail (2%), and air transport (1%). During the 1970s, ADB support in the road subsector focused primarily on the construction of new highways and rural roads. This focus changed slightly in the second decade, which was dominated by road improvement projects, reflecting the significant increase in traffic volume in many DMCs and changes in traffic composition toward heavier vehicles. ADB also continued to finance roads linking rural with urban areas. Significant support was provided for the improvement of road networks in Indonesia, the Republic of Korea, the Philippines, and Thailand, which were the top borrowers in the transport sector (together accounting for 66% of total sector lending). In the 1980s, the volume of cargo handled at Asian ports grew significantly faster than elsewhere in the world. ADB provided support through port rehabilitation and modernization projects, and specialized terminals to handle bulk cargoes.

4. Finance

ADB support in the finance sector remained primarily focused on development finance institutions (DFIs), as these could reach a large number of small and medium-sized enterprises (SMEs). As in the previous decade, assistance to DFIs also sought to promote strong and effective

domestic investment institutions to help mobilize and channel domestic and foreign resources for investment projects. Finally, DFIs also promoted adoption of appropriate technologies, functioning as important centers for the dissemination of modern business management practices. Overall lending to the sector reached \$1.7 billion over 1977–1986 (compared to \$598 million in the previous decade). Almost one-fourth of this went to SME finance and leasing. As a share of total lending, however, the importance of the sector declined from 18% in the first decade to 10% in the second decade. A greater share of financial sector assistance was financed from concessional funds (32% compared to 15% a decade earlier). More than half of total sector lending was concentrated in just two countries: Pakistan (32%) and the Republic of Korea (26%). Other top country recipients were Bangladesh, the Philippines, and Thailand (all 9% each).

5. Water

Total ADB lending for water supply and other municipal infrastructure projects reached \$1.6 billion from 1977 to 1986, a fivefold increase from the first decade (\$313 million). The sector's share in total Bank lending increased slightly from 9% in the first decade to 10% in the second decade. ADB support focused on water supply and sanitation (57%), urban sector development (22%), water management (12%), and slum upgrading (9%), in response to the region's fast growing cities and towns. The top country recipients were the Republic of Korea (30%), Indonesia (22%), Thailand (16%), the Philippines (12%), and Pakistan (6%).

6. Social Sectors

Education. Total education lending jumped from \$28 million in the first decade to \$806 million in the succeeding 10 years. The share of the sector in total lending increased from 1% to 5% over the same period. ADB support remained primarily focused on technical education and vocational training (accounting for 49% of total lending) and to a lesser extent tertiary and higher education (26%). However, the scope of support widened with the remaining fourth divided among new

areas: education sector development (19%), preprimary and basic education (5%), and nonformal education (2%). The first loan in the education sector development subsector was to Bangladesh for the development of education equipment (\$6 million) in 1978, followed by Pakistan in 1979 for the printing of textbooks (\$10 million). In 1981, Bangladesh again benefited through a \$14 million loan to community schools, which represented ADB's first support to the nonformal education sector. Meanwhile, the first loans for preprimary and basic education were provided to Pakistan and Nepal. The top country recipients were Indonesia (48%), the Republic of Korea (13%), Malaysia (10%), Pakistan (7%), and Bangladesh (7%).

Health and Population. Continuing concerns on population issues led the Bank to review the scope of its assistance in the population subsector and develop a new policy on its role in this area.¹⁹ It was decided that whenever feasible, population components may be included as an integral component of an ADB-financed project, particularly in the health sector. In 1978, ADB approved its first loans in the health sector—two hospital-polyclinic projects namely, the Sha Tin Hospital-Polyclinic in Hong Kong, China (\$20 million) and the Kent Ridge Hospital Polyclinic in Singapore (\$19 million). These projects upgraded specialist health facilities and teaching facilities for medical schools. For the decade as a whole, total sector lending amounted to \$329 million, of which 59% went to improvement of health systems and 41% to health programs (e.g., providing support for health delivery infrastructure, administration, and management of health services; development of health manpower; and strengthening of critical support areas). The first health program loan (\$16 million) was approved in 1980 and aimed to increase the supply of essential drugs and strengthen malaria control operations in Bangladesh. Meanwhile, ADB's first loans in support of population programs were approved

in 1981 in Malaysia (\$26 million) and Pakistan (\$15 million). For the decade as a whole, the top five country recipients were Malaysia (23%), Myanmar (19%), Bangladesh (13%), Indonesia (13%), and Pakistan (9%).

E. Emerging Priorities

1. Environment

In 1980, the Board discussed a paper on *Environmental Considerations in Bank Operations* and agreed on steps to take to ensure that environmental implications were systematically considered and monitored in ADB projects.²⁰ By 1986, the Bank further reviewed its policies and procedures for managing the environmental aspects of its development projects.²¹ The study reaffirmed that environmental activities should continue to concentrate on (i) reviewing ADB's projects to ensure that all potentially significant environmental impacts were identified and appropriate measures were taken to avoid adverse impacts and, where possible, that ADB projects enhance the environment; (ii) promoting environmental awareness among staff; (iii) acting as a regional development resource center; and (iv) supporting projects with direct environmental benefits—such as reforestation, water supply and sanitation, urban development, and housing. Further initiatives were aimed at helping DMCs plan and manage their own environmental resources to ensure sustainable development.

2. Women in Development

To support DMC's efforts in integrating women more effectively in the development process, a Policy on the Role of Women in Development was approved in 1985.²² The policy recommended that the scope and thrust of ADB activities be designed to suit the development objectives and priorities of individual DMCs; and that specific considerations

¹⁹ ADB. 1979. *Banks' Role in Population*. Manila.

²⁰ ADB. 1979. *Environmental Considerations in Bank Operations*. Manila.

²¹ ADB. 1986. *Review of the Bank's Environmental Policies and Procedures*. Manila.

²² ADB. 1985. *Policy Paper on Role of Women in Development*. Manila.

of the role and needs of women be incorporated in all relevant aspects of normal lending and TA operations. By 1986, preparatory work was completed on the development of guidelines in several major sectors (fisheries, forestry, livestock, irrigation and rural development, agro-industry, education, water supply and sanitation, urban development and housing, health and population, and development finance institutions) on how to consider gender issues during the preparation of projects.²³ Work also commenced on disaggregating data by gender in certain key development indicators for each DMC. The first gender specialist would be hired in early 1987.

3. Private Sector

Key shareholders highlighted the role of the private sector in economic development and urged ADB to do more in this area. Early support to the private sector was focused mainly on the provision of credit lines to DFIs for meeting the financial requirements of SMEs that were not large enough to warrant direct Bank supervision. Apart from its lending to DFIs, ADB also supported the private sector in its DMCs through more traditional forms of assistance, such as loans and TA in the agriculture, agro-industry, and energy sectors.

Although guarantee operations were explored in 1977 as an additional tool to promote private investment, after a recommendation from the Development Committee that the World Bank and regional banks use their existing powers to consider requests for guarantees, ADB could not pursue such instrument at the time, given the limitations of its Charter.²⁴ Instead, it was decided that ADB should continue to assist DMCs in obtaining cofinancing on reasonable terms.

4. Equity Investment Operations

Equity investment operations were introduced in 1982 to provide assistance directly to private entities, thereby complementing the Bank's indirect lending to industrial projects through DFIs.²⁵ Two equity investments—one in the Republic of Korea (\$960,000 to the Korea Development Investment Corporation, a private venture providing risk capital to technology-intensive SMEs) and one in Pakistan (a \$2 million equity line to Bankers Equity)—were approved in 1983. Over the next 3 years, ADB would approve equity investments in three more countries (Indonesia, the Philippines, and Thailand). Over the entire decade, such operations reached \$12.8 million.

A study of capital markets in six selected DMCs (Indonesia, the Republic of Korea, Pakistan, the Philippines, Sri Lanka, and Thailand) was completed in 1983.²⁶ The study was part of ADB's efforts to promote the flow of resources available to DMCs to help foster development of their private sector. This was particularly important given the resource constraints felt by many countries, from the slowdown of external capital and heavy debt service burden. The study reviewed the status of capital markets in the selected DMCs; identified strategies for future development of such markets; and explored areas where ADB could effectively assist capital market development in those DMCs.

Aside from equity operations, ADB initiated a study on how it could diversify its operations to assist the private sector more effectively.²⁷ Among the options considered were unguaranteed loans, further considerations of guarantee operations,

²³ ADB. 1985. *Policy Paper on Role of Women in Development*. Manila.

²⁴ ADB's Charter permits it to extend guarantees subject to two important limitations. Under Article 12.1, guarantees have to be counted along with loans against the Bank's capital and reserves; and according to the Bank's policy on borrowing at the time, total borrowings plus guarantees could not exceed the callable capital subscribed by members with convertible currencies. Second, per Article 11 (iv), Bank's guarantees are limited to loans participated in by ADB. Thus general borrowing of governments or central banks (such as bond issues) that are not linked to ADB-assisted projects could not be guaranteed by the Bank.

²⁵ ADB. 1982. *Equity Investment Operations by the Bank*. Manila. See also ADB. 1986. *Review of Bank's Equity Investment Operations*. Manila.

²⁶ ADB. 1984. *Annual Report*. Manila. p.55.

²⁷ ADB. 1985. *Bank Assistance to the Private Sector*. Manila.

subordinated loans, and additional flexibility in allowing credit lines to DFIs to be used for equity financing. As a result of this study, a new lending program was launched in 1986, introducing direct lending to private enterprises and financial institutions without government guarantees.²⁸ In view of the associated risks and uncertainties, such loans were envisaged not to exceed \$75 million from OCR and \$25 million from ADF during the first 2 years of operations. These loans, to be provided on terms comparable to those of similar loans from commercial sources, would finance up to 25% of total project costs and enable borrowers to mobilize additional funding from other foreign and domestic sources. A new Private Sector Division was established in 1986 to facilitate such lending and act as a focal point for all private sector operations. ADB approved its first direct loan without government guarantee in the same year to Pakistan's Cherat Cement Company. The first loan to a financial institution without government guarantee was also approved in 1986 to Pakistan's National Development Leasing Corporation.

F. Technical Assistance

A review of TA operations was completed in 1977.²⁹ It recommended an expanded role of ADB TA operations to (i) induce investment financing by other aid donors, apart from financing by ADB; (ii) intensify efforts to improve the technical, managerial, and administrative capability of DMCs; (iii) increase attention to sectoral and problem-oriented studies that may or may not relate to specific development projects and could benefit more than one or more DMCs; (iv) promote technical cooperation among DMCs; and (v) give special attention to the needs of least developed DMCs, particularly for project development and implementation capacity. The review also introduced certain reforms, including an increase in the grant limit

on ADB's financing for feasibility studies and detailed engineering under specific conditions. The *Study of Operational Priorities and Plans for the 1980s* completed in 1982 also had a profound impact on TA operations, as a more mature and sophisticated ADB would require increased level of TA.

Overall, TA operations increased fivefold during the second decade to \$125 million (compared to \$25.4 million in the first decade). The increase was much more pronounced in the second part of the decade (Figure 4).³⁰ Seventy-seven percent of TA operations were allotted to specific DMCs, while the rest funded regional technical assistance (RETA). The top five country recipients were Indonesia (15%), the Philippines (12%), Pakistan (9%), Bangladesh (8%), and Nepal (8%). ADB also continued to provide much needed technical assistance to the Pacific states (accounting for 18% of total TA grants to DMCs in the second decade). By sector, 41% of TA operations went to agriculture, while 14% went to energy, 10% to transport and ICT, 9% to public sector management, and 7% to industry and trade. The share of TA activities supporting social infrastructure sectors (education, health, and water) doubled to 12% compared to the previous decade.

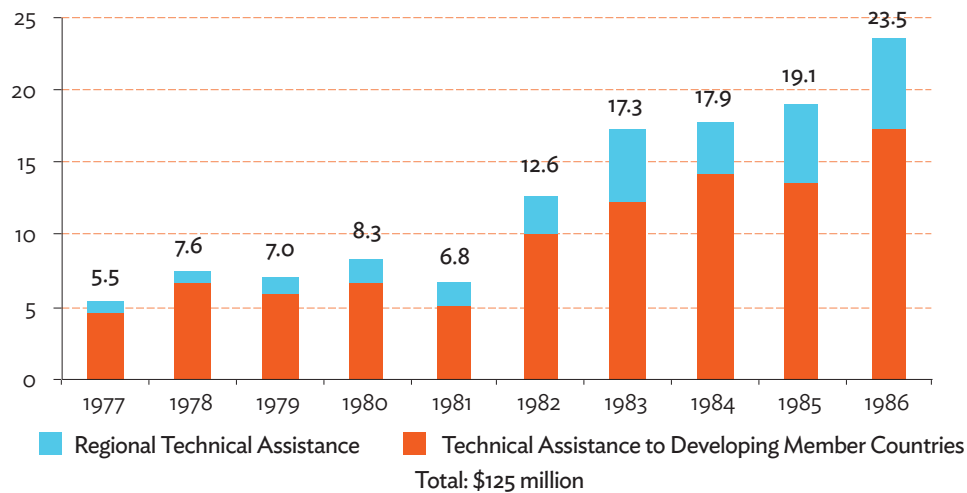
As the Bank's interest in policy issues and institutional development in DMCs grew, there was a consequent increase in advisory and technical assistance. At the same time, the Bank sought to expand its project-specific TA to strengthen project identification, preparation, and implementation. Finally, the Bank's new role as a regional development resource center (Box 4) led to an increase in RETA to finance regional, sector, and issues-related studies that would assist sectoral programming, policy dialogue, and donor coordination. ADB also used TA operations to support regional research networks, information systems, and training.

²⁸ ADB. 1986. *Bank's Lending to the Private Sector without Government Guarantee*. Manila.

²⁹ ADB. 1977. *Technical Assistance Operations*. Manila.

³⁰ As a share of total ADB assistance, TA operations remained fairly constant at 0.78% in the second decade, specifically over 1977–1986, compared to 0.75% in the first decade.

Figure 4: Technical Assistance Approvals, 1977–1986
(\$ million)



Note: Technical assistance approvals only cover grants funded by the Technical Assistance Special Fund and the Japan Special Fund.
Source: ADB loan, technical assistance, grant, and equity approvals database.

Box 4: The Asian Development Bank as a Regional Resource Center

The *Study of the Bank's Operational Priorities and Plans for the 1980s* crystallized the idea of the Asian Development Bank (ADB) as a regional resource center. In this role, ADB embraced a broader development function beyond its traditional lending and technical assistance operations toward becoming a center for new thinking on development issues and strategies in the region; and intensified its support in research, training, and information exchange within and among its developing member countries.

To assume this new role, ADB needed to build up its own analytical capacity. Organizational changes were made, including an expanded role for ADB's Economics Office under a newly appointed chief economist in 1980. More staff were engaged to do economic analysis in country departments. Policy dialogues intensified so that ADB could better understand the needs, aspirations, and problems of its DMCs and improve the effectiveness of its operations.

In addition to the knowledge and experience that had been continuously built up through project-financed activities, ADB strengthened its long-term research and analysis program. A number of studies were initiated to help understand development problems and processes in the region. A series of Economic Staff Papers was initiated in 1981, and continued through the years. A new publication, *The Asian Development Review*, was launched in 1983. Under the Bank's Distinguished Speakers Series that started in 1982, eminent economists were invited to deliver lectures on various aspects of socioeconomic development. Joint research with national institutions intensified.

In 1983, the ADB Development Roundtable (DRT) was launched as an annual gathering of senior policy makers and eminent resource persons from the Bank's member countries on key development issues affecting the region. The first ADB DRT focused on financial policies and external debt management. This was followed by a DRT on industrial development and trade policy and a seminar on domestic resource mobilization through financial development both in 1984. In 1985, the DRT discussed private sector and development; and in 1986, the theme was trade liberalization and development.

The move to becoming a regional resource center marked a new role for ADB. As President Masao Fujioka said during the 1985 Annual Meeting, "We have been a 'family doctor' always taking the best interest of the developing countries to heart. Now we must play a more complex and sophisticated role, combining financial assistance and policy advice on key development issues."

Sources: ADB. 1983. *Study of Operational Priorities and Plans of the ADB for the 1980s*. Manila; M. Fujioka. 1985. Address by the President of the Bank. Speech delivered at the 18th Annual Meeting of the ADB Board of Governors. 30 April–2 May. Bangkok.



IV. BUSINESS PROCESSES AND OPERATIONAL POLICIES

- There was a push toward new types of lending instruments. A number of new products were introduced, including program and sector lending, direct lending to private enterprises without government guarantees, and equity investments.
- ADB also placed increased emphasis on project administration in response to the growing number of loans and the increased complexity of projects it was financing.

A. New Instruments

In 1980, an independent commission on international development issues, the Brandt Commission, had argued that an almost exclusive reliance on project lending had produced biases toward large projects over smaller ones, toward new investments over utilization of existing assets, and toward more capital-intensive processes.³¹ The Brandt Commission pointed out that program lending could correct some of those distortions. In parallel, the World Bank had taken the concept of program lending one step further by introducing structural adjustment lending as an instrument to deal with the debt crisis affecting many developing countries (especially in Latin America and Sub-Saharan Africa). After supporting economywide

stabilization and adjustment programs, the World Bank began to shift attention to sectoral adjustment plans in the mid-1980s.

1. Program Lending

ADB's program loans were introduced in 1978 to provide financing for the importation of production inputs to increase productive capacity in certain high-priority sectors.³² Such instrument was to be used only in special circumstances, including (i) the existence or imminent danger of considerable underutilized capacity in the sector concerned, owing to a shortage of foreign exchange to import essential equipment, components, spare parts, and raw materials; (ii) the ability of the borrower to provide necessary resources to maintain high

³¹ In 1980, Robert McNamara, the president of the World Bank, constituted an Independent Commission on International Development Issues. It was chaired by Willy Brandt (former Chancellor of West Germany). The Commission produced a report widely referred to as the Brandt Report.

³² ADB. 1978. *Program Lending*. Manila.

sector output after a short period of assistance; (iii) the presentation by the borrower of a program that provided a satisfactory basis for assistance; and (iv) the absence of appropriate alternative sources of financing. Program lending was initially limited to 5% of the anticipated overall annual ADB lending, and up to a maximum of 10% of anticipated annual lending to a country.

A program loan was approved in 1978 for Bangladesh's low-lift pump maintenance program.³³ A number of farmers in the Dhaka area had low-lift irrigation pumps that were not fully utilized. The \$8.9 million program loan (funded from ADF) supported the repair and maintenance of existing pumps, and the purchase of spare parts and 2,500 new pumps to replace those beyond repair. This enabled farmers to irrigate an additional 40,000 hectares of land during the dry season, allowing them to crop more intensively and obtain better yields. Initially, program loans remained predominantly targeted at the agriculture sector to finance fertilizers and other inputs needed for crop diversification.

ADB reviewed and modified its program lending policy in 1983 to enhance its impact.³⁴ Policy reform objectives were added to include modernization and rationalization of production facilities, in addition to capacity utilization objectives. The 1983 policy revision also envisaged enhanced policy dialogue with country authorities on medium-term sector development plans and policies, and the increased use of TA resources to analyze sector issues and strengthen institutions. The Bankwide ceiling was raised from 5% to 7.5% and the country ceiling from 10% to 20%. Endorsement by the International Monetary Fund was sought prior to approval to ensure compatibility of activities. The program lending instrument will continue to evolve through the forthcoming decades.

2. Sector Lending

In June 1980, ADB introduced sector lending.³⁵ Such loans could include modest elements of program support and local cost financing; and were designed to finance capital requirements of specific sectors or subsectors, and help DMCs strengthen sector policies and institutions. This form of lending was perceived to have several advantages, including the promotion of larger loan sizes, greater institution building impact, and quicker disbursements. Sector lending was expected to be particularly useful in agriculture and rural development, water supply and sanitation, education, and health sectors, as well as small industry, where a number of individually small investment activities could be combined under the structure of one sector loan. In 1980, ADB approved its first sector loan in Indonesia, amounting to \$32 million for a water supply project.³⁶ The project aimed to provide potable water to some 30,000 people spread in 33 small rural towns. ADB's second sector loan was also approved in 1980 in Thailand to assist the government in implementing its Highway Sector Development Plan to upgrade rural roads, improve the country's road infrastructure, and strengthen relevant institutions.³⁷ Sector lending was subsequently used in several sectors and/or subsectors including agriculture, road, water supply, sanitation, education, urban development and housing projects.

In 1984, the existing policy framework on sector lending was reviewed and found to be generally sound and sufficiently flexible.³⁸ Nevertheless, the review concluded that the effectiveness of sector lending could be further enhanced by more intensive policy dialogue and greater emphasis on institution building through parallel technical assistance. In addition, achieving a significant proportion of lending on a sector basis would call for more advanced planning and programming. Sectoral priorities, policies, and capabilities would

³³ ADB. 1978. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Bangladesh for the Low-Lift Pump Maintenance Program*. Manila (Loan 0381).

³⁴ ADB. 1983. *A Review of Program Lending Policies*. Manila.

³⁵ ADB. 1980. *Sector Lending*. Manila.

³⁶ ADB. 1980. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Indonesia for the Small Towns Water Supply Sector Project*. Manila (Loan 0493).

³⁷ ADB. 1980. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Thailand for the Highway Sector Project*. Manila (Loan 0503).

³⁸ ADB. 1984. *A Review of Sector Lending Operations*. Manila.

have to be carefully evaluated, which would require strengthened analytical and economic expertise from Bank staff. The recommendations of the *Study of the Bank's Operational Priorities and Plans for the 1980s* were seen as providing a useful framework in this respect.

A number of other instruments were also introduced as additional tools to promote private investments such as equity investments (1983) and direct lending to private enterprises and financial institutions without government guarantees (1986). (See section III.E.3 on private sector for a more detailed discussion.)

B. Project Administration

By the start of the second decade, the increasing number of Bank loans and the growing complexity of the projects being financed required new emphasis and new approaches to loan administration work. President Yoshida, on his arrival in Manila in 1976, had promised to give “priority attention to loan administration with a view to ensuring that each aid dollar...is used expeditiously and effectively.”³⁹

The ADB reorganization in 1978 resulted in a number of measures particularly intended to strengthen loan administration, including the creation of the Central Projects Services Office to plan, monitor, review, and report on project supervision activities. Throughout the decade, efforts continued to streamline the administration of loans and strengthen the supervision of projects. Internal systems, procedures, and practices were continuously reviewed and updated. Training on loan and TA administration intensified, targeted at both ADB staff and executing agencies. More project review missions were fielded to closely

monitor projects and anticipate potential problems. Additional staff were recruited to deal almost exclusively with loan administration. Procurement guidelines were also revised on several occasions (1977, 1981, and 1986) to provide better guidance to borrowers, as well as suppliers and contractors, in order to facilitate the procurement of goods and services.

In response to domestic resource constraints in many DMCs, ADB adopted special measures to facilitate and speed up project implementation and completion of certain ongoing projects that were held back by shortages of local funds. In a 1978 review of its policy on local cost financing, country considerations, particularly balance of payments position and ability to mobilize domestic resources were affirmed as major criteria for such financing.⁴⁰ Preference was to be given to the least developed countries and those most severely affected by adverse world economic developments, as well as projects with low foreign exchange costs and/or high economic and social benefits. As a result of the review, ADB increased the share of local cost financing that may be provided from ADF. The policy was further reviewed in 1983 and its scope and/or eligibility was expanded to all developing members (except Singapore and Hong Kong, China) and for projects in all sectors (except manufacturing projects and subprojects in DFI loans).⁴¹

In addition to financing the foreign exchange costs of goods and services required for projects, ADB had also financed, in special circumstances, interest and other charges during construction. This helped to ease the debt service burden on DMCs before projects start yielding benefits. In 1983, the policy was reviewed in light of the deteriorating economic prospects in several DMCs, and its application expanded for both OCR and ADF loans.⁴²

³⁹ D. Wilson. 1987. *A Bank for Half the World: The Story of the Asian Development Bank*. Manila: ADB. p. 93.

⁴⁰ ADB. 1978. *Review of Lending Foreign Exchange for Local Currency Expenditures*. Manila.

⁴¹ ADB. 1983. *A Review of Lending Foreign Exchange for Local Currency Expenditures on Projects*. Manila.

⁴² ADB. 1983. *A Review of the Bank's Policy on the Financing of Interest and Other Charges During Construction*. Manila.

The policy on supplementary financing of cost overruns was revised in 1983, to give ADB the flexibility to finance not only cost overruns in both foreign exchange and local costs, but also overruns resulting from causes other than currency realignment and price increases.⁴³

In 1986, the Board held several informal meetings to discuss specific difficulties being faced by two of its borrowers (Indonesia and the Philippines). After a year of not extending loans to the Philippines, the Board approved in 1986 special project implementation assistance loans for \$100 million equivalent (half OCR and half

ADF) to finance the Philippine government's local currency expenditures in 1986 and 1987 for 36 ongoing projects in agriculture, education, energy, transport, and water.⁴⁴ Meanwhile, in Indonesia, in recognition of the country's severe fiscal and budgetary constraints in the face of falling oil and commodity prices, the Board approved the use of loan savings to meet currency shortfalls of ongoing ADB projects in several sectors. In December 1986, a special project implementation assistance loan of \$30.6 million was approved to meet the local currency shortfalls of six ongoing projects in the education sector.

⁴³ ADB. 1983. *Review of the Bank's Policy on Supplementary Financing for Cost Overruns of Bank-financed Projects*. Manila.

⁴⁴ ADB. 1987. *Annual Report 1986*. Manila. p.2.

V. FINANCIAL POLICIES AND RESOURCE MOBILIZATION EFFORTS



- ADB grew its resource base following the significant expansion of operations and increasing borrowing presence.
- Two capital increases occurred during the decade. The Asian Development Fund resources were replenished and consolidated.
- In light of the Bank's expanding lending program and the sizable capital contributions being requested of its shareholders, ADB conducted a comprehensive review of its financial policies to ensure that financial management remained effective and efficient.

A. Financial Policies⁴⁵

A comprehensive review of ADB's financial policies was undertaken in 1977, including the lending rate and commitment charge, liquidity policy and borrowings, and other factors affecting its financial position.⁴⁶ Maintaining net income and reserves at satisfactory levels was an important financial objective of the Bank. The liquidity policy was modified, resulting in a slight reduction in projected liquidity requirements. It was agreed that from then on, financial policies should be reviewed annually at the beginning of each year.

In 1982, the Bank again reviewed its financial policies more comprehensively to facilitate

discussion on the third general capital increase (GCI III). ADB engaged an independent expert, Irving Friedman, for this purpose. In view of the increasing importance of a continuous review of ADB's financial policies, plans, and projections, a financial policy division, headed by a financial advisor, was established in the Treasury Department. Building on the findings of the Friedman report, ADB's policies on income and reserves, liquidity, and borrowing remained essentially unchanged, but consideration was given to removing the limitation restricting ADB's borrowing to 100% of the callable capital of members whose currencies are convertible. The Board of Governors also authorized a gradual reduction and discontinuation of transfers of

⁴⁵ This section draws on the volume on ADB's history of financial management policies and practices, prepared by the ADB Treasury Department. ADB. 2016. *A History of Financial Management at the Asian Development Bank*. Manila.

⁴⁶ ADB. 1978. *Review of the Financial Policies of the Bank*. Manila.

commissions to the special reserve.⁴⁷ Revised investment guidelines were approved to improve the Bank's flexibility in balancing liquidity and income objective.

Capital market developments in the early 1980s, notably the increase in interest rate variability, led both the World Bank (IBRD) and Inter-American Development Bank (IDB) to review and modify their lending rate systems.⁴⁸ A detailed examination of the OCR lending rate system was initiated in 1983, followed by a series of studies in 1984 and 1985, which recognized the income risks inherent in a fixed rate system. OCR loans had traditionally carried interest rates fixed at the time of loan commitments for the entire life of the loan. In October 1985, the Board approved the adoption of a pool-based system similar to that adopted by IBRD. The new pool-based variable lending rate system became effective from 1 July 1986, marking an important step for ADB's financial structure to adapt to uncertain conditions in international financial markets, and ensuring its continued effectiveness as a development institution. In addition to protecting net income against fluctuations in interest rates, the new system would provide a high degree of borrowing flexibility that could result in lower borrowing costs, and consequently lower lending rates over time.⁴⁹

B. Borrowings

Under the new system, the principal elements of ADB's borrowing policy were to (i) ensure continued availability of funds; (ii) minimize borrowing costs to keep the lending rate as low as possible; (iii) minimize fluctuations in the lending rate over time; and (iv) ensure a reasonable maturity relationship between ADB's loans and borrowings (i.e., borrow in the longest maturities available at reasonable cost). Importantly, while

the cumulative borrowings to date had been raised in low-coupon currencies, ADB recognized the need to maintain a regular presence in high-coupon currencies as well. The new lending rate system would allow ADB to shorten maturities of borrowings when warranted by market conditions.

Over the decade, ADB continued to expand and diversify its borrowing program, with a total of \$6.4 billion borrowed from international capital markets for lending from OCR resources. ADB explored new funding opportunities, wherever they arose. In September 1978, for example, it issued its first external yen bond in the international capital markets outside Japan and the United States (US) offering Y15 billion (\$77.1 million) 10-year bonds at 5.75% annual interest.⁵⁰ The bonds were listed on the Luxembourg and Singapore Exchanges. In 1979, with long-term funding on favorable terms becoming increasingly difficult to secure, ADB was able, for the first time, to tap the long-term syndicated loan market in Japan. This first direct borrowing from private sources was for a 20-year maturity, at 8.30% semiannual yield, and was sourced from a syndicate of banks, trust banks, and insurance companies. The loan demonstrated ADB's growing capacity to exploit cost-effective funding opportunities in nontraditional markets. The Japanese market proved to be a major source of funding during this period, notwithstanding significant borrowings in Dutch, German, Kuwaiti, Saudi, Swiss, and the US markets as well. This included public bonds as well as syndicated loans from long-term investors and euro-yen issues. The Japanese market provided particularly favorable terms for longer dated borrowings, reflecting high levels of liquidity among Japanese investors at the time, and ADB's solid name recognition.

With the success of ADB's debt issuance programs in various markets, its reputation as a borrower of the highest credit standing rose further. In

⁴⁷ ADB. 1983. *Dr. Irving S. Friedman's Report on Financial Policies of the Bank*. Manila (IN60-83); ADB. 1983. *Review of Financial Policies*. Manila.

⁴⁸ In July 1982, IBRD shifted from a fixed rate lending scheme to a variable "pooled rate" scheme. IDB made a similar shift in 1983.

⁴⁹ ADB. 1987. *Annual Report 1986*. Manila.

⁵⁰ The US dollar equivalent is based on the exchange rate used by the Bank on 31 December 1978.

March 1983, the Board of Directors authorized borrowings involving currency liability swap transactions for ADB to increasingly access low-cost funds. Over the next 3 years, ADB focused its borrowing approach on retaining a presence in various markets while exploiting cost advantages in others. In February 1984, it undertook its first pound sterling borrowing, and in August it issued its first zero-coupon bond in the Eurodollar market. Its 7% per annum, 15-year public bond issue was the longest maturity for a “Samurai” bond at the time, and again demonstrated ADB’s “coming of age” in that market. In the following year, it floated its first ever public bond issue denominated in a foreign national currency (yen) in the New York capital market, tapping into an important new source of funds. As in previous years, long-term funding opportunities in low-coupon currencies such as Swiss franc (including its first floating rate borrowings) and the Japanese market were explored.

C. Ordinary Capital Resources

ADB’s capital stock underwent major expansion over the decade. By the end of 1986, the authorized capital stood at \$19.7 billion equivalent (compared to \$3.7 billion at the end of the first decade). The subscribed capital amounted to \$19.5 billion, of which 88% was callable and 12% paid-in. This included subscriptions to GCI I, GCI II, and GCI III; new membership subscriptions of Spain and the PRC (\$1.5 billion) in 1986; original capital (\$1.2 billion); and special capital increases (\$831 million).

1. Third General Capital Increase (GCI III)

In May 1980, the Board of Governors requested for a detailed review of ADB’s future resource requirements for ordinary operations. Reviewing the growth performance of its borrowing DMCs in the 1970s and projecting their resource requirements in 1980–1990, ADB proposed that the OCR lending program be grown to \$11.34 billion over 1983–1987, a 20% annual

nominal increase compared to 1980–1982. The availability of external resources was deemed even more crucial in the 1980s to sustain the development momentum in the face of rising costs of oil imports, and adverse conditions in the international environment. To support this level of lending, a third capital increase of around 125% would be needed.

A number of policy issues were discussed over the proposed increase in lending levels. First, loan disbursement should not compromise standards of procurement, implementation, and accounting. The average loan size should be increased to limit the number of loan numbers. In this respect, increased use of sector and program lending and local cost financing was supposed to help. Further strengthening and streamlining of loan administration procedures were also viewed as necessary to improve disbursement ratios and to contain increases in staff and budget. Second, financial flows from other sources to DMCs would need to be catalyzed to complement ADB’s own lending. Equity investments, cofinancing, and guarantee operations were seen as relevant in this context. Third, the Bank would need to develop country-cum-sectoral lending strategies for the major individual borrowers and for different sectors for a 3–5-year period on a rolling basis.

Further discussion and financial policy reviews were undertaken in 1981–1982, most crucial of which were the size of the lending program and various policy assumptions. At the request of the US, GCI models with no paid-in portions were considered. The timing of the GCI was also affected by the Inter-American Development Bank’s ongoing replenishment, as it was expected that ADB might benefit from a favorable US decision on the Inter-American Development Bank. As a result, the third general capital increase (GCI III) was only approved in April 1983. The subscribed capital was increased by 105%, of which only 5% was to be paid-in (40% in convertible currency and 60% in national currency). The deadline for subscriptions had to be extended several times to enable the maximum number of participants to contribute up to their entitlement.

2. Special Capital Increases

Special capital increases could also be made by individual members, and not as part of general capital increases involving all shareholders. Following Article 5 of the Charter, Governors should pay special regard to the request of any regional member having less than 6% of the subscribed shares to increase its proportion of shares. This provision had already been used in the first decade, when the Republic of Korea made two special capital increases in 1973 and 1975, along with Indonesia and Malaysia (both in 1975), and Canada and Germany (both in 1976). Two additional special capital increases were granted in 1978 to Samoa and Switzerland. In 1982, the Board considered procedural guidelines for special capital increases and approved a procedure for multilateral consultation in this regard. Following a number of requests over 1982–1983, the Board gave further considerations to possible criteria for dealing with such requests, although no agreement was reached.⁵¹ In 1985, five donor countries (Finland, France, Italy, the Netherlands, and Switzerland) were allowed to increase their share so as to better align their capital subscription with their ADF contribution levels. In early 1986, new membership subscriptions were received from the PRC and Spain. The Board committed to review other requests and develop appropriate criteria within 12 months of the PRC's admission.

D. Asian Development Fund

The Asian Development Fund is ADB's concessional window. Founded in 1974, it offers loans at very low interest rates to help reduce poverty in ADB's poorest member countries. ADF donors meet periodically (usually every 4 years) to replenish the fund.

A review of the criteria for ADF lending was carried out in September 1977.⁵² The review classified DMCs eligible for ADF loans into three categories: *fully eligible* (Afghanistan, Bangladesh, Cambodia, the Cook Islands, Kiribati, the Lao People's Democratic Republic, Myanmar, Nepal, Pakistan, Sri Lanka, Solomon Islands, Tonga, Viet Nam, and Samoa); *marginally eligible* (Indonesia, the Philippines, and Thailand); and *blend DMC* (Papua New Guinea). After detailed discussions with the Board of Directors, the following conclusions were reached: (i) eligibility for ADF loans should continue to be based on country considerations; (ii) per capita GNP along with debt repayment capacity should be used as basic indicators of a country's economic situation; and (iii) special consideration should be given to certain DMCs in the South Pacific in the application of these criteria, given their peculiar economic circumstances.

Lending to fully eligible countries would be on concessional terms from ADF. However, a fully eligible DMC may also receive ordinary loans on a case-by-case basis, if the size of ADB's operational program in the country is larger than can be reasonably financed from the ADF, and if the country has the capacity to absorb the harder terms of ordinary loans. ADB lending in marginally eligible countries would normally be on conventional terms, but some ADF loans may also be provided for projects with high social and economic value with low financial rate of return, or low foreign exchange earning capacity, or long gestation period. Loan blending for eligible DMCs may continue in both marginally eligible or blend DMCs on a case-by-case basis, considering the country repayment capacity and the project development potential. The criteria for ADF lending should be reviewed annually to confirm their applicability.

⁵¹ Requests for special capital increases were made by Finland, France, India, Italy, the Republic of Korea, Pakistan, the Netherlands, the Philippines, Sweden, and Switzerland in 1982; Bangladesh followed in 1983. The bases of such requests included (i) expanded economic capacities, (ii) subscription percentages lagging behind those of other member countries of comparable size, (iii) restoration of earlier capital subscription level, and (iv) alignment of capital subscriptions to the ADF contribution levels.

⁵² ADB. 1977. *A Review of Criteria for Lending from Asian Development Fund*. Manila.

In 1983, arrangements for ADF lending were further reviewed. Borrowing countries were classified into three groups: Group A, composed mostly of least developed countries and those most seriously affected by world economic developments, which would have full access to ADF subject to the availability of resources; Group B, comprising four middle-income countries (namely, Indonesia, Papua New Guinea, the Philippines, and Thailand), which would have access to ADF for modest amounts (i.e., not more than 15% of total ADF allocations); and the rest in Group C, which would have no access to ADF resources. Among Group B countries, priority would continue to be given to projects with a high social and economic value but relatively low financial return or foreign exchange earning capacity.

1. Second Asian Development Fund Replenishment (ADF III: 1979–1982)

In 1977, negotiations started on a second ADF replenishment. Detailed studies were undertaken to determine the resource requirements beyond 1978. Based on those studies, a concessional lending program of \$2.15 billion over 1979–1982 was considered appropriate.⁵³ The proposal was considered at a meeting of developed member countries in Kyoto in October 1977, followed by a meeting in Geneva in February 1978, and a further meeting in Geneva in April 1978. All three meetings were chaired by Sir John Chadwick, Special Advisor to the ADB President. While there was substantial agreement that the proposed replenishment should cover 4 years, some donors felt that \$2.5 billion was excessive. Moreover, it became clear that new implementation arrangements would be needed, since at the beginning of the ADF III period, the US would be at least a year behind other donors with its contribution to ADF II and would not be able to give unqualified commitments with respect to the full amount of its contribution to ADF III. The Board authorized a basic replenishment of \$2 billion and

supplementary contributions of up to \$150 million. Initial promises of supplementary contributions were made by Australia, Austria, Germany, Japan, Switzerland, and the United Kingdom.

To accommodate the US situation, a Board resolution also provided that, as an exceptional case, where a donor was unable to give an unqualified commitment due to its legislative practice, a qualified instrument of contribution may be accepted. The resolution further provided that a minimum amount equivalent to \$1 billion in unqualified contributions should be reached for the replenishment to become effective. This amount was reached by the end of March 1979. Installment payments were to be arranged, to the extent possible, in equal amounts for each of the four calendar years covered by ADF III, with the last payment to be made no later than 31 December 1982. By that date, however, installment payments from Canada and the US were still outstanding and the Board had to extend the final payment date by a year. The full ADF III amount was made available by the end of 1983.

2. Third Asian Development Fund Replenishment (ADF IV: 1983–1986)

Negotiations for the third ADF replenishment (ADF IV) started in 1981 when formal meetings attended by representatives of all 17 developed member countries were held in Geneva (in July) and Canberra (in November). Further meetings were held in 1982 in Manila, Paris, and Washington, DC. All meetings were chaired by Sir John Chadwick. An initial replenishment target of \$4.1 billion was proposed to achieve the same nominal annual growth rate in ADF lending as had been projected for the ADF III period (17.5%). However, the US and other representatives indicated that in a replenishment of this magnitude, their governments would have difficulties in maintaining their previous shares.

⁵³ A replenishment covering 4 years, as against 3 years in ADF I and ADF III, was proposed. It was thought that a longer period might (i) help reduce some of the implementation problems experienced in the past, (ii) assist donor countries and ADB in their forward planning, and (iii) make for greater stability and continuity in terms of resources flow.

After extensive and difficult deliberations, most donors agreed to a replenishment target of \$3.2 billion. In order to fill the gap, Australia, Japan, and other donors (Canada, Italy, and Switzerland) agreed to increase their contributions above the levels of their ADF III shares. In addition, four members agreed to contribute a total of \$9.5 million, namely, Hong Kong, China; Indonesia; the Republic of Korea; and Taipei, China. This was the first time developing members had participated in an ADF replenishment.

Their participation was welcomed by developed members and regarded as a significant step toward broadening the funding sources of ADF. Resolution No. 154 authorizing contributions to ADF IV was adopted by the Board of Governors in July 1982 and became effective in April 1983. Payments had to be made in four equal installments over the period 1983–1986. The full amount of all ADF IV contributions would be made available to the Bank by the end of October 1988. Spain would also provide an additional contribution, upon becoming a member of ADB in 1986.

3. Fourth Asian Development Fund Replenishment Including First Technical Assistance Special Fund Replenishment (ADF V: 1987–1990)

Negotiations for the next ADF replenishment took place over 1985–1986, when ADB campaigned for a fourth replenishment covering 1987–1990. ADF lending during this period was projected to reach \$5 billion. At meetings in Rome and Tokyo in 1985, donors exchanged views on the Bank's proposal for ADF V and on several policy issues raised in particular by the US. These included a possible hardening of ADF loan terms, Bank assistance to the private sector, country strategies, policy dialogue, project quality, the need for more systematic funding of the Bank's TA program, and strengthened personnel policies. There was general support for earmarking an agreed portion

of ADF V for TA, and for properly thought-out country strategies. Representatives expressed satisfaction with the Bank's enhanced recognition of the private sector and were generally opposed to a hardening of ADF terms at that time, as ADF terms were already more stringent than that of the International Development Association. Further meetings were held in 1986 in Vancouver and Manila. Sir John Chadwick had retired and was replaced by Neil Davey, a former Australian Director of the Bank and Minister (Treasury) at the Australian High Commission in London.

President Fujioka made strong commitments with respect to operational strategy and country programming (country strategy studies would be produced for all major DMCs), TA operations, and their funding arrangements; strengthening the Bank's policy dialogue, efforts to assist the private sector and ensure project quality; and greater attention to staffing requirements and staff performance. In the end, \$3.6 billion was agreed, of which \$73 million was to be set aside and allocated to the Technical Assistance Special Fund. As the US indicated that it could not take up a share higher than its ADF IV share of 16.32%, several donors (Australia, Italy, the Netherlands, and New Zealand) offered additional contributions, which, together with an offer from Japan to match such additional contributions, enabled the replenishment target to be reached. However, while the absolute contribution amount of Japan increased from ADF IV to ADF V, its relative percentage share declined due to a higher burden sharing basis in ADF V. Similarly, the percentage shares of Austria, Belgium, Canada, Japan, Switzerland, and the United Kingdom decreased; others remained the same. Apart from the traditional donors, Indonesia and the Republic of Korea also contributed. Hong Kong, China did not participate in the negotiations but subsequently made an additional contribution. Payments arrangements were essentially the same as those applicable for ADF IV. The replenishment became effective on 28 May 1987.

E. Cofinancing Operations

The main objective of cofinancing is to help mobilize a larger inflow of foreign resources to meet the development needs of DMCs. Cofinancing had enabled ADB to finance large-scale projects, the financing requirements of which might have been difficult to meet entirely from its own resources. In view of the advantages for both ADB and its DMCs, increasing emphasis was placed on cofinancing activities during the second decade.

In 1981, the Bank reviewed its cofinancing policies and practices, and recognized that while performance in cofinancing with official sources had been generally satisfactory, cofinancing with commercial and export credit sources had been limited and should be expanded. Given the large resource requirements of the DMCs, particularly the middle-income countries, and the limited availability of official assistance, it was felt that the Bank should play a more active role in promoting cofinancing with commercial and export credit sources. To promote cofinancing, the Bank would expand its technical assistance operations to cater to the needs of the Bank itself, as well as to potential cofinanciers, who would be consulted on a regular basis. In this connection, ADB established a cofinancing unit in 1982 to coordinate cofinancing activities and liaise with various cofinanciers

(section II.C.). On the eve of the ADB 15th Annual Meeting in 1982, a Workshop on Cofinancing with Commercial and Export Credit Sources was held in Manila, attended by representatives from DMCs, commercial banks, ADB staff, and export credit organizations. The workshop provided a valuable opportunity to exchange views on how to intensify the Bank's efforts toward commercial and export credit sources.

Over the decade, ADB's cofinancing activities expanded and diversified, including not only traditional sources but also many new aid agencies as well as export credit institutions and private sources. The total number of official direct value-added loans reached 50 projects worth \$1.8 billion (compared to four loans worth \$82 million in the previous decade). Of the \$1.8 billion, \$499 million were funded by nonbank sources, including the Organization of the Petroleum Exporting Countries Fund for International Development, the International Fund for Agricultural Development, the Islamic Development Bank, the European Commission, and Norway. Most of the loans benefited the agriculture and energy sectors. TA cofinancing of grants from development partners also expanded significantly, amounting to \$77.3 million for 140 TA projects (compared with \$10.3 million for 19 TA projects in the first decade).

VI. KEY LESSONS FROM EVALUATION



- ADB introduced a two-step evaluation process: self-evaluation by its operations departments, and independent evaluation by the newly established and independent Post-Evaluation Office.
- Postevaluation findings revealed that over two-thirds of ADB-assisted projects had substantially achieved their intended objectives.

An Audit Committee was established in June 1977 to assist the Board in the oversight of ADB's financial reporting and audits, including internal control and evaluation. In line with the recommendations of the new Committee, the Board approved in 1978 the upgrading of the Post-Evaluation Unit into a separate, independent Post-Evaluation Office (PEO) headed by a chief reporting directly to the President. This was intended to ensure that PEO would have independence of judgment, freedom of reporting its findings, and direct access to management. The Audit Committee monitored closely the postevaluation process and periodically reviewed selected postevaluation reports.⁵⁴

With the establishment of PEO, a two-step evaluation process was adopted. The first step consisted of project completion reports (PCRs) prepared by the department responsible for the processing and implementation of projects. The PCR focused on the efficiency of project processing and implementation, describing the history of the project and evaluating its implementation. The second step consisted of the preparation of project performance audit reports (PPARs) by PEO to provide a more comprehensive evaluation of the effectiveness of a project in achieving its objective (including physical achievements, operating performance, institutional development, socioeconomic benefits, environmental and other

⁵⁴ ADB. 1987. *Annual Report 1986*. Manila. pp. 23–27.

impacts, as well as reevaluation of financial and economic rates of returns where appropriate). PCRs and PPARs were to be prepared for all completed projects.

In addition to PPARs, PEO also undertook more intensive analyses of particular issues or subjects of broader relevance to ADB. By the end of 1986, three special studies had been completed. The first examined the strengths and weaknesses of Bank-organized specialized training for DFIs. The second dealt with the effectiveness of project executing agency arrangements. The third focused on the effectiveness of project-related TA (Box 5). To provide an overview of the longer-term aspect of Bank lending, PEO initiated in 1984 impact evaluation studies usually covering a range of projects financed by the Bank in a particular country and/or sector. These studies aimed to provide insight into the extent to which the benefits of ADB lending were sustained and spread over time. They highlighted a number of issues that could help resolve ongoing implementation problems and improve the design of future projects. Since 1980, PEO also started preparing an annual review of all PPARs and other postevaluations completed during the preceding year to provide an overview of development experience, including major lessons and their implications for ADB and its members (Box 5).

Postevaluation findings revealed that over two-thirds of ADB-assisted projects had substantially achieved their physical, institutional, and socioeconomic objectives. However, there had been a tendency toward optimistic estimation of economic rates of return at appraisal. A number of reasons were highlighted to explain

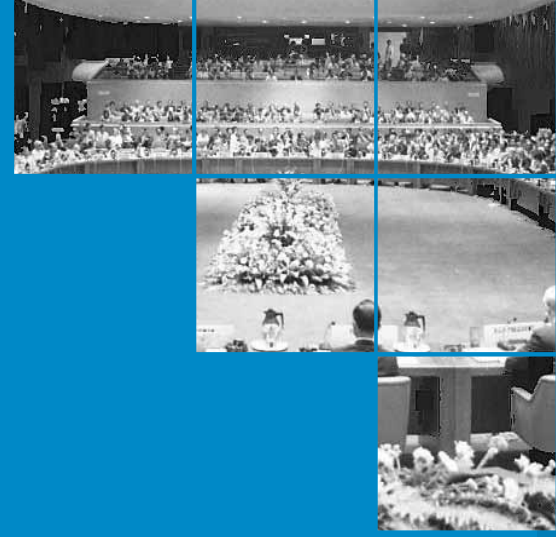
why some projects were more successful than others. First, there were external factors, which neither ADB nor the recipient country could control (e.g., change in commodity prices, market access, exchange rates, variations in climate, and unforeseen political events). Second, there were country-related factors such as the institutional and policy environment. Third, there were factors connected with the project themselves, including project design and implementation. Post-evaluation findings showed that project design and external factors were the most crucial. However, in practice, the Bank dealt with a wide range of projects in different implementation environments and a standardized approach could not be applied to all of them. At one end were infrastructure projects and their civil works components in relatively advanced DMCs. In this context, detailed preparation of engineering aspects often led to success because the technology was well known. At the other extreme were projects, including institution-building components of rural and urban development schemes, which were heavily determined by behavioral patterns about which little was known in advance. In such projects, design had to be sufficiently well developed to allow immediate implementation, but flexibility during the project cycle was also essential to allow for adequate adaptation. This often required breaking down the projects into different phases or components. Project results also suggested that outcomes were often dependent on the quality of institutions responsible for operation as well as implementation. Few projects could sustain benefit flows unless organizations were able to carry them forward. Hence, building organizational capacity had to become a key element in the Bank's approach to sustaining development.

Box 5: Special Study on the Effectiveness of Project-Related Technical Assistance

Since its inception, the Asian Development Bank (ADB) has recognized the importance of technical assistance (TA) in helping to improve the capabilities of its developing member countries, particularly in project preparation and implementation. Project preparation technical assistance (PPTA) had been provided mainly as grants. In accordance with Bank policy, the highest proportion of this assistance had been to the less developed countries (Group A countries as defined on the basis of the 1977 review of criteria for ADF lending). Sectorally, agriculture had received the greatest share. This was understandable given the substantial share of loans provided to the sector and the complex nature of project preparation, which often involved several disciplines and therefore warranted more preparatory assistance.

The study found that PPTA had been reasonably effective in terms of (i) improving project preparation capability and project performance, (ii) expanding the Bank's pipeline of projects, and (iii) focusing such assistance on less developed DMCs. However, it noted that there was further scope for increasing PPTA to Group A countries. The Bank was urged to make greater efforts to mobilize additional resources for PPTA grants by encouraging greater contribution to the Technical Assistance Special Fund and by carefully regulating the use of grants for purposes other than PPTA. The effectiveness of PPTAs was found to depend on many factors, some of the more important being the timely recruitment of consultants, comprehensiveness and appropriateness of the terms of reference, use of counterparts and/or local consultants, and staff training programs.

Source: ADB. 1984. *Special Study on the Effectiveness of Project Related Technical Assistance*. Manila (Restricted. SS-3).



VII. EPILOGUE

President Fujioka's speech at the 20th Annual Meeting of the Board Governors in Osaka, Japan, in April 1987 summarized well ADB's accomplishments in the first 2 decades (Box 6).

Box 6: Excerpts from President Masao Fujioka's Speech at the 20th Annual Meeting

This Annual Meeting is an important landmark in the history of the Asian Development Bank, as was the inaugural meeting in Tokyo 20 years ago. The Tokyo meeting celebrated the birth of the Bank. This Osaka meeting marks the Bank's coming of age. As a mature development institution, the Bank now stands at the start of a new era. The last 2 decades were characterized by a diversity of problems and performance among Asian countries. An important feature of the Asian economy in the 1960s and 1970s was the rapid growth of the newly industrializing countries (NICs), followed by the quasi-NICs of Southeast Asia. Their rapid growth was based on market-oriented, outward-looking policies. The advent of the 1980s, which followed the second oil shock and was marked by prolonged recession in developed countries, changed the pattern of economic growth in Asia. Many developing member countries (DMCs) borrowed heavily to maintain their growth momentum, resulting in external debt problems. This coupled with declining primary commodity prices and lower import revenues, led to government deficits and sharp cutback in development expenditures in some DMCs. Yet, overall, Asian DMCs displayed remarkable resilience. As many of them accelerated their drive to industrialization, the successful example of market-oriented, outward-looking policies is already exerting a profound rethinking of development philosophy.

The Bank started its operations slowly and cautiously but has played a significant role in assisting its DMCs in their adjustments to economic disturbance, following the first oil shock in 1973. The large shortfall in food production necessitated the expansion in Bank operations to meet the growing requirements of the increasing population. The Bank supported the efforts of its DMCs to achieve greater food reliance in food production and increase exports of commercial crops. Bank lending to the energy sector was also substantial, becoming second to agriculture to further development and efficient use of domestic energy resources. The Bank intensified its efforts to assist DMCs during the global recession following the second oil shock of 1979.

With the emergence of balance of payments and domestic resource constraints in the 1980s, ADB responded in a variety of ways. In addition to agriculture and energy sectors, projects creating more jobs and benefiting disadvantaged groups were given higher priority. The Bank increased its proportion of total project costs financed by it, especially for middle- and low-income countries. To increase the flexibility of its lending and overcome foreign exchange constraints, the Bank provided sector and program loans in appropriate cases. The Bank was deeply conscious of the need to increase the absorptive capacity of its DMCs. Special attention was given to advisory and operational technical assistance. At the same time, as a resource center for the region, the Bank expanded its capacity for in-house research and analytical work and research collaboration with other institutions and took various steps in disseminating ideas and experiences on the region's development. Promotion of the private sector has also been given high priority to reinforce private initiative and enterprise. To supplement this effort, the Bank introduced equity participation and direct lending to private sector enterprises without guarantee.

continued.

Box 6. continued.

In response to the effects of the rapidly changing external environment, the Bank recently undertook an intensive review of its operational directions, policies and instruments. To maximize its development contribution regardless of the political philosophies of its DMCs, the Bank has established strict criteria to judge the viability of its projects. The Bank will continue to apply such criteria to ensure that priority projects continue to make positive and sustained contributions to the economies of its DMCs at minimum cost. In its continuing efforts to maintain and improve the excellence of Bank-funded projects, the Bank is taking a series of measures including: more sharply designed country strategies; careful selection of projects in priority sectors; closer attention to the examination of all relevant economic, financial and technical aspects; and more structured and systematic policy dialogue with its DMCs to improve the environment in which Bank projects operate.

The Bank's sectoral allocation and type of lending must be used flexibly and with imagination to support the growth-oriented adjustments needed by many DMCs. The main type of lending required to meet long-term development needs will continue to be project loans. But increased use of program and special assistance loans will become necessary to meet short and medium adjustment needs. Bank operations will become more complex. This is the inevitable result of the growing interdependence of economies and globalization of financial activities. The Bank has been fondly described as the "family doctor." The Bank will now have to equip itself to meet a range of services required to attend to varied needs of its DMCs. While the resource center activities of the Bank are aimed at augmenting the quality of advice by providing specialist services as well, these activities will take on greater importance.

With the start of lending to India and the People's Republic of China, the evolution of the Bank to a truly Asian development institution is essentially completed. The founding fathers proposed that ADB actively participate in the fulfillment of developing Asia's aspirations. ADB's pursuit of excellence in its activities has contributed to this. The road ahead is long and full of challenges. But I am confident that the Bank will meet these challenges in the coming decade and become an even more useful participant in the future development of the countries of Asia and the Pacific.

Source: ADB. 1997. *Two Decades of the ADB*. Address by President Fujioka delivered at the 20th Annual Meeting of the ADB Board of Governors. Osaka. 27–29 April.

APPENDIXES

Appendix Table A1.1: Key Macroeconomic Indicators, 1976 and 1986

	GDP (2010 constant US\$, million)		Population (million)		GDP per capita (2010 constant US\$)		Share in GDP					
	1976	1986	1976	1986	1976	1986	Agriculture (%)		Industry (%)		Services (%)	
							1976	1986	1976	1986	1976	1986
Central and West Asia	...	...	132.4	167.8	...	...	...	28	...	23	...	49
Afghanistan	...	...	12.8	11.4	...	...	...	...	...	...	...	...
Armenia	...	...	2.9	3.4	...	...	...	17 (1990)	...	52 (1990)	...	31 (1990)
Azerbaijan	...	...	5.8	6.8	...	...	...	29 (1990)	...	...	...	38 (1990)
Georgia	13,664	20,046	4.3	4.7	3,147	4,261	25 (1980)	27	35 (1980)	37	40 (1980)	36
Kazakhstan	...	...	13.9	15.6	...	...	...	27 (1992)	...	45 (1992)	...	29 (1992)
Kyrgyz Republic	...	3,788	3.4	4.1	...	931	...	34 (1990)	...	35 (1990)	...	31 (1990)
Pakistan	33,814	63,589	68.8	95.2	491	668	32	28	24	23	44	49
Tajikistan	...	6,454	3.5	4.7	...	1,376	33 (1985)	33	...	40	25 (1985)	27
Turkmenistan	...	9,506 (1987)	2.6	3.3	...	2,872 (1987)	...	27 (1987)	...	38 (1987)	...	35 (1987)
Uzbekistan	...	17,897 (1987)	14.4	18.6	...	960 (1987)	...	28 (1987)	...	38 (1987)	...	34 (1987)
East Asia	...1,068,685	988.9	1,134.9	...	...	...	...	18	...	42	...	40
China, People's Rep. of	244,985	616,801	930.7	1066.8	263	578	32	27	45	44	23	30
Hong Kong, China	36,557	79,674	4.5	5.5	8,091	14,422	...	0.4	...	30	...	69
Korea, Rep. of	113,680	257,792	35.8	41.2	3,171	6,255	24	11	29	37	47	52
Mongolia	...	3,507	1.5	2.0	...	1,775	17 (1981)	19	25 (1981)	28	58 (1981)	53
Taipei, China	...	110,911	16.3	19.3	...	5,733	11.4	5	43	46	45	49
South Asia	279,010	430,882	736.9	929.0	...	...	...	30	...	25	...	44
Bangladesh	24,645	36,747	72.9	95.6	338	385	52	34	14	21	34	45
Bhutan	...	263	0.4	0.5	...	544	44 (1980)	42	12 (1980)	20	45 (1980)	38
India	239,510	370,104	636.2	799.6	376	463	36	30	23	26	41	44
Maldives	...	...	0.1	0.2	...	...	...	11 (1995)	...	14 (1995)	...	75 (1995)
Nepal	3,922	5,602	13.6	17.1	288	328	69	51	9	16	22	33
Sri Lanka	10,933	18,166	13.7	16.1	797	1,130	29	27	27	27	43	46

continued.

Appendix Table A1.1. continued.

	GDP (2010 constant US\$, million)		Population (million)		GDP per capita (2010 constant US\$)		Share in GDP					
							Agriculture (%)		Industry (%)		Services (%)	
	1976	1986	1976	1986	1976	1986	1976	1986	1976	1986	1976	1986
Southeast Asia	302,138	542,748	326.0	407.7	...	...	...	23	...	33	...	44
Brunei Darussalam	8,533	9,302	0.2	0.2	51,008	40,547	1	2	90	59	8	39
Cambodia	...	...	7.4	8.0	...	...	...	47 (1993)	...	13 (1993)	...	40 (1993)
Indonesia	116,999	225,214	134.0	168.4	873	1,337	30	24	34	34	36	42
Lao PDR	...	1,672	3.1	3.8	...	442	...	61 (1989)	...	13 (1989)	...	26 (1989)
Malaysia	33,900	59,387	12.6	16.2	2,691	3,661	29	20	37	39	33	41
Myanmar	5,504	8,831	31.4	39.3	175	225	47	50	12	12	42	38
Philippines	64,824	77,566	42.5	55.8	1,527	1,390	29	24	36	35	35	41
Singapore	22,839	45,289	2.3	2.7	9,959	16,569	2	1	33	34	65	65
Thailand	49,540	91,515	43.4	53.0	1,142	1,727	27	16	28	33	46	51
Viet Nam	...	23,972	49.2	60.2	...	398	40 (1985)	38	27 (1985)	29	32 (1985)	33
The Pacific	...	...	4.9	6.1	...	...	...	30	...	27	...	43
Cook Islands	...	...	0.0 (1975)	0.0	...	...	14.5 (1985)	14	8 (1985)	11	77 (1985)	75
Fiji	1,561	1,990	0.6	0.7	2,658	2,769	26	21	22	20	52	59
Kiribati	183	129	0.1	0.1	3,263	1,967	20 (1978)	27	57 (1978)	9	23 (1978)	64
Marshall Islands	...	104	0.0	0.0	...	2,598	...	...	...	...	...	...
FSM	...	203	0.1	0.1	...	2,310	...	25 (1995)	...	7 (1995)	...	67 (1995)
Nauru	...	...	0.0	0.0	...	...	...	28 (1987)	...	9 (1987)	...	63 (1987)
Palau	...	...	0.0	0.0	...	...	...	19 (1992)	...	13 (1992)	...	69 (1992)
Papua New Guinea	3,545	4,327	2.9	3.8	1,227	1,147	34	35	27	31	40	34
Samoa	...	395	0.2	0.2	...	2,463	...	23 (1994)	...	28 (1994)	...	49 (1994)
Solomon Islands	...	...	0.2	0.3	...	...	...	29 (1990)	...	5 (1990)	...	66 (1990)
Timor-Leste	...	...	0.7	0.7	...	...	...	...	...	...	...	...
Tonga	...	244	0.1	0.1	...	2,588	46	39	11	15	44	46
Tuvalu	...	...	0.0	0.0	...	...	8 (1981)	18	10 (1981)	17	82 (1981)	65
Vanuatu	...	347	0.1	0.1	...	2,611	22 (1979)	24	6 (1979)	10	72 (1979)	66
Developing Member Economies	...	...	2,189	2,645	...	...	...	23	...	35	...	42

... = data not available, 0.0 = magnitude is less than half of unit employed, FSM = Federated States of Micronesia, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.

Notes: Where no data are available for the specific year headings, available data for the earliest and/or nearest years are reflected. Aggregates are provided for subregions/region where at least two-thirds of the economies and 80% of the total population are presented.

Sources: ADB. Statistical Database System. <http://sdb.aadb.org> (accessed 20 January 2017); World Bank. World Development Indicators Database. <http://data.worldbank.org> (accessed 20 January 2017); ADB estimates.

Appendix Table A1.2: Selected Trade and Social Indicators, 1976 and 1986

	Trade Indicators				Social Indicators			
	Exports (% of GDP)		Imports (% of GDP)		Life expectancy (years)		Mortality, <5 (per 1,000 births)	
	1976	1986	1976	1986	1976	1986	1976	1986
Central and West Asia	...	...	...	...	57	61	...	133
Afghanistan	13	...	15	...	40	46	274	209
Armenia	...	35 (1990)	...	46 (1990)	71	69	88	59
Azerbaijan	...	44 (1990)	...	39 (1990)	65	66	108 (1982)	99
Georgia	...	42 (1987)	...	41 (1987)	69	70	66	50
Kazakhstan	...	74 (1992)	...	75 (1992)	64	69	76	58
Kyrgyz Republic	...	29 (1990)	...	50 (1990)	62	65	110	75
Pakistan	11	12	19	23	56	59	170	149
Tajikistan	...	35 (1988)	...	46 (1988)	61	63	136	118
Turkmenistan	...	39 (1991)	...	27 (1991)	60	62	139 (1977)	100
Uzbekistan	...	29 (1990)	...	48 (1990)	64	67	127 (1979)	81
East Asia	...	...	...	...	64	68	...	53
China, People's Rep. of	5	10	4	11	64	68	80	54
Hong Kong, China	89	109	79	100	73	77	...	...
Korea, Rep. of	28	33	30	28	64	69	24	9
Mongolia	24 (1981)	30	71 (1981)	81	57	59	180 (1978)	130
Taipei, China	52 (1980)	56	53 (1980)	38	...	74 (1992)	...	...
South Asia	...	...	...	...	52	56	...	143
Bangladesh	5	5	18	12	50	56	215	168
Bhutan	14 (1980)	18	38 (1980)	52	42	49	228	159
India	7	5	6	7	52	56	189	141
Maldives	154 (1980)	68	205 (1980)	61	49	58	193	115
Nepal	11	12	14	20	44	51	234	170
Sri Lanka	29	24	31	35	67	69	61	27
Southeast Asia	...	...	...	...	59	64	...	84
Brunei Darussalam	94	62 (1989)	18	35 (1989)	69	72	17 (1982)	14
Cambodia	...	...	...	...	21	52	286	120
Indonesia	26	20	22	20	58	62	137	100
Lao PDR	...	4	...	8	48	52	208 (1978)	178
Malaysia	52	56	42	50	67	70	40	21
Myanmar	...	...	7	7	53	57	155	121
Philippines	19	26	25	22	62	64	82	72
Singapore	149	149	156	146	71	74	16	10
Thailand	20	26	23	24	63	69	74	46
Viet Nam	...	7	...	17	63	69	76	59

continued.

Appendix Table A1.2. continued.

	Trade Indicators				Social Indicators			
	Exports (% of GDP)		Imports (% of GDP)		Life expectancy (years)		Mortality, <5 (per 1,000 births)	
	1976	1986	1976	1986	1976	1986	1976	1986
The Pacific	...	...	...	...	50	56	...	99
Cook Islands	...	...	...	...	...	70 (1992)	37	27
Fiji	38	42	42	39	62	65	52	34
Kiribati	56	32	36	42	56	58	125	112
Marshall Islands	...	...	...	...	...	63 (1998)	76	59
FSM	...	3 (1983)	...	84 (1983)	64	66	57 (1981)	59
Nauru	...	...	...	...	...	58 (1992)	...	57
Palau	...	20 (1991)	...	...	...	67 (1990)	42 (1984)	40
Papua New Guinea	42	44	41	51	50	55	120	96
Samoa	...	...	...	...	58	63	39 (1984)	36
Solomon Islands	37 (1981)	37	79	75	58	57	68	43
Timor-Leste	...	...	...	...	34	45	...	210
Tonga	27	26	57	70	67	69	35	25
Tuvalu	...	...	...	...	...	61	80	59
Vanuatu	33 (1980)	35	...	65	56	62	85	45
Developing Member Economies	17	22	17	23	59	63	135	101

... = data not available, GDP = gross domestic product, FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic

Note: Where no data are available for the specific year headings, available data for the earliest and/or nearest years are reflected.

Sources: ADB. 2016. ADB Key Indicators 2016; ADB. Statistical Database System. <http://sdb.sdb.org> (accessed 20 January 2017); Directorate-General of Budget, Accounting and Statistics. <http://eng.dgbas.gov.tw/mp.asp?mp=2> (accessed 8 November 2016); World Bank. World Development Indicators Database. <http://data.worldbank.org> (accessed 20 January 2017); United Nations Inter-agency Group for Child Mortality Estimation. <http://www.childmortality.org> (accessed 28 December 2016); ADB estimates.

Appendix Table A2.1: Loan and Technical Assistance Approvals, 1977–1986

	Ordinary Capital Resources ^a (\$ million)	Asian Development Fund ^a (\$ million)	Technical Assistance ^b (\$ million)	Total (\$ million)	Percent ^c
Indonesia	3,349	49	14.49	3,412	21.11
Pakistan	1,145	1,655	8.84	2,808	17.37
Philippines	1,850	114	11.61	1,976	12.22
Bangladesh	–	1,737	8.06	1,745	10.79
Korea, Rep. of	1,518	–	2.41	1,521	9.41
Thailand	1,353	64	6.17	1,424	8.81
Malaysia	989	–	5.95	995	6.15
Sri Lanka	–	493	4.84	497	3.08
Nepal	–	448	7.24	455	2.81
Myanmar	–	418	3.85	422	2.61
India	250	–	–	250	1.55
Papua New Guinea	137	100	5.23	242	1.50
Lao PDR	–	60	2.32	63	0.39
Hong Kong, China	60	–	–	60	0.37
Fiji	54	–	2.13	56	0.35
Singapore	53	–	–	53	0.33
Samoa	–	37	3.02	40	0.25
Afghanistan	–	36	0.34	37	0.23
Region ^d	–	–	28.94	29	0.18
Solomon Islands	–	25	2.34	28	0.17
Bhutan	–	25	3.03	28	0.17
Tonga	–	10	0.79	11	0.07
Vanuatu	–	5	1.63	7	0.04
Maldives	–	3	0.74	4	0.03
Cook Islands	–	3	0.16	3	0.02
Kiribati	–	1	1.08	2	0.01
Viet Nam	–	–	0.13	0	0.00
China, People's Rep. of	–	–	0.08	0	0.00
TOTAL	10,758	5,283	125.42	16,166	100

– = nil, Lao PDR = Lao People's Democratic Republic.

a Lending operations include loan, grant, equity investment, and guarantee approvals.

b Technical assistance operations cover grants funded by the Technical Assistance Special Fund and the Japan Special Fund.

c As percent of total lending and technical assistance operations.

d "Region" refers to lending or technical assistance to a subregion or a group of member economies within the region, not to any particular economy.

Source: ADB loan, technical assistance, grant, and equity approvals database.

Appendix Table A2.2: Loan and Technical Assistance Approvals by Fund Source, 1977–1986

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	%	%	Total
Total Lending^a (\$ million)	886	1,159	1,252	1,436	1,678	1,684	1,896	2,235	1,811	2,005	100	100	16,041
A. Ordinary Capital Resources	615	778	835	958	1,147	1,138	1,193	1,551	1,175	1,369	67	100	10,758
Indonesia	136	175	210	285	338	371	426	587	502	319	21	31	3,349
Philippines	147	106	207	158	201	254	235	276	-	267	12	17	1,850
Korea, Rep. of	135	150	160	175	205	206	194	174	67	53	9	14	1,518
Thailand	47	143	150	150	207	125	114	195	171	51	8	13	1,353
Pakistan	68	57	-	56	55	78	129	138	279	285	7	11	1,145
All Others	82	148	108	135	141	105	96	181	156	393	10	14	1,543
B. Asian Development Fund	272	381	416	477	531	546	703	684	637	636	33	100	5,283
Bangladesh	85	90	115	151	191	224	274	307	212	88	11	33	1,737
Pakistan	71	87	114	122	155	160	185	210	293	259	10	31	1,655
Sri Lanka	42	34	25	48	36	61	35	56	54	102	3	9	493
Nepal	24	25	31	39	45	32	83	61	58	51	3	8	448
Myanmar	25	65	37	51	60	56	80	10	-	35	3	8	418
All Others	26	79	95	68	45	14	47	40	19	100	3	10	532
Total TA Projects^b (\$ thousand)	5,460	7,569	6,977	8,279	6,756	12,575	17,302	17,858	19,102	23,538	100 ^c	100 ^d	125,417
Indonesia	701	1,344	720	984	629	1,637	2,963	1,564	1,413	2,538	15	12	14,493
Philippines	300	207	661	335	1,370	2,411	1,437	2,141	1,304	1,448	12	9	11,614
Pakistan	300	570	745	342	806	625	250	1,475	1,418	2,307	9	7	8,837
Bangladesh	666	1,245	794	809	469	2,084	946	480	369	200	8	6	8,061
Nepal	86	430	475	865	395	250	930	976	1,150	1,685	8	6	7,242
All Others (including RETA)	3,407	3,773	3,583	4,944	3,087	5,569	10,776	11,223	13,449	15,361	48	60	75,170

- = nil, RETA = regional technical assistance, TA = technical assistance.

a Lending operations include loan, grant, equity investment, and guarantee approvals.

b Technical operations only cover grants funded by the Technical Assistance Special Fund and the Japan Special Fund.

c As percent of total TA operations excluding RETA.

d As percent of total TA operations including RETA.

Notes: The top five recipients of the Asian Development Fund, ordinary capital resources, and TA are listed in this table. Lending and TA approvals for all other developing member economies are classified as "All Others."

Source: ADB loan, technical assistance, grant, and equity approvals database.

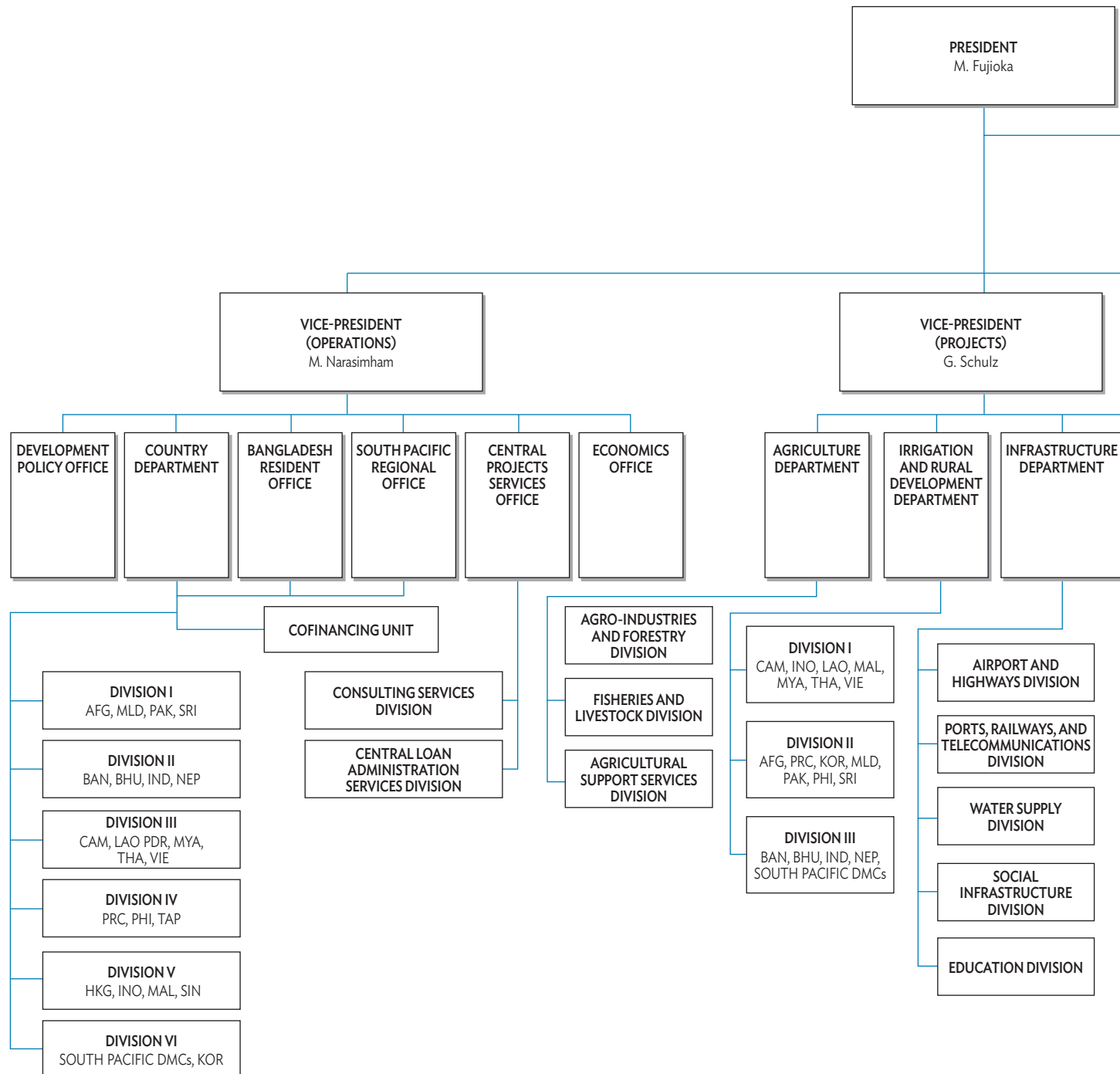
Key ADB Milestones, 1977–1986

- 1977**
- The Board of Directors (BOD) approves the establishment of the Audit Committee
 - The Asian Development Bank (ADB) conducts a comprehensive review of financial policies, disbursements, and other loan administration matters; pursues simplification of procedures; issues revised guidelines on the use of consultants and procurement
 - The criteria for Asian Development Fund (ADF) lending are reviewed
 - ADB explores engagement in guarantee operations
 - Technical assistance (TA) operations are reviewed
- 1978**
- ADB's annual lending reaches the \$1 billion mark
 - Maldives joins ADB
 - Negotiations for the second ADF replenishment start (effective 1979)
 - ADB's first loan in the health sector is approved for Hong Kong, China
 - ADB introduces program lending
 - The *Review of ADB's Operations in the Agriculture Sector in South Pacific* introduces multiproject loans for packages of public sector projects; first multiproject loan is extended in 1979 in Tonga
 - Developing member countries (DMCs) are grouped into three categories (A, B, and C) to determine access to concessional lending from the ADF
 - ADB reviews domestic procurement and local currency financing
 - ADB evaluates the role of forestry and forest industries in the socioeconomic development of the region
 - Operational guidelines for mineral development projects are issued
 - An additional post for Vice-President is approved, taking over responsibilities for financial, administrative, and other services functions
 - The Development Policy Office is created to strengthen ADB's capability in policy formulation and review, and to identify new directions and approaches to Bank activities
 - The Post-Evaluation Unit was detached from the economics office and established as an independent office reporting directly to the President
- 1979**
- A Committee on Administrative Matters is established to review and report on general administrative matters relating to service of members of the BOD
 - ADB reviews several policies and strategies, including its role in agriculture and rural development, operations in the fisheries sector, environmental considerations in operations, and its role in population activities
- 1980**
- A Regional Energy Survey is initiated (completed in 1981) to determine country priorities and plan ADB's lending and TA for energy development
 - ADB issues a policy on Streamlining of Loan and TA Processing
 - Sector lending is introduced, and ADB approves its first two sector loans (water supply in Indonesia, highway sector in Thailand)
- 1981**
- Masao Fujioka is elected fourth ADB President, assuming office on 24 November
 - Vanuatu joins ADB
 - A *Study of Bank Operational Priorities and Plans* is undertaken (completed in 1982) to review the entire range of policies and procedures that affect operational programs and to develop strategies and guidelines for operations in the medium term up to the end of 1987

- 1982**
- Bhutan joins ADB
 - Negotiations for the third replenishment of the ADF start (effective 1983)
 - The third general capital increase (GCI III) negotiations start (completed in 1983)
 - ADB opens its first resident mission in Dhaka
 - An ad hoc committee is established to review the 1982 administrative budget
 - A study on streamlining loan administration is conducted
- 1983**
- GCI III is approved
 - BOD approves proposal for construction of a new headquarters in Mandaluyong City, Philippines
 - ADB makes its first direct equity investment in a private sector project to a development investment corporation in the Republic of Korea and a second one in Pakistan
 - ADB conducts a comprehensive review of its financial policies
 - ADB's role in agriculture and rural development is reviewed
 - A study of capital markets in selected DMCs is conducted
 - A study of the Bank's role in the South Pacific DMCs in the 1980s is conducted
 - ADB's third Vice-President is appointed
- 1984**
- ADB's first regional office is established in the Pacific, in Port Vila, Vanuatu
 - A Budget Committee of the BOD is established
 - The *Review of Bank's Loan Administration Instructions* is completed
- 1985**
- Masao Fujioka is unanimously elected President for a second 5-year term
 - ADB approves the Policy on the Role of Women in Development to ensure that specific consideration is given to the role and needs of women in all relevant aspects of Bank lending and TA operations
 - ADB reviews its assistance to the private sector to provide an operational approach and broaden support and lending; the review leads to the establishment of ADB's Private Sector Division in 1986
- 1986**
- The People's Republic of China and Spain join ADB
 - India begins borrowing
 - The fourth replenishment of ADF and Technical Assistance Special Fund starts (effective 1987)
 - ADB starts direct lending to private enterprises and financial institutions without government guarantees
 - A pool-based variable lending rate system is introduced in response to increasing globalization and deregulation
 - ADB reviews the investment needs of the power subsector for 1986–1990
 - ADB conducts a review of the Bank's environmental policies and procedures focusing on safeguards aspects

Note: Establishment dates of resident missions indicated above are dates of the host country agreements but if these are not available, establishment dates based on R-papers circulated/approved by the Board of Directors were used.

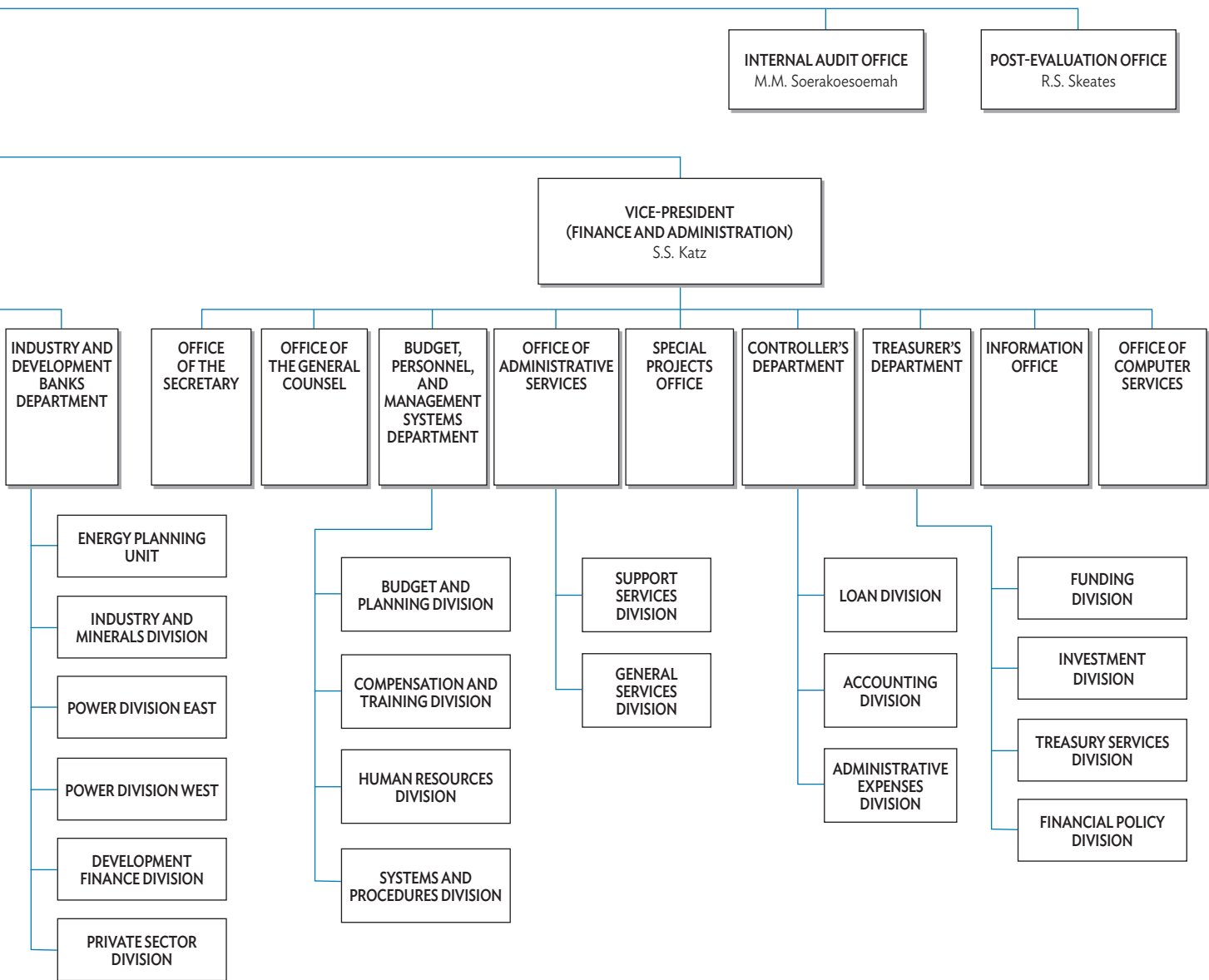
ADB's Organizational Structure, 1986



AFG = Afghanistan; BAN = Bangladesh; BHU = Bhutan; CAM = Cambodia; DMCs = developing member countries; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = the Republic of Korea; LAO PDR = the Lao People's Democratic Republic; MAL = Malaysia; MLD = Maldives; MYA = Myanmar; NEP = Nepal; PAK = Pakistan; PHI = the Philippines; PRC = the People's Republic of China; SIN = Singapore; SRI = Sri Lanka; TAP = Taipei, China; THA = Thailand; VIE = Viet Nam.

Note: This organizational chart was as of 14 October 1986.

Source: Asian Development Bank.



ADB Through the Decades

ADB's Second Decade (1977–1986)

The Asia and Pacific region continued to grow despite a difficult external global environment. The developing member countries demonstrated considerable resilience, following the second oil shock and the international debt crisis that followed.

This volume shows how the Asian Development Bank (ADB) responded to the growing diversity among its developing member countries as both membership and operations widened during decade. Considerations about ADB's priorities were ongoing and ranged across many topics. To support these discussions as well as to provide information for policy makers across the region, ADB sought to position itself as a “regional resource center” with a broader development role of providing not only financial assistance but becoming a center of new thinking on development issues in the region as well. ADB moved closer to the ground by opening its first Resident Office in Bangladesh in 1982. New products were introduced—program lending, sector lending, direct lending to private sector without government guarantees, and equity investment—to meet changing needs and expectations of countries. As the decade closed, two key historical landmarks occurred: ADB made its first loan to India, and the People's Republic of China became a member after long and detailed negotiations.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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