



# ADB THROUGH THE DECADES

ADB'S FOURTH DECADE (1997-2006)



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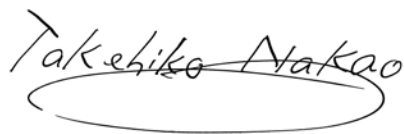
# FOREWORD

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.



**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

ACCSF	–	Asian Currency Crisis Support Facility
ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AFC	–	Asian financial crisis
BIC	–	Board Inspection Committee
BOD	–	Board of Directors
CFA	–	channel financing arrangement
CPA	–	country performance assessment
CPS	–	country partnership strategy
CSP	–	country strategy and program
DMC	–	developing member country
GAD	–	gender and development
GMS	–	Greater Mekong Subregion
ICR	–	interest coverage ratio
ICT	–	information and communication technology
IEI	–	innovation and efficiency initiative
LTSF	–	Long-Term Strategic Framework
MDB	–	multilateral development bank
MfDR	–	managing for development results
MFI	–	multilateral financial institution
MTS	–	medium-term strategy
NBP	–	new business processes
NGO	–	nongovernment organization
OCR	–	ordinary capital resources
PRC	–	People's Republic of China
PRS	–	Poverty Reduction Strategy
PSD	–	private sector development
RCI	–	regional cooperation and integration
RETA	–	regional technical assistance
RLR	–	reserve loan ratio
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 fourth decade opened with the 1997 Asian financial crisis, which imposed severe economic and social costs to affected economies; however, most countries used this as an opportunity to learn important policy lessons.
- Asia's economic recovery was quicker and stronger than expected, signaling increasing regional strength. By the end of the decade, there was a resurgence of trade and growth in the region.
- The decade was also marked by a widening of the global development agenda.

After remarkable growth in previous decades (Table 1) the Asia and Pacific region went through one of its most difficult periods. Sparked in 1997 by a devaluation of the baht in Thailand, foreign exchange markets collapsed, which led to a deep economic recession that widened into a regional crisis. The five most affected economies—Indonesia, the Republic of Korea, Malaysia, Thailand and the Philippines—experienced a combined loss of around 30% of gross domestic product (GDP) when international investors lost confidence and began to pull money out, creating a snowball effect. Stock markets, real estate, and other asset prices depreciated rapidly. The cumulative impact of these events affected the health of banks and nonbank

financial institutions. As events unfolded, the crisis imposed harsh economic and social costs in the affected countries. Unemployment rates soared and poverty levels rose.<sup>1</sup> The speed and severity of the crisis took everyone by surprise.

However, other developing member countries (DMCs) were less affected. The People's Republic of China (PRC) and India continued to grow. In other parts of the region, domestic policies played a key role in helping foster recovery. Initially, many countries embarked on a process of structural adjustments of their economies through conventional strategies (austerity measures) under International Monetary Fund (IMF) programs. These adjustments

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



often brought high social costs. Later on, countries favored more interventionist economic policies to stimulate domestic demand.

Overall, Asia's economic recovery was quicker and stronger than most had expected. Strong, export-led growth in the PRC began to increasingly influence policies both regionally and internationally. Within the region, the PRC's economic performance encouraged growth elsewhere, especially in countries that had joined the “factory Asia” phenomenon.

The Association of Southeast Asian Nations (ASEAN) countries took more time to recover. Their growth strategies varied but for all countries, the commitment to meet ASEAN liberalization policies was an important discipline. India led the growth in South Asia, in the midst of rising conflict and security concerns following the September 11th attacks in the United States (US). In retrospect, the crisis provided an opportunity for Asian policy makers to reassess their economic policies in a fundamental way. It also reemphasized the importance of regional cooperation to ensure financial and economic stability.

During the decade, the development agenda widened around the Millennium Development Goals. There was a notable increase in multilateral development initiatives, which often coincided with the emergence of strong anti-globalization movements. The debates brought to the fore development concerns of the poor in developing countries and a lack of action by rich countries. These developments reflected evolving trends in development thinking and practice. Several factors came into play to bring the change, including an increased recognition of the complementarity between states and market; the importance of institutions and governance; the need to understand country context and cross-disciplinary approaches for development; reactions to the new challenges posed by globalization; and links between aid and security following the September 11th attacks. The new emerging development paradigm was characterized by a broadened understanding of development, a refocusing on poverty and greater emphasis on global environmental policies and climate change. In parallel, new aid mechanisms and approaches were introduced in search for better ways to deliver aid and influence development outcomes.

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

Regions	1966	1976	1986	1996	2006	2015
<b>Developing Asia</b>						
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
<b>Latin America and Caribbean (excluding high-income economies)</b>						
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
<b>Sub-Saharan Africa (excluding high-income economies)</b>						
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

- One of the main challenges for ADB after the Asian financial crisis was how to design strategies to respond to rapid changes in the region and to changes in international development thinking.
- Several important policies and strategies were approved, including ADB's Poverty Reduction Strategy in 1999 and ADB's first-ever Long-Term Strategic Framework for 2001–2015.
- ADB also responded to a series of external shocks and took a proactive role in postconflict reconstruction.
- The decade brought increasing pressures for institutional reforms and ADB carried out important organizational changes to further strengthen its country focus.

The Asian Development Bank (ADB) responded quickly to the Asian financial crisis (AFC) with emergency loans, including a \$4 billion loan to the Republic of Korea (the single biggest loan ever approved by the Bank). Different dimensions of the crisis called for different focus in each country. ADB worked with other development partners to develop its interventions. In addition to funding support, ADB provided technical assistance (TA) to its developing member countries (DMCs) to build capacity for policy analysis and economic surveillance. The serious slowdown that the crisis caused in many economies and the consequent social impacts added urgency

to the attention the Bank needed to pay to poverty reduction, including efforts in human development, gender equity, social protection, good governance, and broad-based economic growth and development.

Over the decade, ADB's operational agenda broadened. New ADB policies and strategies were developed to support operationalization of cross-cutting priorities (e.g., private sector development, governance, regional cooperation, among others) under ADB's new Poverty Reduction Strategy (PRS) in 1999 and its Long-term Strategic Framework (LTSF) for 2001–2015. ADB also prepared strategies for new priorities

(e.g., social protection and microfinance). Reviews of existing policies offered an opportunity to realign them with the broad poverty reduction agenda (e.g., review of energy policy, education, health). Toward the end of the decade, ADB commissioned an Eminent Persons Group to review key trends and development challenges in the region, with a view to refining ADB's long-term goals. In addition to strategic considerations, ADB also needed to respond to specific events such as the severe acute respiratory syndrome and avian flu epidemics, the Asian tsunami in 2004, and the Pakistan earthquake in 2005. ADB took a proactive role in postconflict reconstruction in Afghanistan, Sri Lanka, Tajikistan, and Timor-Leste.

The decade also brought increasing pressures for institutional reforms. Externally, there were growing criticisms that aid programs were not delivering on their intended results. Internally, pressures were mounting. In an era when investments were growing rapidly in Asia and the Pacific, demand for ADB financing was stagnating. The Asian Development Fund (ADF) replenishment discussions became increasingly difficult, with donors pushing for internal reforms, with implications well beyond ADF operations.<sup>2</sup> To strengthen the overall effectiveness of its operations, ADB recognized the need to realign key organizational elements (not just operational policies but also business processes, organization structure, skills mix, and internal resources) with its broad strategic agenda. To provide better and faster assistance to its DMCs, ADB began implementing various reform initiatives to more effectively pursue its mission of poverty reduction. These became integral parts of ADB's Reform Agenda, launched in 2004, to make ADB more relevant, responsive, and results-oriented.

## A. Membership

Ten new members joined the Bank over the period, seven regional and three nonregional: Tajikistan (1998), Azerbaijan (1999), Turkmenistan (2000), Portugal and Timor-Leste (2002), Palau and Luxembourg (2003), Armenia (2005), then Brunei Darussalam and Ireland (2006). By the end of the fourth decade, ADB had 66 members (47 regional and 19 nonregional).

## B. Leadership

### 1. Presidents

On 24 November 1996, Mitsuo Sato assumed his second term in office as ADB President (he had been unanimously reelected by the Board on 2 May 1996). In 28 July 1998, Sato announced his intention to resign, citing personal reasons. His resignation became effective on 15 January 1999, one year before his second term was due to expire. Overall, Sato served the Bank for more than 5 years, from 24 November 1993 to 15 January 1999.

On 31 October 1998, the Board of Governors unanimously elected Tadao Chino to succeed Sato as ADB's seventh President. He assumed office on 16 January 1999. President Chino was reelected for a second term in 2001 and would serve until 31 January 2005 (Box 1).

Haruhiko Kuroda assumed office as President on 1 February 2005, after being unanimously elected by the Board of Governors in November 2004 (Box 2). He served for more than 8 years—the longest-serving ADB President—until March 2013, when he was appointed Governor of the Bank of Japan.

<sup>2</sup> The ADF was established in 1974 to restructure and streamline ADB's Special Funds as the need for concessional lending increased.

**Box 1: Seventh ADB President Tadao Chino**  
(16 January 1999–31 January 2005)



Born in 1934, Tadao Chino earned a Bachelor of Arts in Economics from Stanford University, and a Bachelor of Law from Tokyo University. He joined the Japanese Ministry of Finance in 1960. Four years later, in 1964, he was seconded as an officer of the United Nations Economic Commission for Asia and the Far East where he became involved in the establishment of the Asian Development Bank (ADB). After returning to the Ministry of Finance, President Chino assumed a number of posts in the ministry's banking, budget, and international finance bureaus, eventually becoming vice minister of finance for international affairs in 1991. After retiring from the ministry in 1993, President Chino served as special advisor to the finance minister. In 1994, he was appointed deputy governor of Japan's Agriculture, Forestry and Fisheries Finance Corporation. He then became chairman of the board of counsellors at the Nomura Research Institute from 1996 to 1998.

President Chino assumed the ADB presidency in 1999, during a challenging period. Several developing member countries (DMCs) were still suffering after the 1997–1998 financial crisis. The immediate challenge for ADB was to help Asian economies get back on the track to recovery and address the social and poverty impacts of the crisis. Under President Chino leadership, ADB declared poverty reduction as its overarching objective. Several other important ADB policies and strategies were approved. This included ADB's first Long-Term Strategic Framework that guided the Bank's efforts at reducing poverty and helping DMCs achieve the Millennium Development Goals. The Long-Term Strategic Framework was implemented in parallel with the Bank's 2002 reorganization, which created regional departments to give greater country focus to ADB's operations, and bring ADB closer to its DMCs. To strengthen the institution, ADB launched a Bankwide reform agenda in 2004 grounded in the managing for development results framework to enhance ADB's development effectiveness. Under President Chino leadership, ADB also took a proactive role in postconflict reconstruction in several Asian countries, including Afghanistan, Cambodia, Sri Lanka, Tajikistan, and Timor-Leste. Finally, in early 2004, donor countries agreed to a \$7 billion replenishment for the Asian Development Fund covering the period 2005–2008.

President Chino resigned from ADB in January 2005, after 6 years in office. He passed away due to liver failure on 17 July 2008 in Japan, at the age of 74.

Source: Asian Development Bank.

**Box 2: Eighth ADB President Haruhiko Kuroda**  
(1 February 2005–18 March 2013)

Haruhiko Kuroda was 60 when he took over as eighth President of the Asian Development Bank (ADB) in February 2005. Born in 1944, President Kuroda holds a Bachelor of Arts in Law from the University of Tokyo and a Masters of Philosophy from the University of Oxford, United Kingdom. Before joining ADB, President Kuroda was special advisor to the Cabinet of Prime Minister Junichiro Koizumi and a professor at the Graduate School of Economics at Hitotsubashi University in Tokyo. In a career spanning nearly 4 decades, President Kuroda represented Japan's Ministry of Finance at a number of international monetary conferences in various positions, including vice minister for international affairs. During his terms as director general of the International Bureau and as vice-minister between 1997 and 2003, President Kuroda helped design and implement the \$30 billion Miyazawa Initiative, Japan's response to Asian economies hit by the 1997–1998 financial crisis. Under his leadership, Japan helped Asian nations establish a network of currency swap agreements under the Chiang Mai Initiative to avert another crisis.

President Kuroda's tenure covered a period of significant growth in the region, but also one of tremendous challenges. In his initial years as President, the region faced a string of natural disasters where ADB provided support, such as the Asian tsunami, avian flu pandemic, and Pakistan earthquake. Upon joining, the President set out an agenda to transform ADB into a more relevant, responsive, and results-oriented institution. Under his leadership, ADB adopted a new long-term strategy, Strategy 2020, which refocused ADB's strategic agenda on inclusive growth, environmentally sustainable growth, and regional cooperation and integration. ADB expanded its operations and carried out many internal reforms. A Bankwide results framework was put in place to improve institutional performance. Under President Kuroda's tenure, the regional cooperation and integration agenda gained prominence. To meet the region's growing demand for development finance, he led ADB's first general capital increase in 14 years, tripling ADB's capital base; and two replenishments of the Asian Development Fund, raising over \$23 billion to help meet the needs of ADB's poorest member countries.

During the 2008 global financial crisis, ADB provided much-needed assistance through the establishment of a \$3 billion Countercyclical Support Facility to meet urgent needs. ADB also expanded its Trade Finance Program, which supported \$2 billion in trade. Other key achievements included the establishment of the ADB-administered ASEAN Infrastructure Fund, to help meet the needs for infrastructure connectivity in Southeast Asia; and ADB's resumption of operations in Myanmar after more than 20 years. President Kuroda resigned from the Bank in March 2013 to become the 31st Governor of the Bank of Japan.

Source: Asian Development Bank.

## 2. Vice-Presidents

On 1 August 1998, Myoung-Ho Shin succeeded Bong-Suh Lee as Vice-President (VP) Region West. Prior to his appointment, Shin had occupied different government positions, including director of the Customs Bureau and the International Finance Bureau, assistant deputy minister at the Ministry of Finance, and president of the Korea Housing and Construction Bank.

John Lintjer assumed the role of VP Finance and Administration on 18 January 1999, replacing Pierre Uhel. Lintjer previously filled senior positions in the Government of the Netherlands, including deputy treasurer general at the Ministry of Finance.

Lintjer was succeeded by Khempheng Pholsena in April 2004, the first female VP in the Bank's history. Prior to joining ADB, Khempheng was vice minister for foreign affairs of the Lao People's Democratic Republic (Lao PDR).

Joseph Eichenberger was appointed as VP Region East to replace Peter Sullivan effective 15 December 2000. Prior to joining ADB, Eichenberger was the director of the Office of Multilateral Development Banks in the US Treasury Department. Earlier, he was acting US executive director at the World Bank. Eichenberger would serve ADB until December 2005.

The roles and responsibilities of the Vice-Presidents were reviewed and adjusted in 2002 as part of the reorganization. Effective 1 January 2002, the former VP Region West was redesignated as VP Operations Group 1, while VP Region East was redesignated as VP Operations Group 2. The two operational VPs were expected to deliver ADB's strategic agenda in the regional departments allocated to them. VP Finance and Administration continued to be responsible for the financial and administrative services of ADB. Jin Liqun was appointed as

VP Operations Group 1 to replace Myoung-Ho Shin, effective 1 August 2003.<sup>3</sup> Before joining ADB, Jin was the Vice Minister of Finance of the PRC. He had previously served as Alternate Governor of the PRC at ADB, the World Bank, and the Global Environment Facility. C. Lawrence Greenwood assumed the post of VP Operations Group 2 on 28 February 2006, replacing Joseph Eichenberger. Greenwood was a career diplomat with extensive experience in Asia and the Pacific. At the time of his appointment, he was the principal deputy assistant secretary of the Bureau of Economic and Business Affairs of the US State Department.

With the increasing complexity of ADB's operations, and with five regional departments now responsible for operations, a management committee was established in 2002 to provide high-level advice and support to the President. The committee consisted of the President as chair, and the three VPs. Senior staff were invited to participate according to the agenda. The management committee met weekly while secretariat services were provided by the Office of the Secretary.

In 2003, a fourth VP position was created to oversee knowledge management (KM) and sustainable development activities, whose responsibilities included management of the operations of the Regional and Sustainable Development Department (RSDD), the Economics and Research Department (ERD), and the Office of External Relations (OER). Geert Van der Linden would assume this role from 1 September 2003 to 31 August 2006. Van der Linden had more than 24 years of experience with ADB in various functions. Prior to his appointment, he served as special advisor to President Kuroda. Van der Linden would be succeeded by Ursula Schaefer-Preuss in November 2006. Previously, Schaefer-Preuss was the director general of the Federal Ministry for Economic Cooperation and Development in Bonn, Berlin, Germany.

<sup>3</sup> Jin Liqun would later become the first President of the Asian Infrastructure Investment Bank, a multilateral development bank operating in the region established in 2014.



A new position of managing director general (MDG) was also created in 2003. The MDG would be responsible for high-level coordination and synthesis of work among ADB's four VPs under the overall guidance of the President. Young-Hoi Lee was appointed as MDG in September 2003. He joined ADB from the Export-Import Bank of Korea where he had held the position of chairman and president from 2001. He would be replaced by Rajat Nag in December 2006. Nag had had been with ADB since 1986, holding various positions. Before becoming MDG, he was the director general of the Mekong Department (which would later become the Southeast Asia Department).

## C. Budget, Staffing, and Other Organizational Matters

### 1. Budget

The Bank undertook a cautious budgetary approach throughout the fourth decade, particularly during the AFC years. Internal administrative expenses grew modestly at an annual average of 5% between 1997 and 2006, compared with 8% in the previous decade. During 1997–1998, the internal administrative expenses budget and actual expenses grew by 3% and 2%, respectively. By the end of the decade (December 2006), the actual internal administration expenses amounted to \$299 million, against a planned budget of \$313 million.

### 2. Staffing and Human Resources Policy

Over the fourth decade, the number of staff grew steadily to reach 2,405 staff (including 861 international<sup>4</sup> and 1,544 national and administrative staff) from 54 member countries by the end of 2006.<sup>5</sup> ADB committed to increase the representation of women professional staff. In 1997, a new policy on the prevention of sexual harassment

was implemented. A Gender Action Plan was adopted in 1998 to reduce gender disparities at all levels in the organization.<sup>6</sup> In 2002, a review of the Gender Action Program was completed, and in 2003, a second Gender Action Program was adopted. The program aimed to increase the number of senior women professional staff, and the number of women in operational areas. Under the program, the Women's Education Network was launched, and new gender-based training programs were conducted as well as meetings with senior staff to discuss gender equality issues. A working group focusing on local staff gender issues also developed an action plan for implementation in 2005.<sup>7</sup> As a result of these initiatives, the share of women among international staff doubled from around 15% at the end of the third decade to 29% at the end of the fourth decade.

At the end of the previous decade, in the context of the increased complexity of its role and mandate, and its progression from a project-finance bank to a broad-based development institution, ADB formulated a human resource (HR) strategy in 1996.<sup>8</sup> The strategy aimed to achieve a broader spectrum and greater depth of staff skills and capacity. In the context of the 2002 reorganization, ADB engaged an external consultant to take stock of key HR programs and practices, benchmark with comparator organizations, and formulate a set of initiatives to support its strategy and business needs under the new organizational structure. The study on HR resources challenges at the ADB was presented to the Board of Directors (BOD) as an information paper in November 2002.<sup>9</sup> Overall, the study showed that ADB had good HR practices but needed to do more. Specifically, HR processes needed to be managed in a more transparent manner with clear accountabilities. The study also recommended that ADB place greater emphasis on developing managers' capabilities to perform as leaders. An HR action plan based on the recommended priority interventions was put in place.

<sup>4</sup> International staff includes five management staff.

<sup>5</sup> In contrast, at the end of the third decade, there were 1,961 ADB staff from 43 member countries, including 673 management and international staff, and 1,288 national and administrative staff.

<sup>6</sup> ADB. 1999. *ADB Annual Report 1998*. Manila. p.165.

<sup>7</sup> ADB. 2005. *ADB Annual Report 2004*. Manila. pp.44–45.

<sup>8</sup> ADB. 1996. *Human Resources Strategy Paper*. Manila (IN. 120-96).

<sup>9</sup> ADB. 2002. *Study of Human Resources Challenges at the Asian Development Bank*. Manila (IN. 316-02).

In 2003, ADB undertook an internal study of HR service delivery. The study recommended that the HR function (i) clearly identify its primary customers; (ii) develop a communications framework to enable the dissemination of relevant information to promote HR functions that were being done well, and manage staff expectations around areas that required improvement; (iii) identify critical areas for managers' education on HR processes; and (iv) encourage and facilitate senior staff involvement in new staff orientation and development needs assessment.

A staff engagement survey was conducted by an external agency in 2003. It analyzed staff

perceptions of (i) ADB's work environment and conditions, including leadership; (ii) their commitment to the mission of the organization; (iii) their salary and benefits; (iv) work-life balance; (v) performance management; and (vi) career opportunities. The items with the highest satisfaction scores were safety, physical work environment, coworkers, value to society, and benefits. The items with the lowest satisfaction scores were HR management, recognition policies, resources, career development, and senior unit management. The survey produced an overall employee engagement rating of 48%, reinforcing the need for a new HR strategy (Box 3).

### Box 3: Organizational Assessment of Human Resources Management

Extensive consultations with staff and senior management were conducted in 2004, as basis for the development of a new Human Resource Strategy. Major issues raised are summarized below.

- (i) **Lack of transparency of human resources processes.** Many staff perceived that the internal appointment and promotion processes were not transparent and were not structured to ensure merit-based decision making.
- (ii) **Limited diversity in the workforce.** The Asian Development Bank (ADB) should identify and develop talented people based on merit, regardless of their gender or nationality. Despite recent gains, women continued to be underrepresented especially at senior levels.
- (iii) **Increased role and responsibilities of resident mission staff.** The 2000 Resident Mission Policy and its 2002 review enhanced the functions of resident missions and in turn the numbers, roles, and responsibilities of their staff. An enhanced human resources framework for resident missions was required to ensure an appropriate match between resident mission functions and their capabilities.
- (iv) **Limited career development opportunities.** Promotion opportunities were perceived as limited, while staff skills and experience were not fully valued or utilized. Career development should be enhanced to effectively motivate and reward staff. Technical career progression was capped at a limited number of level 7 professional staff positions. Technical specialists wishing to pursue promotion opportunities had to move to a managerial career path.
- (v) **Training system not effectively aligned with business needs.** The organization lacked a complete understanding of its training needs, and the effectiveness of ADB's training programs was not measured. The importance of training was not fully appreciated by some staff and funding provided to support training programs was insufficient.
- (vi) **Ineffective performance management system.** The performance evaluation review system did not effectively connect individuals to the business needs and did not assist development or performance improvement. There was a weak link between performance and the rewards and recognition systems. Procedures for managing poor performers were weak.
- (vii) **Increased and uneven workload.** The workload of staff had increased due to the increased complexity and volume of work. Increases in resources were insufficient to fully meet the added requirements.
- (viii) **Lack of leadership and managerial competence and lack of authority for managing resources.** Many managers did not possess the required level of leadership and managerial competence to perform effectively as managers. They had limited delegated authority for actively managing and optimizing resources required to deliver the outputs for which they were accountable.
- (ix) **Central human resources function not perceived as a business partner.** Human resources policies and processes were primarily based on centralized authority and nondisclosure and did not provide sufficient delegation of human resource management responsibilities to line managers. Existing internal communications were perceived as limited, unidirectional, and lacking openness. In addition, some staff were reluctant to express their opinions for fear of retaliation.

Source: ADB. 2004. *Human Resources Strategy*. Manila (Sec. M75-04).

A new human resource strategy was approved in 2004.<sup>10</sup> Its goal was to establish a merit-based, transparent human resource management system that cultivates leadership, rewards performance, and improves credibility. Measures taken to address ADB's skills mix issues and skills gaps included realignment, sequestration, and an enhanced separation program. A new performance management system was introduced in 2005 to provide a more rigorous differentiation of staff performance. Recruitment and promotion were made more transparent, with all vacancies advertised internally and externally. To improve its training program, ADB created in 2005 a Learning and Development Unit within the Human Resources Division of the Budget, Personnel, and Management Systems Department, with a corresponding increase in budget allocation. Focus was placed on redesigning leadership programs and improving technical programs. Several new workshops were introduced, and a job rotation pilot was implemented for national officers in resident missions. To identify ADB's learning needs, a training needs assessment was implemented as part of the new performance management system.

The staff compensation and benefits packages were regularly reviewed to ensure that (i) they supported the HR management objective of attracting, recruiting, retaining, and motivating highly qualified staff; (ii) gave due consideration to ADB's multilateral character and its developmental role; (iii) reflected ADB's culturally and ethnically diverse staff and the markets from which ADB recruited; and (iv) were cost-effective and simple to administer. Staff salaries were reviewed and adjusted annually. As a result of benefit changes introduced at the World Bank at the time, benefits were reviewed and rationalized in 1998 and 1999.<sup>11</sup> Benefit cuts included changes in the housing assistance schemes, abolition of severance pay, termination of dependency allowance for parents and parents-in-law, limitation of the

number of dependent children to three, and rationalization of airfares to 85% of full economy for home country and education travels. In 2001, upon recommendation of a pension committee, revisions to the Staff Retirement Plan were approved, which enhanced the commuted lump sum and the early retirement benefits.

A Comprehensive Review of Compensation and Benefits for professional staff was undertaken in November 2005.<sup>12</sup> It resulted in a change of methodology for setting professional staff salaries. The European Bank for Reconstruction and Development was added as a comparator, apart from the World Bank. The salary budget increase was split into two components: a salary increase to be distributed based on performance; and a nonrecurring, nonpensionable bonus to be granted to staff rated exceptional under the new Performance and Development Plan. A new scheme for staff hired from 1 October 2006 was introduced to enhance the long-term sustainability of the pension plan. Changes were also made to the Group Medical Insurance Plan for pensioners, as well as minor changes to the expatriate benefits on housing, home country travel, and education assistance.<sup>13</sup>

### 3. Office Accommodation

ADB's headquarters in Mandaluyong City was designed in the late 1980s. Security was tightened in 2001 after the September 11th terrorist attacks. Additional security equipment was installed and cooperation between ADB and the Philippine government and foreign embassies intensified. ADB sought to further enhance the safety and security of staff in the building, allocating \$14.8 million for building rehabilitation and various security-related projects in 2004. Earlier, in November 2003, the Board had approved another special capital budget project to improve daylight access for ADB atria and adjacent staff offices, with an allocation of nearly \$1.6 million.

<sup>10</sup> ADB. 2004. *Human Resource Strategy*. Manila.

<sup>11</sup> ADB. 1999. *General Review of Salaries and Benefits*. Manila (EX/R2-99).

<sup>12</sup> ADB. 2005. *Comprehensive Review of Compensation and Benefits for Professional Staff*. Manila (R277-05).

<sup>13</sup> ADB. 2006. *ADB Annual Report 2005*. Manila. pp. 14–15.



## 4. Resident Missions

Since the start of the fourth decade, encouraged by generally positive experience to date and emerging good practices among other aid agencies, the Bank accelerated the expansion of its RM network. ADB's Resident Mission Policy was adopted in February 2000.<sup>14</sup> The policy sought to fundamentally expand the role of RMs from being primarily concerned with project administration, to focusing on broad strategic and policy support function. This is to facilitate effective implementation of the Poverty Reduction Strategy, through greater country knowledge, closer interaction with DMC stakeholders, and intensified in-country activities. The Resident Mission Policy recommended that ADB establish, in principle, an RM in each borrowing DMC, subject to operational and logistical considerations. The RMs' functions were classified into standard functions and specific functions. Standard functions were those required for RMs to act as ADB's principal representatives in the field. They included (i) government, civil society, and private sector relations; (ii) policy dialogue and support; (iii) country reporting; (iv) aid coordination; and (v) external relations and information dissemination. Specific functions referred to the delivery and implementation of ADB's products and services, which included: (i) country programming, (ii) loan and TA processing, (iii) portfolio management and project administration, and (iv) economic and sector work. The policy recommended that all RMs begin implementing standard functions immediately, but that the full transfer of specific functions be pilot tested in selected RMs over a period of 2 years.

At the end of the 2-year pilot, a review of implementation progress was undertaken. The review generally confirmed the feasibility and desirability of full-fledged transfer of most functions specified in the policy to RMs. Yet, the review noted the complexity of processing loans from RMs and recommended retention of this function primarily at headquarters, with RM staff playing a supportive role. The review also highlighted staffing as a key issue both in terms of

numbers and skills mix, and the need for additional investment in information and communication technology (ICT) facilities to ensure the integrated functioning of RMs within ADB.

Following the approval of the 2000 policy, the number of RMs grew rapidly. Staffing and RM budgets also increased significantly, demonstrating increased trend toward decentralization of functions for country programming, project administration and portfolio management, and selected economic and sector RM work. Consistent with the recommendation of the 2002 policy review, project processing remained mainly led by staff in Manila. Between 1997 and 2006, ADB established one country office in the Philippines and one special liaison (SOTL) office in Timor-Leste in 2000; and 12 RMs in Kazakhstan, Sri Lanka, and Uzbekistan in 1997; the Kyrgyz Republic in 1999; the Lao PDR, Mongolia, and the PRC in 2000; Afghanistan and Papua New Guinea in 2002; Azerbaijan and Tajikistan in 2003; and Thailand in 2004. SOTL functioned as a full-fledged RM since 2002 and would be renamed Timor-Leste Resident Mission in 2013. To bring the Bank closer to its Pacific clients, the Pacific Subregional Office in Fiji was established in 2004, replacing the South Pacific Regional Mission in Vanuatu, while the Pacific Liaison and Coordination Office opened in 2005 in Sydney, Australia. ADB also established other forms of specialized local presence to respond to specific client needs by setting up extended missions or liaison offices. Extended missions were established in Jakarta and Seoul in the wake of the AFC in 1997, and in Gujarat following the 2001 earthquake.

## 5. Computerization

By the beginning of the fourth decade, ADB had numerous information systems that had been developed gradually over the years, covering various functional areas. In the early 2000s, core financial and human resource management systems were added through the INTEGRA project. The electronic funds system was upgraded to increase integrity and security and a

<sup>14</sup> ADB. 2000. *Resident Mission Policy*. Manila.

treasury risk management system was introduced to provide ADB with improved analytical capability to efficiently measure risk positions. A new loan accounting system was put in place to handle the new London interbank offered rate (LIBOR)-based loan (LBL) products. Small-scale document repository systems were implemented to allow electronic access to Board documents, project papers, and administrative documents. New servers provided necessary capacity and increased reliability for electronic mail and internet traffic and for new systems. Information dissemination initiatives included installing multimedia equipment, renovating the briefing theater, revamping the ADB website, upgrading the public information centers, and establishing a media briefing center.

Work started in 2002 to develop a new Information Systems and Technology Strategy covering 2004–2009 (ISTS II). The strategy introduced a new information technology (IT) governance model. The IT steering committee, chaired by the VP Finance and Administration and comprising heads of all departments and offices, ensured alignment with the corporate strategy, and endorsed the strategy and related investments. The information technology committee was responsible for (i) reviewing IT requests and setting priorities for IT investments, (ii) ensuring that cross-departmental business processes were supported, and (iii) periodically reviewing progress on implementation of IT projects. At the working level, representatives from departments and offices formulated the requirements and worked closely with the Office of Information Systems and Technology in formulating and implementing IT projects.

The strategic context for ISTS II was provided by ADB's vision of an Asia and Pacific region free of poverty, the new global agenda on results and effectiveness and ADB's 2002 reorganization. IT tools were viewed as critical to enhance ADB's ability to monitor performance against PRS and LTSF objectives. IT would provide enhanced capacity to track macroeconomic indicators in member countries and monitor performance

against the Millennium Development Goals or MDGs, and would allow monitoring of projects and the extent to which they address the MDGs and the poverty reduction objectives of ADB. IT systems would facilitate tracking of a series of related activities and investments with measurable and monitorable indicators at each stage of the project cycle. IT tools would also help create and disseminate knowledge and enhance collaboration among staff.

In response, ISTS II sought to (i) focus on operational business processes as the majority of ADB's information systems at the time supported financial and administrative transactions; (ii) maximize knowledge sharing both externally and internally to improve the quality of development products and increase efficiency; (iii) improve IT governance through an IT office that proactively develops partnerships with other departments and is able to adjust to changing business priorities; (iv) provide IT systems and access on demand so that staff working from remote locations, home, or RMs or while traveling can have continuous access to information systems; and (v) develop an enabling IT infrastructure and services that are secure, available, responsive, and reliable. ISTS II was approved in June 2004.<sup>15</sup> Subsequently, the Office of Information Systems and Technology was realigned in 2005 around four business units: Technology Division, Solution Delivery Division, Infrastructure Unit, and Business Process Support Unit.

## 6. Organizational Changes

In January 2001, ADB started a review of its organization structure. The review was guided by a number of principles: (i) mainstreaming governance and capacity building, environmental and social development, and private sector development; (ii) balancing country and sector considerations; (iii) strengthening ADB's regional role and identity; (iv) enhancing client and stakeholder orientation; (v) maintaining technical excellence and skills; (vi) emphasizing effectiveness and efficiency; (vii) maintaining

<sup>15</sup> ADB. 2004. *Information Technology Strategy and Capital Expenditure Requirements: 2004–2009*. Manila (R78-03, Rev 1).

checks and balances consistent with effectiveness; (viii) clarity of responsibility and value addition; (ix) ownership of change; and (x) continuity in change. The review culminated in the decision for a reorganization, which became effective on 1 January 2002.<sup>16</sup>

Five regional departments (RDs) were established.<sup>17</sup> In addition, the Private Sector Group was upgraded to the Private Sector Operations Department (PSOD), responsible for catalyzing private investment. Four of the RDs combined the functions of the former programs and projects departments, while the Pacific Department retained the structure of the former Office of Pacific Operations. Sector divisions were better aligned with ADB's strategic agenda, as governance and other cross-cutting themes were integrated into them. In each RD, collective responsibility for decision making was ensured with the newly formed regional management teams. Country teams were now responsible for preparing country strategy and program papers and their updates. Fewer DMCs under these four departments should permit closer staff interaction, including with DMC counterparts, and an integrated view of operations in each DMC. Integrating RMs in the RDs rationalized their line of reporting on all operations matters. These factors were meant to facilitate improved country focus and faster response to DMCs' requests.

In addition, RSDD was established as the Bank's sector and thematic center of knowledge. Its mandate was to enhance the quality of operations including ensuring consistency with sector policies, promoting technical excellence, and strengthening sector and thematic work. Compliance functions were separated from operations by creating an Environment and Social Safeguard Division and the position of chief compliance officer in RSDD.

RSDD was also given responsibility for supporting ADB's regional development functions. Nine sector and 10 thematic committees were established for consolidating, monitoring, and reporting on the knowledge products and services program for sector and thematic areas, as well as for providing peer review of various products and services. A knowledge management committee was created to coordinate and oversee ADB's program on generating and delivering knowledge products. To improve ADB's public profile, the Office of External Relations was made responsible for both external and internal communications.<sup>18</sup> The Economics and Development Resource Center (EDRC) was renamed Economics and Research Department (ERD), reporting directly to the President.

A review of implementation progress was undertaken in 2003.<sup>19</sup> Subsequently, a number of organizational refinements were undertaken, including the splitting of large infrastructure sector divisions in the South Asia Department and East and Central Asia Department to address the scope of control issues. Other organizational changes were made to address issues that were outside the scope of the 2002 reorganization paper. These included (i) a change in the reporting line of ADB's Operations Evaluation Department (OED) from Management to BOD through the Development Effectiveness Committee;<sup>20</sup> (ii) creation of the Office of the Special Project Facilitator (OSPF) and the Office of the Compliance Review Panel under the new accountability mechanism; (iii) establishment of a Results Management Unit in the Strategy and Policy Department to spearhead ADB's actions and initiatives to improve management for development results; (iv) restructuring of the Treasury Department following current best practice regarding asset liability management at multilateral development banks (MDBs); (v) restructuring of the Office of

<sup>16</sup> ADB. 2001. *Reorganization of the Asian Development Bank*. Manila (R152-01).

<sup>17</sup> These were the East and Central Asia, Mekong, Pacific, South Asia, and Southeast Asia departments.

<sup>18</sup> The Office of External Relations was upgraded to a department, the Department of External Relations (DER), in 2005. Representative offices were transferred to DER from SPD, following the refocusing of functions of representative offices on external relations. In the same year, DER was realigned according to a framework of five key result areas, comprising five units (Publications, Web and Information Disclosure, Media Relations, Internal Communications, Public Affairs) and three representative offices (European Representative Office, Japanese Representative Office, and North American Representative Office).

<sup>19</sup> ADB. 2003. *Implementation of the Reorganization of the Asian Development Bank*. Manila (IN.138-03).

<sup>20</sup> The Operations Evaluation Department (OED) was previously called Post-Evaluation Office upon its creation in 1978. In 1999, the office was renamed the Operations Evaluation Office to reflect its broader mandate. The office was further upgraded and renamed as OED in March 2001.

Administrative Services (OAS); (vi) upgrading of the Anticorruption Unit to the Integrity Division within the Office of the Auditor General to further strengthen anticorruption functions; and (vii) establishment of the Office of Regional Economic Integration to replace the Regional Economic Monitoring Unit (REMU) to better support regional economic cooperation and integration.

An independent assessment of the effectiveness of the reorganization was carried out in 2004 by a panel of external experts. The panel concluded that the goals and guiding principles of the reorganization contributed to improved country focus and expanded regional cooperation. At the same time, the Panel indicated this might have been achieved at the expense of sectoral and technical excellence. The panel highlighted five dimensions: (i) an absolute shortage of technical staff in ADB; (ii) the loss of critical mass due to the

dispersion of technical staff in various units and RMs; (iii) a mismatch between work program and available staff in different regions; (iv) the absence of institutional mechanisms to realign resources to needs; and (v) the underutilized potential of national staff in RMs. In response, ADB realigned its RDs in 2006. The Mekong and Southeast Asia departments were merged into a single Southeast Asia Department to optimize economies of scale in the use of staff resources and enable better cooperation with ASEAN.<sup>21</sup> A new Central and West Asia Department was established to cover the Caucasus and Central Asia countries, together with Afghanistan and Pakistan.

Three new Board committees on compliance review, development effectiveness, and ethics were established to support BOD in its day to day functions, bringing the total number of Board committees to five by the end of the decade (Box 4).

#### Box 4: Committees in the ADB Board of Directors

- (i) **Audit Committee.** This committee was established in June 1977 to assist the Board of Directors (BOD) in the oversight of financial reporting and audits, including internal controls, at the Asian Development Bank (ADB).
- (ii) **Budget Review Committee (BRC).** The BRC was formalized in August 1984 after a similar ad hoc committee had operated for the previous 2 years. The committee aims to enhance the effectiveness of the BOD in discharging its responsibilities in connection with the approval of the annual administrative budget. Each November, the BRC reviews the annual administrative budget proposed by management for the coming year. Based on its review, the BRC formulates its independent report, making a recommendation to the BOD on the budget proposal. Subsequently, the full BOD meets to consider the budget for approval.
- (iii) **Board Compliance Review Committee (BCRC).** The BCRC was established in 2003 when the new Accountability Mechanism Policy of the ADB became effective. It restructured the former Board Inspection Committee, which was set up under the ADB Inspection Function in 1995. The BCRC has an oversight function over the Compliance Review Panel.
- (iv) **Development Effectiveness Committee.** The Development Effectiveness Committee was established in December 2000. Its general mandate is to assist the BOD in ensuring that ADB's programs and activities are achieving desired development objectives and ADB resources are used efficiently. The committee focuses its attention on ADB's operations evaluation programs and results. In 2004, the Operations Evaluation Department began reporting directly to BOD through the Development Effectiveness Committee.
- (v) **Ethics Committee.** The Ethics Committee was established to address matters relating to the application of the Code of Conduct adopted in September 2006. The committee is responsible for advising Board members and the President when they request guidance on actual or potential conflicts of interest or other ethical issues. It also considers any allegations of misconduct against Board members and the President related to the performance of their duties, and recommends appropriate action to the Board.

Source: Asian Development Bank.

<sup>21</sup> The Mekong Department was responsible for delivering assistance to Cambodia, the Lao PDR, Thailand, and Viet Nam. The Southeast Asia Department (prior to its merger with the Mekong Department in 2006) provided assistance to Indonesia and the Philippines.





## III. THE ASIAN FINANCIAL CRISIS AND ADB'S RESPONSE

- In the midst of the Asian financial crisis, ADB participated in emergency packages, in coordination with other multilateral and bilateral institutions in the three hardest-hit economies of Indonesia, the Republic of Korea, and Thailand. ADB lending reached \$7.8 billion in 1997–1998 in response to the crisis.
- In addition to funding support, ADB provided technical assistance to build capacity for policy analysis and regional economic surveillance.

### A. Origins of the Crisis

The Asian financial crisis began with the collapse of the Thai baht on 2 July 1997, following the abandonment of the country's pegged exchange rate system. Within weeks, what had been a local currency crisis spread to Indonesia, the Republic of Korea, Malaysia, and the Philippines. These economies recorded a net foreign capital outflow of \$12 billion in 1997, compared with a net inflow of \$93 billion in 1996. The value of their currencies plummeted while interest rates skyrocketed. High, unhedged debt-to-equity ratios began to imperil company finances and those of financial institutions that had lent to them. As the crisis deepened and broadened, these economies were plunged into deep recession. There was a marked contraction in gross domestic product (GDP) and employment, with significant social consequences. This debilitated

governments in affected economies, leading to panic among investors and concerns among multilateral financial institutions (MFIs).

### B. ADB's Crisis Response

As the crisis deepened and broadened, MFIs responded rapidly. ADB participated actively in these efforts, quickly mobilizing additional resources and demonstrating considerable flexibility as it participated in emergency packages led by the International Monetary Fund (IMF). In response to the crisis, ADB resumed its lending to the Republic of Korea, and substantially increased lending volume in Indonesia and Thailand. In total, at least \$7.8 billion in lending support (excluding equity, grants, and TA) was approved for these three countries. Of this amount, a total of \$5.4 billion

was disbursed under various program loan tranches between December 1997 and January 1999. Program loans were front loaded to ensure that liquidity and balance of payments support was readily available when most needed to avoid further deterioration of economic conditions. ADB followed a multipronged approach to (i) support needed policy reforms, particularly in the

financial sector; (ii) cushion the social impacts from the economic fallout; and (iii) provide TA to implement reform packages. However, the different dimensions of the crisis called for a specialized focus in each country as evidenced by the customized responses that were pursued in Indonesia, the Republic of Korea, and Thailand, where the Bank was most active.

**Table 2: Main Crisis-Related Support Loans and Technical Assistance, 1997–1999**

	Loan	Amount (\$ million)
<b>Thailand</b>		
19 December 1997	Financial Markets Reform Program	
	Program Loan	300.0
	Technical Assistant Grants	2.0
12 March 1998	Social Sector Program	
	Program Loan	500.0
	Technical Assistance Grants	2.1
25 March 1998	Export Financing Facility	
	Loan to Export-Import Bank of Thailand	50.0
	Partial Credit Guarantee	950.0
23 September 1999	Agriculture Sector Program	
	Program Loan	300.0
	Technical Assistance Grants	1.7
<b>Republic of Korea</b>		
19 December 1997	Financial Sector Program	
	Program Loan	4,000.0
	Technical Assistance Loan	15.0
<b>Indonesia</b>		
25 June 1998	Financial Governance Reforms Sector Development Program	
	Program Loan	1,400.0
	Development Finance Institution Loan	47.0
	Equity Investment	3.0
	Technical Assistance Loan	50.0
9 July 1998	Social Protection Sector Development Program	
	Program Loan	100.0
	Project Loan	200.0
	Technical Assistance Grants	2.90
	Supplementary TA Grant	3.00
23 March 1999	Power Sector Restructuring Program	
	Program Loan	380.0
	Technical Assistance Loan	20.0
25 March 1999	Health and Nutrition Sector Development Program	
	Program Loan	100.0
	Project Loan	200.0
	Technical Assistance Grant	2.0
	Supplementary TA Grant	1.0
25 March 1999	Community and Local Government Support Sector Development Program	
	Program Loan	200.0
	Project Loan	120.0
	Technical Assistance Grant	2.5

Notes: The date pertains to date of ADB Board approval. Amounts noted are the funds provided by ADB. In some cases, additional cofinancing was provided by other institutions, particularly for technical assistance grants.

Source: Asian Development Bank.

## 1. Thailand

**Prelude to the Crisis.** Between 1985 to 1995, Thailand had enjoyed robust GDP growth rates of 8%–9%, fueled by exports, foreign investment, and expansion of the service sector. In July 1997, the Thai baht was hit by massive speculative attacks. This led to a rapid withdrawal of substantial amounts of short-term liabilities, creating balance of payment difficulties that eventually forced Thailand to float its currency. Despite efforts to stem the crisis, it quickly engulfed the financial sector, where a tight monetary policy to defend the baht created a lending bubble and pushed many finance companies and banks toward insolvency. What followed was a deep economic recession.

**International Rescue Package.** At the early stage of the crisis, the Thai government committed itself to a far-reaching stabilization reform program, while seeking significant external assistance. At the Tokyo Pledging Meeting in August 1997, a total support package of \$17.2 billion was committed, consisting of an IMF standby arrangement and assistance from other multilateral and bilateral

sources. The rescue package under the IMF program was conditional upon temporary tightening of monetary policy to stem exchange rate depreciation; and structural reforms to remove impediments to growth (including monopolies, trade barriers, and nontransparent corporate practices). Several MFIs took on different policy support areas of the rescue program. The IMF handled macroeconomic policy and bank restructuring; the World Bank prepared the resolution framework for finance companies and corporate debt restructuring; and ADB focused on capital market reforms and the social sector.

**ADB's Crisis Support to Thailand.** After the Tokyo pledging session, ADB's immediate response was to increase the loan amount for its Rural Enterprise Credit Program, reflecting its concern about the likely impact of the crisis. However, as the loan had been conceptualized before the crisis, its design did not reflect crisis factors. Three core crisis-related loans for financial market reform, social sector support, and export financing were approved between December 1997 and April 1998 (Box 5).

### Box 5: ADB's Crisis Response in Thailand

#### Financial Market Reform Program Loan

This \$300 million loan was approved on 19 December 1997 as part of the economic and financial recovery program coordinated by the International Monetary Fund. The loan aimed to strengthen market regulation and supervision; improve risk management; facilitate the access of investors and issuers to the domestic financial market; and develop institutional sources of funds by promoting pension systems and provident funds. The program loan was to be implemented over 2 years, with loan disbursement to be made in a single tranche upfront. The loan was supported by a \$2 million package of technical assistance (TA) supporting pension and provident funds reforms (TA 2955); information disclosure and compliance (TA 2956); and asset securitization (TA 2957).

#### Social Sector Program Loan

This loan for \$500 million was approved in March 1998 to mitigate the short-term adverse impact of the crisis on society, particularly on the most vulnerable groups and the unemployed; help initiate structural reforms to enhance the competitiveness of the Thai economy through the development of human resources; and reduce inefficiencies in the provision of social services. The loan was to be released in two tranches supporting social sector policy reforms, while the local currency proceeds of the loans (counterpart funds) were to support social sector spending of the government. The first tranche of \$300 million was released soon after loan approval in March 1998, while the remaining \$200 million was disbursed in October 1999. The loan was supported by three associated TAs amounting to \$2.1 million: (i) TA 2995 on capacity building for social activities sector reform; (ii) TA 2996 on education management and financing study; and (iii) TA 2997 on health management and financing study. Among the key features of the loan was its broad coverage on both short- and medium-term measures, as well as government's attention to the effective use of counterpart funds of the loan.

*continued.*

Box 5. continued.

### Export Financing Facility

In March 1998, ADB approved the Export Financing Facility, which included a loan of \$50 million to the Export-Import Bank (EXIM) Bank of Thailand guaranteed by the Thai government; and a partial \$950 million credit guarantee of the syndicated loan to EXIM, counterguaranteed by the Thai government. The signing of the facility, one of the largest syndicated loans to an Asian borrower, signaled Thailand's return to the international capital market. The "signaling" effect of the facility was a key agenda of ADB's assistance. Other objectives of the project were to provide credit to the private enterprise export sector to fill a portion of the resource gap; and assist the government and the banking system to allocate appropriate resources to this sector. Slow utilization, however, was an issue. It took 3 months for the ADB portion to become effective after loan signing, and legal issues further delayed by 2-1/2 months the availability of cofinance portions. By the time the legal issues were resolved, the subloan terms under the Export Financing Facility had become unattractive, reflecting the downward trend in domestic interest rates. With little prospect of further utilization after the drawdown of \$200 million, EXIM decided it would not request an extension of the facility in March 1999.

Source: ADB. 2000. *Special Evaluation Study: Interim Assessment of ADB's Lending to Thailand during the Economic Crisis*. Manila.

## 2. Republic of Korea

**Prelude to the Crisis.** Since 1960, the Republic of Korea had achieved outstanding export growth, fueled by high domestic savings and facilitated by sound fiscal and monetary policies. By 1996, its economy was the world's 11th largest, and it had been admitted as a member of the Organisation for Economic Co-operation and Development. Because of its exceptional economic performance, the Republic of Korea had not borrowed from ADB since 1988. With the liberalization and opening up of its financial markets to foreign investors in the period leading up to the crisis, many Korean industrial conglomerates had grown rapidly on borrowed capital and were highly leveraged. Interlocking relationships between the corporate and financial sectors, coupled with the accommodative role of the government meant that financial institutions were not compelled to operate within prudent market-driven norms. Some of these conglomerates had limited experience with pricing and in managing commercial credit risk. In early 1997, several smaller conglomerates had declared bankruptcy. Contrary to expectations, they were not bailed out by the government. Subsequently, confidence in the resilience of the Korean financial sector eroded rapidly, leading foreign creditors to

refuse to roll over short-term loans made directly and indirectly to the conglomerates. With the financial sector facing sudden demands for the repayment of foreign exchange-denominated claims from creditors, government intervened to prevent a drain on currency reserves and the implosion of the sector.

**International Rescue Package.** In November 1997, the government approached the IMF for emergency assistance to avoid economic collapse. Following difficult negotiations, IMF agreed to extend \$21 billion under a 3-year standby arrangement. In support of the crisis response effort, the World Bank and ADB pledged \$10 billion and \$4 billion, respectively.<sup>22</sup> Each MFI took on different responsibilities. IMF addressed monetary and exchange rate policy, financial sector restructuring, trade liberalization, capital account liberalization, corporate governance, and labor market reforms. The World Bank addressed banking sector restructuring, corporate governance, measures to promote competition and transparency, reforms to promote labor market flexibility, and social safety net concerns. ADB covered the entire financial sector and was the only MFI addressing the nonbank financial sector and capital market reforms.

<sup>22</sup> These agreements were to be supplemented by a second line of defense equal to \$23.4 billion in bilateral credits, which was never used.



### ADB's Crisis Support to the Republic of Korea.

ADB, like the rest of the international community, was caught unaware by the scale of the crisis and was unprepared to provide emergency programs as it did not have in place a program loan modality for crisis lending at the time. However, it provided on 19 December 1997, the Financial Sector Program Loan linked to the need for structural adjustments in the financial sector. The program was unique in that it was ADB's largest loan (\$4 billion financed from ADB's ordinary capital resources or OCR). It was also processed in record time (approval of the loan took place 9 days after the end of ADB's fact-finding

mission), given the urgency of the crisis. Its design was not framed by a country strategy, since the Republic of Korea had not borrowed from ADB for almost a decade. The program framework of the loan originated from a Korean Presidential Commission that recommended introducing market forces to the financial sector. The loan broadened the government's framework and deepened reforms in several areas, particularly on the nonbank sector. A related TA loan for the institutional strengthening of the financial sector, financed by a \$15 million from OCR, was also approved to strengthen regulatory and other financial sector institutions (Box 6).<sup>23</sup>

#### Box 6: ADB's Crisis Response in the Republic of Korea

The Asian Development Bank (ADB) provided a \$4-billion loan from its ordinary capital resources for the Financial Sector Program Loan for the Republic of Korea in 1997 to support the government in making its financial system more competitive, and to address policy and structural weaknesses. The tranche releases under the loan were associated with policy reforms to increase reliance on market forces and strengthen oversight of the financial sector on commercial banks, nonbank financial institutions, and financial markets. The loan also addressed corporate accounting and disclosure standards, but the associated conditions were more modest in scope.

A complementary technical assistance (TA) loan on Institutional Strengthening of the Financial Sector project was provided to strengthen several key players involved in the crisis recovery. ADB supported a newly established unified market regulator through the establishment of (i) a basic institutional framework and policies regarding the entry and exit of financial institutions, (ii) operational regulations and procedures, and (iii) supervisory measures and practices. ADB also supported the public sector institution tasked with disposing of nonperforming loans acquired from restructured financial institutions with the development of a financial plan and operational strategy. The TA helped upgrade credit information and credit rating systems; and supported a review of institutional and other impediments to the development of a market for mortgage-backed securities. ADB provided \$15 million through a TA loan.

Both interventions were rated successful by ADB's Operations Evaluation Department. The following lessons were highlighted:

- (i) Speed, client ownership, and the ability to leverage windows of opportunity to introduce politically contentious reforms are essential when responding to crisis situations.
- (ii) Financial sector reforms are often crucially dependent on reforms in the real sector, such as in the corporate sector.
- (iii) In the face of financial market instability, temporary credit support may be needed to prevent viable enterprises from failing. However, such programs must eventually be eliminated, once the markets have stabilized, to prevent moral hazard.
- (iv) The urgent nature of crisis lending may not address all weaknesses in a country's financial sector. Once a crisis has passed, attention must be given to further institutional strengthening to prevent future market failures.
- (v) The complexity of large crisis situations is best addressed through effective coordination among MFIs to ensure that programs are consistent, comprehensive, and do not overlap. Responsibilities should be allocated on the basis of core competencies.
- (vi) Crisis lending to address financial sector instability should not ignore the human cost associated with displaced workers, particularly those from vulnerable groups. The adequacy of social safety nets must be considered when responding to large-scale external economic shocks.

Source: ADB. 2005. *Project Performance Evaluation Report: KOR: Financial Sector Program and Institutional Strengthening of the Finance Sector Project*. Manila.

<sup>23</sup> ADB. 2003. *Project Completion Report: Institutional Strengthening of the Financial Sector Project (Republic of Korea)*. Manila (Loan 1602, IN- 209-03).

### 3. Indonesia

**Prelude to the Crisis.** The crisis hit Indonesia hard and exposed some of the country's structural weaknesses, especially in the financial sector. Political unrest arising from uncertainties in the upcoming presidential election led to social tensions, which fuelled the crisis. Investors lost confidence in the economy and the country's ability to meet payment obligations. The rupiah devalued and became highly volatile. The stock market fell sharply as interest rates and consumer prices rose steeply. The banking system collapsed and the number of unemployed and poor people rose sharply. To stabilize the currency, the government intervened in the foreign exchange market (eventually floating the currency) and tightened money supply by raising interest rates. When these measures failed, the government turned to the IMF, World Bank, and ADB for help.

**International Response.** In response, the IMF approved a \$10 billion loan under its standby arrangement in November 1997 to support the government's Crisis Management and Resolution Program. The program was aimed at stabilizing the economy (by reducing exchange rate volatility) and implementing urgently needed reforms in the financial and real sectors. The main objectives of MFIs' assistance in support of the program were to (i) augment the government's resources by quick provision of funds, (ii) improve governance of the financial sector, and (iii) support important crisis-related structural reforms. Pursuing these objectives was critical to restoring investor confidence. The IMF initially estimated that the

implementation of the program would require external financing of \$18 billion in balance of payment support (most of it within 1998) and invited cofinancing from ADB and the World Bank in the amounts of \$3.5 billion and \$4.5 billion, respectively, to supplement its own \$10 billion loan under the standby arrangement.

**ADB's Crisis Response.** In all, ADB approved five crisis support loans to Indonesia totaling \$2.8 billion between June 1998 and March 1999. As the gravity of the crisis-related poverty and social costs surfaced, ADB began to design loans to support social protection for the poor. ADB's nonlending support was equally important and substantial. The institution reoriented its operational strategy for Indonesia to respond rapidly to the changed priorities under the crisis. An interim operational strategy was adopted in early 1998. A substantial policy advisory TA support totaling \$11.4 million was provided in 1998–1999 for managing the economic and social transition triggered by the crisis. Additional staff resources were committed through frequent staff visits and prolonged stay, and an Extended Mission to Indonesia was established. ADB undertook a comprehensive review and restructuring of its portfolio, taking into account the reduced availability of counterpart funds and the changed priorities after the crisis. This resulted in the cancellation of loans amounting to about \$900 million in 1998 and about \$660 million in 1999–2000 to reduce Indonesia's debt burden and provide headroom for crisis-related assistance. Mechanisms to accelerate disbursements were also introduced (Box 7).

## Box 7: ADB's Crisis Support Loans to Indonesia

### Financial Governance Reforms Sector Development Program

The Financial Governance Reforms Sector Development Program consisted of a quick-disbursing policy loan of \$1.4 billion, an investment component and a technical assistance (TA) loan of \$50 million each. Its objective was to improve financial sector governance through adopting best governance practices, increasing transparency, strengthening the legal and regulatory framework, and improving public financial management. Its scope centered on banking, which was of crucial importance in the financial sector, having significantly contributed to the crisis. The aim of the program was to build a credible information base to determine the true position and asset quality of commercial banks, demonstrate the government's commitment to transparency, and provide the basis for restructuring the banks. It also prioritized strengthening the supervisory capacity of Bank Indonesia, which was a prerequisite for implementing financial sector reform. In the public financial management area, the program aimed to review the anticorruption law and help implement an anticorruption strategy, enhance transparency and accountability of public sector operations, and build capacity in key institutions closely involved in public financial management. ADB also used the program as a vehicle to pursue capital market reforms, improving governance of stock exchanges, enhancing investor protection, introducing prudential practices in insurance and securities firms, capacity building, and establishing a secondary mortgage facility to promote housing finance and a bond market.

### Social Protection Sector Development Program

The Social Protection Sector Development Program was composed of a quick-disbursing policy loan of \$100 million, a project or investment loan of \$200 million, and three TA grants totaling \$5.9 million. The program directly addressed a major concern caused by the crisis—the rapid rise in the incidence of poverty, which was threatening to reverse past gains in poverty reduction and risking the eruption of a social crisis. The program sought to ensure continued access of vulnerable groups to essential social services, especially education and health, besides initiating sustainable policy reforms related to the provision of key social services for the poor. The investment component provided student scholarships to maintain school enrollment; block grants to schools and health centers to maintain adequate levels of service; support for street children to access education and nutrition; and maternal health care, family planning services to poor women, and nutritional supplements to children and pregnant mothers. The policy loan supported the initiation of nationwide sustainable policy reforms to ensure inclusion of the poor in key social services, and enhanced decentralized management to improve the efficiency of social services delivery systems.

### Health and Nutrition Sector Development Program

The Health and Nutrition Sector Development Program essentially replicated the objectives and the scope of the Social Protection Sector Development Program, except that it excluded education sector services, which had by then been taken up by the World Bank and other funding agencies. The need for the program arose from the concern that, with the other agencies focusing on education, health sector services for the poor were at risk of remaining underfunded. The program adopted the Sector Development Program modality and included a policy loan of \$100 million; an investment loan of \$200 million for provision of essential services in health, nutrition, family planning, and communicable disease control; and TA grants totaling \$3 million. While the design largely remained identical to the health component of the social protection program, it had wider geographic coverage.

### Community and Local Government Support Sector Development Program

The Community and Local Government Support Sector Development Program supported two important objectives: supporting the government's ongoing decentralization program; and reducing poverty by improving access of the poor to basic infrastructure services, while creating employment opportunities for them. Supporting decentralization was not directly relevant to managing or resolving the financial crisis, but was considered useful to contain the larger social and political crisis. The program was composed of a policy loan of \$200 million, an investment loan of \$120 million, and TA grants of \$2.5 million. The policy loan was aimed at enhancing the administrative and fiscal autonomy of district-level governments by supporting the preparation of the relevant regulations, operating guidelines, and administrative instructions. The investment component was designed to build capacity at district and village levels for undertaking labor-intensive public works and for providing employment opportunities for the poor. The TA grants aimed to promote decentralization through district-level capacity building in decentralized administrative, financial, and budgetary systems, and district- and community-level participatory planning, monitoring, and evaluation of public works.

Box 7. continued.

### Power Sector Restructuring Program

The Power Sector Restructuring Program consisted of a program loan of \$380 million and a TA loan of \$20 million. Its objective was to restructure the power sector and establish a competitive market for electricity, along with the introduction of other sector reforms. These improvements were expected to promote development of a sound and efficient power sector by attracting private sector investments. The crisis had worsened the national power monopoly's already strained financial condition, and thus increased the impetus for initiating long overdue power sector reforms. ADB's precrisis policy dialogue with the government and other funding agencies on power sector reforms had resulted in a broad understanding on the need for reform but not any specific strategies or plans for restructuring; neither were any assistance proposals for this purpose included in the country assistance plan for 1997–1999. ADB saw the crisis as an opportunity to kick-start the reform process in return for quick disbursing assistance. Notwithstanding this, the expected benefits of the Power Sector Restructuring Program were unlikely to have a major impact on managing or resolving the crisis because any realization of such benefits could be expected only over the long term, well past the timeframe of the crisis. As such, although responsive to the need for long overdue power sector restructuring, the program was not directly relevant to crisis management or to ameliorating the related social costs.

Source: ADB. 2001. *Special Evaluation Study: ADB's Crisis Management Interventions in Indonesia*. Manila.

## C. Policy Research and Economic Surveillance

In addition to country-specific funding and TA support, ADB hosted several seminars and conducted research to build capacity for policy analysis and economic surveillance more broadly. Work related to the AFC featured strongly in the work of the Economics and Development Resource Center (EDRC). This included a major in-depth study of financial markets in selected DMCs in 1998. Other financial sector-related studies focused on mortgage-backed securities markets, a review of deposit insurance schemes, social impact of the financial crisis, and corporate governance and financing. To discuss emerging issues and exchange views on the crisis, EDRC organized a number of seminars and workshops, including the Asian Development Forum for East Asia; a Senior Policy Seminar on *Managing Global Financial Integration in Asia* (held in collaboration with the World Bank); *Financial Sector Liberalization in Asia* (jointly with IMF, the World Bank, and United Nations Economic and Social Commission for Asia and the Pacific); meetings of the heads of national statistics offices of the countries in crisis; and an inception workshop on the study, *Social Impacts of the Financial Crisis*. Three major studies were undertaken in 1999 to look into the

governance and structural weaknesses of the Asian economies and the social ramifications of the crisis. Research findings were widely disseminated through workshops and conferences held in ADB headquarters and the ADB Institute (ADBI) in Tokyo. A regional study was initiated to strengthen DMC financial management and governance. Another study focused on the postcrisis international competitiveness of Asian economies.

### 1. Asian Development Bank Institute

The Asian Development Bank Institute was officially inaugurated in Tokyo on 10 December 1997 with the Symposium on the Currency Crisis and Beyond. Later in his speech during the 1988 Annual Meeting, President Sato emphasized ADBI's role "...to increase capacity of the Bank to analyze important long-term development issues in their broader context, to study alternative development paradigm, and to disseminate best development practices for DMCs." In 1998, ADBI organized a high-level roundtable series on the AFC in Manila, San Francisco, Singapore, and Tokyo. Seminars on lessons learned were also held, based on materials developed by ADBI's research roundtable workshops. In 1999, ADBI held several seminar series to publicize research findings, including a seminar on *Capital Account*

*Crisis and Family-Based Corporate Governance*. It also organized an event for central bankers and senior regulators from crisis-hit economies to meet for the first time with their counterparts from Japan, the United Kingdom, and the United States to review recent experiences of changing banking regulations and measures to prevent future crisis. High-level roundtable discussions involving officials from the Bank for International Settlements centered on whether banking regulations could be used to prevent systemic financial failures. A major international conference on exchange rate regimes for emerging economies was held. ADBI sponsored a new policy forum for ongoing dialogue with Asian intellectual leaders and representatives of influential policy-oriented research institutes.

## 2. Regional Economic Monitoring Unit

In response to the AFC and its impact on DMCs, ADB also established the Regional Economic Monitoring Unit (REMU) in 1999. REMU had three major activities: (i) supporting the Association of Southeast Asian Nations (ASEAN); (ii) providing inputs on the financial crisis to various meetings and discussions; and (iii) operating the Asia Recovery Center (ARIC). The ARIC website was one of ADB's initiatives to assist crisis-affected countries in sustaining economic and social recovery. The website functioned as a clearinghouse for information relating to recovery from the AFC. In 1999, REMU assisted ASEAN on three interrelated RETA activities to provide capacity building and training support to ASEAN finance ministry and central bank officials. REMU also prepared two ASEAN Economic Outlook reports and participated in three special studies (on *Banking Sector Safety and Efficiency*, *ASEAN and Global Economic Linkages*, and *Leading Indicators*). In 2000, REMU started production of the *ASEAN Economic Outlook*, *East Asian Economic Outlook*, and *Asia Recovery Report*. REMU also organized a workshop on monitoring private capital flows, which provided proposals for future collaboration on capital flows monitoring. Six officials from ASEAN ministries of finance and central banks were seconded to REMU in 2000 for training

in economic monitoring methods. REMU also assisted in establishing surveillance units in the ministries of finance of Indonesia, the Philippines, and Thailand.

## 3. New Instruments and Facilities

In 1999, ADB introduced the special program loan following the broader review of ADB's policy on program lending. The special program loan provided a window for ADB to deliver, on an exceptional basis, large-scale support as part of an international rescue package to crisis-affected countries eligible for OCR.

The Asian Currency Crisis Support Facility (ACCSF) was established in March 1999 as an independent component of the Japan Special Fund. The ACCSF was funded entirely by the Government of Japan as part of its financial assistance under the New Miyazawa Initiative for countries in the region most affected by the AFC. Beneficiary countries included Indonesia, Malaysia, the Philippines, and Thailand. The ACCSF modalities comprised interest payment assistance, TA grants, and guarantees. An interest payment assistance was approved for the Health and Nutrition Sector Development Program (for \$44 million) and the Community and Local Government Support Sector Development Program (for \$45 million) in Indonesia, to alleviate the adverse financial conditions faced by the country and effectively reduce the interest cost for funding critical social safety nets. ACCSF financing was also targeted at activities that support policy dialogue, human resource development, institutional strengthening, and other efforts focusing on bank and corporate debt restructuring; creating or developing sound financial monitoring, supervision, and regulation; enhancing public sector and corporate governance; developing social safety nets; and protecting the environment. In 1999, the ACCSF financed eight advisory TA projects as part of ADB's response to the financial crisis, including advisory services to implement social safety net programs and restructure public sector services in Indonesia and restructuring of financial institutions in Thailand. No ACCSF guarantee operations were concluded over the 3-year period. The ACCSF was terminated on 23 March 2002.



## D. Preliminary Lessons from the Crisis

President Sato during his address to the Board of Governors during the 31st Annual Meeting in April 1998 highlighted the following lessons from the crisis (Box 8).

### Box 8: The Asian Currency Turmoil—Some Preliminary Lessons

#### Lessons for the Asia and Pacific Region

- While keeping economic fundamentals is crucial, it does not suffice to achieve sustained economic growth. Financial policies matter critically, as does the appropriateness of exchange rate policies.
- Structural factors played a decisive role in Asia's troubles. The Asian crisis did not stem from overconsumption at home. Rather, it could be traced to unsustainable policy incentives, weak financial systems, and undisciplined corporate governance. Accordingly, it may not be sufficient to address the crisis by resorting to conventional prescription of monetary and fiscal austerity. A new challenge to all developing member countries (DMCs) is to develop a robust and well-functioning financial sector.
- While the potential benefits from an open capital account are large, greater care has to be given to institutional capacity and to the sequencing of reforms. The challenge ahead is to develop adequate financial capacity for financial regulation and risk management.
- Current events highlight the importance of regional surveillance in preventing such a crisis from recurring. The crisis has also taught the Asian Development Bank the importance of coordination among international financial institutions. Coordination is essential not just to avoid wasteful duplication of efforts but also to ensure the effectiveness of overall assistance from the international community.

#### Lessons for ADB

- The crisis has underscored the critical importance of good policies in the development process. The Bank has long provided loans and technical assistance to its DMCs to support policy reforms and structural changes. The crisis calls for the expansion of such activities to meet the changing needs of the region. Increasingly, policy concerns related to the overall sustainability of the development process should be central to ADB's operations, including cross-cutting issues such as governance, social sector development, and environment protection.
- ADB assistance should also focus on building up institutional capacities in its DMCs, as quite often bad policies are related to poor institutional capacity. Here again the experience of the crisis attests to the importance of good governance.
- ADB needs to continue to emphasize its catalytic role in enhancing the developmental impact of its operations. Through private sector activities (including public–private partnerships), cofinancing, and the provision of partial credit guarantees, ADB can help DMCs mobilize additional resources and reenter international financial markets.
- ADB should continue to promote subregional cooperation. ADB has a definite comparative advantage vis-à-vis other multilateral and bilateral agencies in this area. It will not only enable the parties concerned to enjoy greater complementarity and economies of scale, but will also contribute to maintaining regional peace, which is in itself a worthy investment.

Source: ADB. 1998. *Address by President Sato delivered at the 31st Annual Meeting of the ADB Board of Governors*. Geneva, Switzerland. 29 April 1998. Manila.

# IV. DIRECTIONS AND OPERATIONAL AGENDA POSTCRISIS



- During the fourth decade, the development agenda widened, reflecting a broader understanding of development and a refocusing on poverty. There was a notable increase in multilateral development initiatives.
- Several important policies and strategies were approved and ADB's operational agenda broadened. The process of policy development and review also changed, following extensive consultation processes involving various stakeholders.
- At the corporate strategic level, concerns over goal congestion and project complexity worsened.
- Toward the end of the decade, ADB commissioned an Eminent Persons Group to review key trends and development challenges in the region, with a view to refining ADB's long-term goals.

## A. Global Development Agenda

During the fourth decade, the development agenda was centered on the Millennium Development Goals (MDGs), which were officially established following the Millennium Summit of the United Nations in 2000. The MDGs encapsulated eight globally agreed goals to be achieved by 2015 in the areas of poverty alleviation, education, gender equality and empowerment of women, child and maternal

health, environmental sustainability, reducing HIV/AIDS and communicable diseases, and building a global partnership for development.

The International Conference on Financing for Development held in Monterrey, Mexico, in March 2002 reaffirmed the global commitment to MDGs and highlighted the need for sound development financing and achieving measurable

results at national, regional, and global levels. The Monterrey Consensus was the outcome of the conference. New aid commitments were made. Countries also reached agreements on other issues, including debt relief, fighting corruption, and policy coherence.<sup>24</sup>

The 1992 Earth Summit during the third ADB decade led to the Kyoto Protocol in 1997 that was agreed during an international conference on global warming held in Kyoto, Japan.<sup>25</sup> It required all industrial countries to cut their greenhouse gases emission below 1990 levels by 2000. The United Nations World Summit on Sustainable Development (Johannesburg Summit held in September 2002) picked up on the global concern but looked farther ahead—to achieve sustainable development and environmental protection. As a result of the summit, governments agreed on a series of commitments in five priority areas (water and sanitation, energy, health services, biodiversity and ecosystems management) that were backed up by specific government announcements on various programs and by various financing partnership initiatives (more than 220 partnerships were identified during the summit and many more were announced after that).

The Rome Declaration on Harmonization (signed in February 2003) signaled the multilateral development banks' (MDBs) commitment to harmonize their operations. It established basic ground rules for donors and partner countries to work together to make development assistance more effective. ADB participated in the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee Working Party on Aid Effectiveness set up after Rome to monitor and evaluate progress toward a global partnership for development. The working party took overall responsibility for the preparation of the Second High-Level Forum on Aid Effectiveness in Paris in March 2005. The Forum was cosponsored by ADB and resulted in the Paris Declaration on Aid Effectiveness, a set of commitments from both donors and countries

covering country ownership, harmonization, alignment, Managing for Development Results (MfDR), and mutual accountability.

The Doha Trade Round began with a ministerial-level meeting in Doha, Qatar in 2001. Subsequent ministerial meetings took place in Cancun, Mexico (2003) and Hong Kong, China (2005). Its objective was to improve trade rules that benefit all countries, but especially poor people in developing and transition countries. In this context, fair and open markets were viewed as essential in fostering growth and reducing poverty.

The notable increase in multilateral development initiatives coincided with the emergence of strong antiglobalization movements. Those often originated in rich countries but advocated on behalf of developing countries. Several demonstrations occurred in political meetings of international leaders—such as the G7 meetings and Annual Spring Meetings of the IMF and World Bank. The debates brought to the fore development concerns of the poor in developing countries and a lack of action by rich countries. This took center stage in media as well as in political, economic, and academic circles.

## B. Changes in Development Thinking and Practice

The global development agenda reflected evolving trends in development thinking and practice. Several factors came into play to bring the change, including an increased recognition of the complementarity between states and market; the importance of institutions and governance; the need to understand country context and cross-disciplinary approaches for development; and a reaction to the new challenges posed by globalization (Box 9). In parallel, new aid mechanisms and approaches were introduced in search for better ways to deliver aid and influence development outcomes.

<sup>24</sup> Concerns about the costs of rising debt burdens led to the Jubilee 2000 movement for debt forgiveness and expansion of the heavily indebted poor country initiative.

<sup>25</sup> The United Nations Conference on Environment and Development held in June 1992 in Rio de Janeiro, Brazil, would eventually lead to the United Nations Framework Convention on Climate Change.



## Box 9: Factors Influencing Development Thinking and Practice in the Mid-1990s

### Complementarity of States and Markets

In most developing countries in the 1950s and the 1960s, the concept of state planning dominated. It emphasized pervasive market failures that required a highly interventionist state. By the 1980s, the neoliberal counterrevolution gained force and the mantra of “getting the prices right” gained prominence. In the 1990s, the development community largely moved beyond this conflict, with a gradual shift toward the realization that states and markets are in fact complementary, and that development demands effective and capable states to help markets function efficiently.

### Institutions and Governance

Directly linked to this was a recognition that institutions and governance were key determinants of sustained growth and poverty reduction. First, failure of structural adjustment programs to spark growth in many low-income countries in the 1980s led to a reassessment on the role of institutions and governance. Second, the end of the Cold War exposed failures in governance of proxy states. Third, the transitional economies of Eastern Europe and the former Soviet Union (in the mid-1990s) highlighted the importance of the institutional foundations for markets and good policy. Fourth, the Asian financial crisis in 1997–1998 showed that even where policies supported rapid growth and poverty reduction, weaknesses in institutions and governance could threaten the foundations for growth.

### Country Specificity

“One-size-fits-all” models were deemed inappropriate to ensure policy outcomes, as they failed to consider contextual nuances. For example, the Washington Consensus (early 1990s), prescribed a list of preconditions for growth based on many neoliberal principles, often taken as a recipe for development and applied uniformly across countries (through measures aimed largely at getting the government out of the economy).

### Global Interdependencies

Development policy and assistance in the 1990s had to adapt to deepening cross-border interdependencies—or “globalization”—and the new trends that emerged, including (i) lower costs of transporting goods across borders, which boosted trade flows; (ii) increased flow of information and technology around the world; and (iii) rapid movement of portfolio capital into (and out of) a larger number of emerging developing markets. While these changes offered new opportunities to developing countries and allowed them to become integrated into global production chains, they also brought new risks and vulnerabilities. Stronger links between economies meant that shocks in industrialized or rapidly growing countries could be transmitted to smaller countries less equipped to cope with them. Globalization also brought negative externalities, including various environment and security issues. The new development paradigm had to manage these global interdependencies, including expanding the agenda for multilateral action toward stronger regional cooperation and integration.

Source: J. D. Wolfensohn and F. Bourguignon. 2004. *Development and Poverty Reduction—Looking Back, Looking Ahead*. Paper prepared for the 2004 Annual Meeting of the World Bank Group and IMF, Washington, DC, October 2004.

At the same time, there were greater efforts being made to understand poverty from the perspective of the poor themselves. The World Bank embarked on a massive undertaking called the *Voices of the Poor* to interview some 60,000 poor people worldwide. The interviews showed that in addition to consumption and income, poor people valued access to opportunities, a secure social environment, freedom from violence, a voice in decision making, and power to hold others accountable. The World Bank’s *World Development Report 2000/2001* articulated the multifaceted

dimensions of poverty, a concept underlying the development of the MDGs.

The new thinking on development, and the broader understanding of poverty, was accompanied by a shift on how aid was delivered to countries. For instance, in early 1999, the World Bank introduced the Comprehensive Development Framework to guide how it would conduct its business with recipient countries and other development partners. The framework promoted four principles: (i) development efforts should be rooted in a long-

term, holistic vision of a country's needs, not just macroeconomic but also social and structural considerations; (ii) aid should focus on results rather than just inputs; (iii) it should be based on country-owned strategies; and (iv) development actors should foster partnerships to support the country-owned strategy. These principles led to the poverty reduction strategy process adopted in 2001 by the boards of the World Bank and IMF. The process became the basic springboard for expanded debt relief and concessional funding for all low-income countries.

### C. ADB's Poverty Reduction Strategy

Following global trends and development practice in the donor community, ADB undertook a fundamental strategic reorientation in November 1999 with the adoption of poverty reduction as its overarching goal under the Poverty Reduction Strategy (PRS).<sup>26</sup> The AFC acted as a catalyst for this shift in emphasis. Although Asia's recovery in 1999 was stronger and quicker than most observers had expected, the social costs of the crisis continued to mount with millions of people in the region slipping back into poverty. There were growing concerns that the social fallout arising from the crisis, particularly in several countries of East Asia and Southeast Asia, were going to be felt long after economies return to solid growth. Even in countries not directly hit by the crisis, poverty remained a huge development challenge. The majority of the region's poor lived in South Asia (most notably India) and in the PRC. Many people in the Central Asian republics slipped into poverty during their countries' transition to market economies. The small islands of the Pacific continued to experience deteriorating economic conditions and increased vulnerability due to conflict, natural disasters, and external economic shocks.

In line with the MDGs, ADB's PRS took a broad view of poverty including both income and nonincome dimensions such as health, education, nutrition, water, and sanitation. The PRS provided a strategic framework to reduce poverty, focusing ADB activities on three main strategic "pillars": (i) pro-poor sustainable economic growth to promote policies and programs that facilitate employment and income generation for the poor; (ii) social development to provide greater opportunities for the poor to improve their living standards through targeted interventions, which included human capital development (education and health) and programs that directly addressed poverty (social protection); and (iii) good governance to facilitate participatory, pro-poor policies and sound macroeconomic management.

Recognizing the differences in the causes, nature, and severity of poverty across the region, the PRS recommended a country-specific approach to poverty reduction. Detailed poverty analyses were to be undertaken in each country. The findings would then be discussed during a government-led, high-level forum with civil society, the private sector, ADB, and other development partners. This would help achieve a common understanding of the poverty reduction targets and strategic priorities for achieving them, and would form the basis for developing a national poverty reduction strategy. ADB and the government would then form a poverty partnership agreement, setting out a long-term vision and agreed targets for poverty reduction over a 5–10-year horizon. Finally, country strategies and programs would be developed based on country-specific analyses of the poverty situation (including assessments of environment, gender, governance and private sector development). In parallel, a new Bankwide lending target was set to ensure that at least 40% of ADB's public sector lending was directed to poverty interventions.<sup>27</sup> In addition,

<sup>26</sup> ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila (R179-99). Under ADB's first Medium-Term Strategic Framework, 1992–1995, "poverty reduction" was identified as one of the five strategic development objectives. The shift through the PRS, however, was in making poverty reduction ADB's overarching goal.

<sup>27</sup> Prior to that, ADB had committed to ensuring that at least 50% of its projects were devoted to goals other than pure economic growth. Poverty intervention projects were defined as those where the proportion of poor people among the project beneficiaries were higher than their proportion in the overall population of the country, and in no case less than 20%.

the PRS identified certain priority sectors for ADB interventions and urged ADB to promote four cross-cutting concerns in all its operations (i.e., environmental sustainability, gender equality, good governance, and private sector development).<sup>28</sup> The PRS identified a series of supportive institutional changes, including HR reforms, building poverty statistical databases, and establishing a poverty reduction unit to promote and monitor the strategy. It also recommended strengthening partnerships, mostly through cooperation in country poverty analyses and cofinancing.

Four years after the adoption of the PRS, a comprehensive review was undertaken. The review criticized the 40% target established in the PRS. First, the target conveyed the message that targeted projects were superior to nontargeted interventions, which could have indirect but potentially larger impact on poverty reduction. Second, the target stressed the importance of inputs rather than development results. Finally, the target narrowed the focus of the PRS to isolated interventions. In addition, greater emphasis on targeting often increased the complexity of projects and reduced their efficiency. The review led to the approval of an Enhanced Poverty Reduction Strategy (EPRS) in 2004.<sup>29</sup> The EPRS maintained the three main strategic pillars of the PRS (pro-poor sustainable economic growth, social development, and good governance) but added capacity development as a new thematic priority, recognizing that enhanced DMC capacity would be required for successful implementation of national poverty reduction strategies. The EPRS removed the Bankwide lending target and prescribed priority sectors, as those were perceived as inconsistent with the individual country focus. In parallel, ADB committed to improve the quality of individual country partnership strategies (including country assessments), with the introduction of enhanced quality assurance mechanisms. To allow ADB to better manage the

PRS implementation, a comprehensive framework for monitoring, evaluating, and reporting ADB's PRS-related efforts was established as an integral part of ADB's overall MfDR structure. A new sector and thematic classification system was introduced, with capacity development added as a new theme. The new system took effect on 1 July 2004.

## D. ADB's Long-Term Strategic Framework, 2001–2015

ADB's Long-Term Strategic Framework, 2001–2015 was prepared to move the poverty reduction agenda forward, based on an updated understanding of development challenges in the region in the new millennium.<sup>30</sup> The work built on the findings of the 1997 study *Emerging Asia: Changes and Challenges*<sup>31</sup> and the strategic directions provided by the PRS and ADB's private sector development strategy formulated in 2000.<sup>32</sup> The preparation of the LTSF was guided by extensive consultations with the Board of Directors, staff at all levels, borrowing and nonborrowing shareholders, development partners, and representatives from nongovernment organizations (NGOs) and civil society. Guidance was also provided by a senior external advisory panel of eminent persons from within and outside the region.

The LTSF retained the vision of “an Asia and Pacific free of poverty.” It defined the basic elements of a long-term strategy to reach this objective, focusing ADB's interventions in three core areas: sustainable economic growth, inclusive social development, and governance for effective policies and institutions. To broaden and deepen the impact of the core areas, three cross-cutting themes were identified: (i) promoting the role of the private sector in development, (ii) supporting regional cooperation and integration, and (iii) addressing environmental

<sup>28</sup> The priority sectors were agriculture and rural development; social sectors (education, health and population, social protection, and urban development); infrastructure (transport and communications and energy); and finance.

<sup>29</sup> ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila (R95-04).

<sup>30</sup> ADB. 2001. *Moving the Poverty Agenda Forward in Asia and the Pacific: The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila (Sec. M17-01).

<sup>31</sup> ADB. 1997. *Emerging Asia: Changes and Challenges*. Manila.

<sup>32</sup> ADB. 2000. *Private Sector Development Strategy*. Manila (R78-00).

sustainability. The LTSF specified four operating principles to ensure selectivity and focus of ADB's interventions at the country level, and to enhance the development impact and effectiveness of ADB's support to its DMCs: (i) ensuring country leadership and ownership of the development agenda, (ii) taking a long-term approach to development assistance, (iii) enhancing strategic alliances and partnerships, and (iv) measuring development impact. The LTSF covered 15 years and was to be implemented through a set of three medium-term strategies (MTS), each covering a 5-year period. Each MTS was to provide an opportunity for adjustments to the LTSF in response to changing circumstances and evolving organizational capabilities. Two MTS were subsequently developed and implemented.

## E. Medium-Term Strategies

The first MTS (MTS I), approved in September 2001, defined ADB's operational priorities over 2001–2005.<sup>33</sup> MTS I followed the LTSF in setting a country-based approach as the basis for allocating ADB resources and sector selection. It emphasized

(i) country strategy partnerships (CSPs) as the drivers of sector selectivity and TA needs, (ii) the need for economic and sector work to inform sector selection and ADB's rationale for support, (iii) support for policy reforms and capacity development as a core ADB product, and (iv) linking subregional cooperation efforts to CSPs. During the MTS I period, ADB's annual loan approvals and disbursements stagnated, prompting the institution to reexamine its relevance and responsiveness to DMCs' needs. A review of MTS I identified a number of important issues for which the implementation of MTS I remained incomplete. These included the need to become more selective, remain relevant to ordinary capital resources borrowers, mainstream results orientation, increase effectiveness of private sector development, be more proactive in regional cooperation and integration, improve country partnership strategies, and improve knowledge products and services and TA.<sup>34</sup>

MTS II was approved in May 2006.<sup>35</sup> It was supposed to cover 2006–2010, but with rapid and far-reaching changes happening in the region (Box 10), a review of ADB's first LTSF was deemed necessary. A two-track approach was adopted by

### Box 10: Emerging Trends and Challenges—The Rise of the People's Republic of China and India and Their Economic Significance for the Region

Many things are happening across Asia and the Pacific that have implications for the future of the region. The region, and indeed the world, is most fascinated by the emergence of the People's Republic of China (PRC) and India in the global economic scene. What is its significance for the Asia and Pacific region?

First, the rise of India and the PRC along with the Association of Southeast Asian Nations forms a tripolar developing Asia. Combined with more developed East Asian economies, this points to a real opportunity for countries in the region to move ahead with the pan-Asia economic integration. Second, the success of the PRC and India in jumpstarting their economies offers encouragement for others. The growing economic ties with the two large economies also present opportunities. The task of sustaining growth is equally, if not more challenging, than igniting growth. Hence, ensuring the inclusiveness of growth in developing Asia as a whole is important. Finally, the entry of India and the PRC also compels developing Asia to be innovative.

So the *three "I"s—integration, inclusiveness, and innovation*—together present significant challenges for policymakers in the region.

Source: ADB. 2005. *ADB Board and Management Retreat on Medium Term Strategy II: An Outline Discussion Note*. 6–7 October 2005. Manila.

<sup>33</sup> ADB. 2001. *Medium-Term Strategy, 2001–2005*. Manila (Sec. M101-01).

<sup>34</sup> ADB. 2005. *A Report on the Implementation of the Medium-Term Strategy, 2001–2005*, as referenced in ADB. 2006. *Medium-Term Strategy II, 2006–2008*. Manila.

<sup>35</sup> ADB. 2006. *Medium-Term Strategy II, 2006–2008*. Manila (Sec. M26-06).

President Kuroda. An independent panel of eminent persons was requested to undertake an assessment of the region's long-term development challenges and ADB's future role, setting the scene for the midterm review of LTSF. Simultaneously, MTS II was developed and implemented for a shorter timeframe (2006–2008), with some strategic measures already being introduced as the first steps of a more comprehensive longer-term recalibration of ADB's long-term strategy.

Five strategic priorities were identified in MTS II: (i) catalyzing investment, (ii) strengthening inclusiveness, (iii) promoting regional cooperation and integration, (iv) managing the environment, and (v) improving governance and containing corruption. MTS II emphasized support for weakly performing countries and fragile states and committed to develop a distinct and more flexible strategic approach for those countries, given

their very specific needs. MTS II also introduced adjustments to ADB's business model to make ADB more responsive, flexible, and efficient. MTS II identified core operational sectors where ADB would focus and build a critical mass of expertise.<sup>36</sup> Financing and TA resources, along with budgetary resources, were to be adjusted and ADB's organizational structure realigned. ADB would also build partnership and cofinancing. Finally, MTS II put greater emphasis on the institutional results agenda, specifically through project implementation and portfolio performance, application of quality-at-entry mechanisms and project readiness criteria, and a continuing development of results-based performance evaluation systems at all levels.

A special evaluation study would be conducted in 2007 to assess the achievements of the LTSF over 2011–2006 (Box 11).

### Box 11: Long-Term Strategic Framework—Lessons from Implementation

Overall, the Long-term Strategic Framework (LTSF) was found to be highly relevant, while the initial response of the Asian Development Bank (ADB) and the results achieved were rated as average. LTSF was seen as a pioneering attempt to provide a long-term vision of ADB to its stakeholders and beneficiaries. It emphasized ADB's commitment to help its developing member countries (DMCs) reduce poverty and improve living conditions and quality of life through sustained and equitable economic growth, social development, and good governance. This three-track approach was considered conceptually strong and empirically valid in many countries.

At the corporate strategic level, however, having an LTSF, Poverty Reduction Strategy, Enhanced Poverty Reduction Strategy, and two medium-term strategies at times seemed to have created confusion about ADB's strategic hierarchy and difficulty in operationalizing it. Concerns over goal congestion and project complexity worsened. The LTSF was very clear that its broad focus on the various areas and themes would require extra financial and human resources. The fact that these were not always forthcoming limited the influence of the LTSF on ADB operations. Overall, the lack of a results chain and monitoring indicators, a weak strategic link between corporate planning and budgeting, poor quality of operational data along with weak information management systems further weakened the effectiveness of the LTSF in influencing institutional behavior and achieving the overall LTSF vision.

Little evidence was found of a strategic shift toward all strategic areas and cross-cutting themes. Sustainable economic growth continued to be the principal area of ADB lending, with the lending share of physical infrastructure actually rising to over half of total loan value between 2001 and 2006. The response to inclusive social development was rated low. A number of policies were developed and staff resources were enhanced somewhat. But social development projects are typically complex, and there were gaps in DMC baseline information on social development issues. Consequently, the time and resources that had to be spent to develop such projects were substantial, and this lowered the numbers of projects. Further, such projects were not central to many country partnership strategies, as DMCs not eligible for Asian Development Fund borrowing were reluctant to borrow from ordinary capital resources for such projects.

Source: ADB. 2007. *Special Evaluation Study; The Long-Term Strategic Framework: Lessons from Implementation (2001–2006)*. Manila.

<sup>36</sup> These were road transport; energy; urban infrastructure (water supply, sanitation, waste management, and urban transport); rural infrastructure (roads, power, irrigation, and water management); education; and financial sector.





## V. OPERATIONAL OVERVIEW

- After reaching a peak in 1997 during the Asian financial crisis, ADB's lending levels stagnated at around \$5 billion–\$6 billion a year between 1998 and 2005.
- ADB activities diversified into a broader range of sectors and themes. New policies and strategies were developed to support operationalization of various cross-cutting priorities and new priorities.
- In parallel, ADB had to respond to specific events such as the severe acute respiratory syndrome and avian flu epidemics, the Asian tsunami in 2004, and the Pakistan earthquake in 2005. It also took a proactive role in postconflict reconstruction in Afghanistan, Sri Lanka, and Timor-Leste.

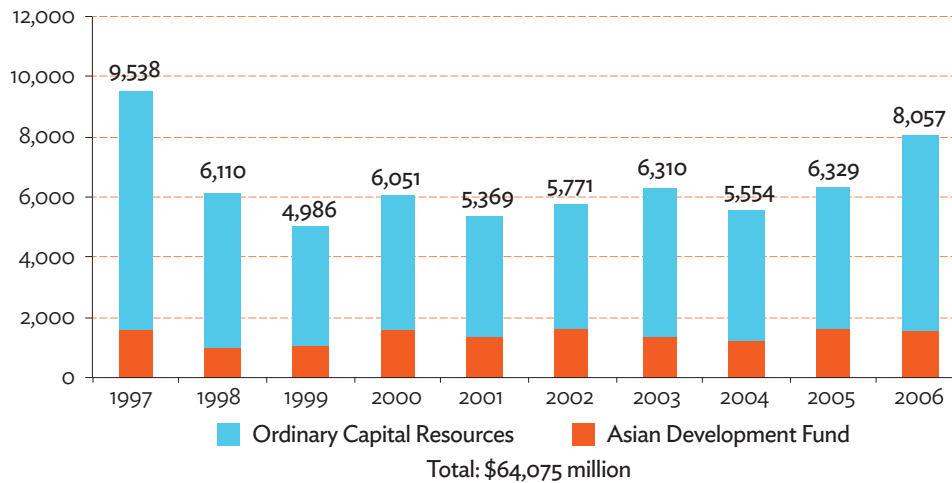
### A. Lending Overview

Lending operations reached \$64 billion over the decade (Figure 1), compared to \$43 billion over 1987–1996. ADF operations accounted for 22% of total lending (down from 30% in the previous decade). Lending peaked in 1997 in response to the AFC. Large financial sector loans to the Republic of Korea and Thailand, both financed from OCR, boosted

total lending for the year to \$9.5 billion, around \$4 billion more than in 1996. However, the effect of the crisis dissipated quickly, with lending levels stabilizing around \$5 billion–\$6 billion from 1998 to 2005. Lending picked up in 2006, with eight multitranches facilities approved totaling \$3.8 billion (compared with two for \$1.5 billion in 2005).



**Figure 1: Lending Operations by Fund Type, 1997–2006**  
(\$ million)



Note: Lending operations include loan, grant, equity investment, and guarantee approvals.  
Sources: ADB Operations Dashboard; ADB Strategy, Policy and Review Department.

The overall increase in lending volume was mostly driven by an increase in the average size of ADB loan projects rather than an increase in the number of projects. This trend was more pronounced for projects financed from OCR.<sup>37</sup> OCR sovereign loans increased by 59% in volume term (from \$28.8 billion over 1987–1996 to \$46 billion over 1997–2006), despite a slight decrease in the number of loans. There was a significant increase in the share of program lending (brought about by the AFC) that lasted even after the crisis, with a corresponding decline in the proportion of investment projects. New OCR approvals for nonsovereign operations more than

tripled (from \$1.2 billion to \$4 billion over the same period). Yet, they accounted for a relatively small share of the OCR portfolio (less than 10%). A review of OCR operations conducted in the mid-2000s highlighted the following trends in OCR public sector lending: (i) flat new approvals, (ii) concentration of new approvals in a few countries and sectors, (iii) delayed start-ups, (iv) slow disbursement, and (v) cancellation of a large portion of approved OCR loans. These broad trends caused concern that ADB’s traditional lending products (i.e., project loans) may no longer be meeting the needs of OCR clients effectively (Box 12).

### Box 12: Challenges to ADB—Evolving within a Dynamic Region

The Asian Development Bank (ADB) carried out a series of country consultations with key borrowers from ordinary capital resources (OCR) to examine the possible reasons behind the stagnating OCR public sector portfolio. OCR countries expressed a number of concerns. These were not unique to ADB, as the growing mismatch between client expectations and traditional operational approaches affected the nonconcessional operations of most multilateral development banks.

#### Increasing Costs of Doing Business

For the most part, concerns of developing member countries focused on the rising nonfinancial costs of doing business with ADB, mainly driven by the proliferation of policies and strategies, and their complex applications. ADB-financed projects often had numerous components leading to complex institutional arrangements, increased project costs, and, at times, serious implementation problems and delays. These were perceived as “hidden” costs of ADB financing.

*continued.*

<sup>37</sup> The average size of OCR sovereign loans increased from around \$105 million during the third decade to \$150 million during the fourth decade. In contrast, the average size of ADF loans decreased from \$38 million to \$31 million over the same period.

Box 12. continued.

#### Limited Choices of Modalities and Instruments

The range of instruments available was not fully responsive to clients' needs or to ADB's wider operations coverage and strategic commitment. Lending instruments (designed primarily for nationally executed infrastructure operations) were less relevant to infrastructure operations, which were increasingly decentralized. These instruments were also not fully responsive to the needs of other sectors, which might require greater flexibility and adaptability during implementation (e.g., agriculture and natural resources, social services, institutional and policy reform). Instruments intended for country operations were increasingly applied to regional projects.

#### Deteriorating Quality of Services

The staff's country and sector knowledge was perceived as eroding, leading to deterioration in the quality of ADB services. This was attributed to several factors. First, ADB's knowledge services were being hampered by the excessive use of consultants (along with inflexible guidelines for mobilizing high-caliber consultants and long lead times for fielding them). Most countries preferred ADB staff members to be more actively engaged as conduits of knowledge transfer. Second, frequent staff turnover destabilized country and project team assignments. The long-term engagement of a critical mass of ADB staff members, leading to solid country and sector knowledge, was perceived as essential for realistic design and pace of institutional, policy, and sector reforms. Third, the dispersal of staff across many operations and support departments limited ADB's ability to maintain a critical mass of expertise in key sectors. In addition, countries felt that attention across the operational cycle should be more balanced, with more attention paid to project implementation. There was strong demand for increased delegation of authority to the resident missions to address portfolio management issues.

Source: ADB. 2006. *Enhancing Asian Development Bank Support to Middle-Income Countries and Borrowers from Ordinary Capital Resources*. Manila (Sec. M64-06).

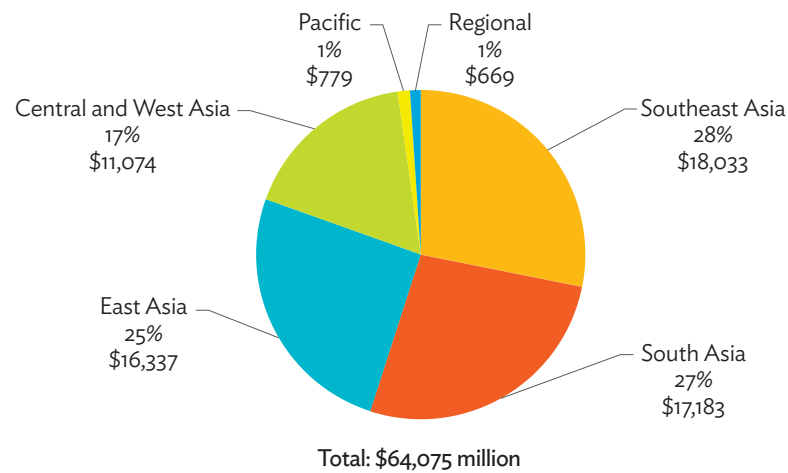
## B. Geographical Distribution

Compared to the previous decade, lending operations were more equally distributed across regions with Southeast Asia, accounting for 28% of lending followed by South Asia (27%), East Asia (25%), Central and West Asia (17%), and the Pacific (1%), as seen in Figure 2.<sup>38</sup> Lending to East Asia increased significantly, due to the large crisis support given to the Republic of Korea and continued significant lending to the PRC. So did lending to Central and West Asia, as additional members from the former Soviet Union joined the Bank and their lending gained momentum. The events of 11 September 2001 also led to increased ADB support to Central and West Asia, especially to Pakistan and Afghanistan. ADB

resumed operations in Afghanistan in 2002, after a hiatus of 23 years (Box 13). Lending to South Asia also grew, as lending to India continue to expand. By contrast, lending to Southeast Asia stagnated and even decreased slightly in some countries, like the Philippines and Indonesia. No loans were made to Malaysia since 1997 and no new public sector lending was provided to Thailand since 1999. The top five borrowers over the decade were the PRC (accounting for 19% of lending), India (16%), Indonesia (13%), Pakistan (12%), and the Republic of Korea (6%). Refer to Appendix Tables 2.1 and 2.2 for breakdown of lending approvals by fund type and by DMC; and for TA approvals per DMC.

<sup>38</sup> In contrast, the breakdown of lending by region in the previous decade (1987–1996) was as follows: Southeast Asia (41%), South Asia (27%), East Asia (16%), Central and West Asia (14%), the Pacific (1%), and regional (1%).

**Figure 2: Lending Operations by Region, 1997–2006**  
(\$ million)



ADB = Asian Development Bank.

Notes: Based on current organizational grouping of ADB. Lending operations include loan, grant, equity investment, and guarantee approvals.

Sources: ADB Operations Dashboard; ADB Strategy, Policy and Review Department.

### Box 13: Resumption of Operations in Afghanistan

Afghanistan was a founding member of the Asian Development Bank (ADB), joining in 1966. Operations began in 1969, and in 1970, the first loan was approved. By the time of the Soviet occupation in 1979 when ADB operations were suspended, Afghanistan had received nine loans totaling \$95.1 million (all funded from the Asian Development Fund). ADB focused on small- and medium-sized agriculture and irrigation projects, and did some work in transportation, hydropower, and vocational education. In the more than 2 decades that passed before ADB returned to Afghanistan, the country was devastated by external aggression and civil war. The situation was aggravated in the late 1990s by 4 years of drought, bringing the economy essentially to a standstill.

In December 2001, with the signing of the Bonn agreement, an interim government was formed. ADB assumed a key role in the international community's efforts to plan for and assist in the reconstruction. Along with the United Nations Development Program and the World Bank, ADB prepared preliminary needs assessments in 2001 and 2002, which became the basis for the international community's pledges of \$4.5 billion in aid to Afghanistan at the Tokyo Conference in January 2002 (ADB pledged \$500 million). ADB took the lead in the agriculture, education, infrastructure, and environment sectors. This work served as important input for ADB's interim country strategy and program, which was finalized in May 2002. The objective of ADB's reengagement was to help the government rebuild and rehabilitate the country and ensure a seamless transition from humanitarian aid to reconstruction and development assistance.

ADB approved \$1,057 million in loans, grants, and technical assistance to Afghanistan from 2002 to 2006. Most of the support was drawn from ADF (almost 90%), making Afghanistan the fifth largest recipient of ADF resources behind Bangladesh, Viet Nam, Pakistan, and Sri Lanka over the decade. Some of that support (from 2005 onward) was provided through grants, in recognition of the government's limited financial capacity. ADB's assistance was predominantly focused on transport and information and communication technology, energy, and agriculture. Critical infrastructure was rehabilitated through ADB activities.

Source: Asian Development Bank.

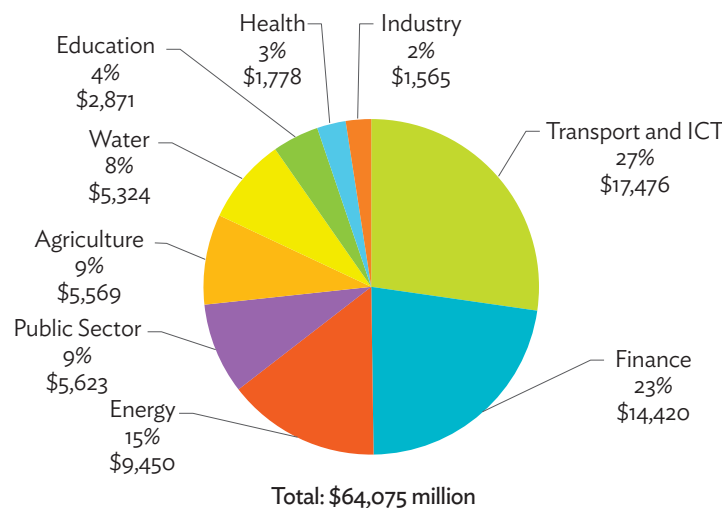
## C. Sectoral Developments

Following approval of the PRS, ADB diversified its activities into a broader range of sectors (i.e., the average number of sectors with ADB involvement by country increased). In terms of broad sector allocations, transport and information and communication technology (ICT) accounted for 27% of total lending followed by finance (23%), energy (15%), public sector (9%), agriculture (9%), water (8%), education (4%), health (3%), and industry (2%) (Figure 3). Compared to the previous decade, transport overtook energy as the largest sector. Lending in support of the finance sector and public sector management surged in response to the crisis, with corresponding reduction in the share of loans to other sectors (particularly agriculture, industry and energy, where total volume of lending actual fell compared to the previous decade).<sup>39</sup>

### 1. Transport and Information and Communication Technology

Total ADB lending to the transport sector reached \$17.5 billion (a 71% increase over the previous decade). As domestic economies in most DMCs continued to expand, the need for national transport infrastructure increased. ADB's operations remained predominantly focused on roads (72%), followed by rail transport (17%), urban roads and traffic management (a new area accounting for 5%), air and water transport (2% each), and ICT (1%). Compared to the previous decade, lending became even more concentrated on roads, with a corresponding decrease in the share of lending going to ICT and water transport. The top five country recipients were: the PRC (accounting for almost half of total lending or 45%), India (20%), Pakistan (7%), Bangladesh (4%), and Indonesia (4%). Eighty-one percent of transport sector lending was financed from OCR.

**Figure 3: Lending Operations by Sector, 1997–2006**  
(\$ million)



ICT = information and communication technology.

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

Sources: ADB Operations Dashboard; ADB Strategy, Policy and Review Department.

<sup>39</sup> The composition of lending by sector in the previous decade (1987–1996) was as follows: energy (26%), transport and ICT (24%), agriculture (16%), finance (11%), water (8%), education (5%), industry (5%), health (2%), multisector (2%), and public sector management (1%).

Transport sector projects aimed to promote pro-poor economic growth. Projects were increasingly focused on developing and rehabilitating roads that directly impacted on the poor by lowering transport costs and improving access to markets and social services, with 72% of road transport support focused on nonurban areas. Sustainable transport development was emphasized by implementing sector reforms on improving governance, establishing more efficient and effective sector agencies, introducing regulatory reforms for increased participation by the private sector, and improving sector financing and cost recovery. Partnerships between the public and private sectors were also promoted. In addition to country-specific assistance, ADB also implemented regional projects. According to the Operations Evaluation Department (OED), ADB's transport projects have generally performed well. Over the period 1970–2005, 83% of transport operations were rated *successful* or better, increasing to 91.7% in 2000–2005. The proportion was more substantial for roads (90%) than for other subsectors (75%).

Acknowledging the powerful force of ICT in shaping the social and economic development of the region, ADB adopted a strategic approach to help DMCs seize opportunities created by ICT.<sup>40</sup> The new strategy called for greater access by DMCs to information and knowledge, allowing them to compete in global markets and move out of poverty. More specifically, the strategy aimed to (i) create an enabling environment for ICT development by developing innovative sector policies and strengthening institutions; (ii) develop ICT facilities, related infrastructure and networks; and (iii) build human resources to improve knowledge and skills and promote ICT literacy. The strategy advocated applying ICT to improve human welfare, expand economic growth, and extend good governance practices. All stakeholders (governments, private sector, civil society and international organizations) were encouraged to work together to leverage their collective resources to ensure that the benefits of ICT improve the lives of the poor. As ICT is a cross-cutting field, its application

in ADB could be wide-ranging. Many of these activities were financed through TA grants. The Japan Fund for Information and Communication Technology was established in 2001 for this purpose (see section VII.C).

## 2. Finance

ADB support to the finance sector reached \$14.4 billion over 1997–2006 (compared to \$4.7 billion in the previous decade). Half of this assistance (50%) supported development of the finance sector, mostly in response to the AFC. The rest went to inclusive finance (14%), infrastructure finance and investment funds (13%), money and capital market (7%), housing finance (6%), banking and nonbanking financial institutions; insurance; and small-and medium-sized enterprise finance (3% each), and trade finance (1%). Ninety-two percent of financial sector lending was financed from OCR.

The role of ADB in promoting reforms in the capital and financial markets became particularly critical in the wake of the AFC. ADB support focused on the following areas:

- (i) **Regulatory framework.** ADB worked to enhance transparency and accountability and restore investor confidence by strengthening financial sector supervision and prudential norms. A legal framework, such as bankruptcy and foreclosure laws, had to be put in place for resolving nonperforming loans of distressed financial institutions. Liberalization of foreign investment rules was also being encouraged in parallel with banking and corporate sector restructuring.
- (ii) **Capital markets.** Recognizing that the lack of long-term capital markets in Asia caused excessive reliance on foreign short-term capital, mobilizing domestic savings and developing long-term capital markets (stocks and bonds) was perceived as important, to diversify sources of capital and reduce the risk of capital flight.

<sup>40</sup> ADB. 2001. *Toward E-development in Asia and Pacific: A Strategic Approach for ICT*. Manila.

- (iii) **Corporate governance.** Greater efforts were directed at improving financial and corporate governance through information disclosure and stricter accounting standards. In addition, introduction of new corporate laws would help increase competition and realign interest of corporate management and shareholders (including stronger bankruptcy and foreclosure laws).
- (iv) **Bank restructuring.** Banks dominated financial intermediation in Asia and the banking sector was tightly linked to almost all other sectors of the economy. In light of the crisis, major banking restructuring efforts were undertaken (see section III.B).

As financial markets started to recover, the social costs of the crisis continued to mount, with millions of people in the region being thrown back into poverty. ADB responded in a fundamental way by rededicating itself to the goal of eliminating poverty from the region. Microfinance was perceived as an important tool to promote economic development and poverty reduction, as it enabled poor and low-income households to take advantage of economic opportunities, to build assets, and to reduce their vulnerability to external shocks. In 1999, ADB initiated several projects to expand microfinance services in its DMCs. A regional microfinance strategy was developed under a TA grant designed to carry out in-country consultations in 12 countries, conduct regional workshops, and recommend how DMC governments can promote microfinance institutions. ADB's Microfinance Development Strategy was approved in May 2000.<sup>41</sup> Its overall goal was to ensure permanent access to institutional financial services (including deposits, loans, payment services, money transfers, and insurance) for a majority of poor and low-income households and their microenterprises. The strategy aimed to support the development of sustainable microfinance systems with a focus on five strategic areas: (i) creating a policy environment

conducive to microfinance, (ii) developing financial infrastructure, (iii) building viable institutions, (iv) supporting pro-poor innovations, and (v) supporting social intermediation. After the strategy was adopted, ADB's assistance shifted from providing support for narrowly defined microcredit projects to building financial systems for the poor.

A review of the strategy would be undertaken by the following decade (2012).<sup>42</sup> The review would show that the majority (67%) of microfinance operations approved during 2000–2010 usually involved creating an enabling environment and building the capacity of regulatory institutions, through the use of programs loans and sector development loans. Project loans and private sector investments would come in second, accounting for about 28% of the portfolio. Projects with microfinance components typically involved a package of interventions including nonfinance activities (e.g., community roads) and credit lines to improve the quality of life in particular areas, most often rural areas with high incidence of poverty. Overall, ADB's support was found to be *relevant* and *responsive*. However, support was found to be less than effective in achieving results. This was mainly attributed to weak sustainability and limited outreach to the poor. Among other things, the evaluation found that ADB support concentrated largely on addressing supply-side issues and should focus more on demand side considerations going forward, particularly in developing the capacity of poor and low-income households to access and use financial services.

### 3. Energy

The energy sector continued to occupy a prominent position, equivalent to \$9.5 billion (or 15% of total lending) making it the third largest sector. However, compared to the previous decade, energy sector lending decreased both in absolute terms, and as a share of total lending. Sixty-seven percent of ADB energy sector lending went to transmission and distribution projects

<sup>41</sup> ADB. 2000. *Finance for the Poor: Microfinance Development Strategy*. Manila (R106-00).

<sup>42</sup> ADB. 2012. *Special Evaluation Study: Microfinance Development Strategy 2000: Sector Performance and Client Welfare*. Manila (SES: REG 2012-10).



and sector reform programs. The rest went to conventional energy (14%), energy efficiency and conservation (5%), large hydropower (4%), oil and gas transmission and distribution (4%), and energy utility services (2%). Compared to the previous decade, ADB support for hydropower projects declined sharply. Renewable energy remained a small part of ADB's energy portfolio (4%). There were also shifts in the geographical distribution of ADB's energy sector lending. Several past recipients of large energy infrastructure loans (e.g., the PRC, Indonesia, Malaysia, and Thailand) had developed their energy sectors and capital markets to such an extent that most energy infrastructure could be funded locally rather than with ADB support. By contrast, energy sector lending to Bangladesh, Cambodia, Sri Lanka, and Viet Nam increased. This trend was more pronounced in the second half of the decade. Over 1997–2006, the top five borrowers were India (26%), the PRC (14%), Indonesia (12%), Bangladesh (11%), and the Philippines (10%). Eighty-nine percent of ADB energy loans were financed from OCR.

When ADB prepared its first Energy Policy paper in March 1981 after the second oil crisis of 1979, the world was facing record-high crude prices and concerns about the security of supply. ADB's approach focused on energy infrastructure development, with emphasis on developing indigenous energy sources, promoting energy efficiency, and building incentives to encourage foreign investments in the energy sector.<sup>43</sup> In 1995, ADB released its second Energy Policy paper.<sup>44</sup> The policy identified three major issues: (i) defining an appropriate role for the government in the sector; (ii) enhancing the efficiency of production, transportation, and end use of energy; and (iii) more closely integrating environmental considerations in all energy sector activities. Its recommendations were presented in three parts, corresponding to the power subsector (electricity), the hydrocarbon subsector (coal, oil, and gas); and rural energy systems (including renewable energy sources). Common themes that cut across all

ADB assistance involved (i) preferential allocation of ADB's resources to the countries willing to restructure their energy sector to improve efficiency and to attract private investments to meet incremental demand; (ii) support for private investment through build–own–operate or build–own–operate–transfer projects, as well as joint ventures between government utilities and private investors; (iii) emphasis on both supply-side and demand-side energy efficiency improvements before providing assistance for generation capacity addition; (iv) emphasis on environmental protection at all stages of the project cycle; (v) support for the development and utilization of natural gas resources; (vi) promotion of regional trade in energy; and (vii) promotion of rural energy supply and renewable energy development, based on decentralized systems, internalization of environmental costs and benefits, adoption of life-cycle costs for comparisons, private initiatives, and institutional sustainability.

A review of the 1995 energy policy was undertaken in 2000.<sup>45</sup> The review reoriented energy sector operations to focus on poverty reduction, private sector participation and sector restructuring, regional and global environmental impacts, and regional cooperation. The new operational priorities were (i) reducing poverty by creating energy infrastructure for sustainable growth, increasing access to energy for the poor, particularly in rural areas, and making sure that the poor account for a major portion of project beneficiaries; (ii) promoting private sector involvement by restructuring the energy sector, promoting competition and good governance, and supporting energy pricing policies; (iii) addressing regional and global environmental impacts by supporting measures that address acid rain problems, use clean energy, support Kyoto Protocol mechanisms for greenhouse gas abatement, and finance renewable energy projects; and (iv) promoting regional cooperation by helping identify and implement export-oriented hydropower and natural gas-based generation and transmission projects.

<sup>43</sup> ADB. 1981. Role of the Bank in the Energy Sector in the Region. *Working Paper*. No. 2-81. Manila.

<sup>44</sup> ADB. 1995. *The Bank's Policy Initiatives for the Energy Sector*. Manila (R4-95).

<sup>45</sup> ADB. 2000. *Energy 2000: Review of the Energy Policy of the Asian Development Bank*. Manila (IN 282-00).

An independent evaluation of the energy policy was undertaken by OED in 2007.<sup>46</sup> ADB's operations in the energy sector were found to be generally performing well. Major impacts of ADB assistance included (i) financial and tariff restructuring that reduced the need for subsidies; (ii) improved quality and reliability of energy supply; (iii) some positive demonstration effects in energy efficiency and renewable energy projects; (iv) improved governance in the power industry; and (v) skills transfer in areas such as developing tariffs, automated billing, system planning, and management reporting systems. Overall, the 1995 policy and 2000 review would be rated *successful*. They were considered *highly relevant* and responsive to the changing external environment and to the changing needs of ADB's client countries at the time. However, the study would also recommend that ADB fine-tune and update its Energy Strategy to better reflect current context and development challenges and improve implementation effectiveness.

#### 4. Water Supply and Sanitation and Urban Development

Providing safe and reliable drinking water and appropriate sanitation facilities was an important aspect of ADB's strategy to reduce poverty. Total ADB lending to the water sector reached \$5.3 billion from 1997 to 2006, compared to \$3.6 billion in the second decade. The sector's share in total Bank lending remained at 8% over the same period. ADB loans were largely concentrated in urban water supply (35%) and urban sewerage (31%) with the rest going to urban policy (14%), urban flood protection (8%), urban solid waste management (4%), other urban services (2%), urban slum development (2%), urban sanitation (2%), renovation and protection of cultural heritage (1%), and urban housing (1%). Seventy-four percent of lending was financed by OCR. The PRC (31%) and India (25%) accounted for over half of lending followed by Viet Nam, the Philippines, and Pakistan (each accounting for about 6%).

Direct lending from ADB's private sector window was limited. This was primarily attributed to the lack of an enabling environment and appropriate tariff structure in most DMCs.

ADB's Urban Sector Strategy was approved in July 1999 to bring more coherence to ADB's work in the urban sector.<sup>47</sup> The new strategy took a wide view of the urban sector and included urban water supply and sanitation, housing, urban drainage and flood control, urban transport, urban environment, slum improvement, sites and services, urban institutional strengthening and capacity building, urban land management, urban governance, and urban finance. Poverty reduction components and microcredit were also endorsed as part of the urban sector, when included in urban development projects. In response to rapid urbanization in Asia, the Urban Sector Strategy called for a systematic and incremental expansion of ADB's involvement in the urban sector, both in terms of the volume of lending, the range of subsectors to be addressed, and the interrelationships of project components. The Urban Sector Strategy also called for greater attention to poverty reduction; more community participation in projects; more institutional strengthening and capacity development; more private sector involvement; more policy-based lending; and more lending for urban transport, housing, and land management projects. A special evaluation study conducted by OED in 2006 concluded that the Urban Sector Strategy did not lead to significant increase in urban sector lending, nor did it lead to significant changes in the composition of the urban sector portfolio.<sup>48</sup> This was primarily attributed to a loss of institutional focus and expertise following ADB's 2002 reorganization. The two urban sector divisions were dissolved and staff were scattered over five new departments and four newly created social sector divisions. As a result, ADB's water supply and sanitation operations (including those in urban areas) fell increasingly under the broad framework of ADB's water operations.

<sup>46</sup> ADB. 2007. *Special Evaluation Study on Energy Policy 2000 Review: Energy Efficiency for a Better Future*. Manila (SES: REG 2007-05).

<sup>47</sup> ADB. 1999. *Urban Sector Strategy*. Manila.

<sup>48</sup> ADB. 2006. *Special Evaluation Study: Urban Sector Strategy and Operations*. Manila (SST: REG 2006-03).

A review of water operations undertaken in 1999 showed that 51% of water-related projects evaluated between 1972 and 1999 were rated *generally successful*, but 11% were *unsuccessful*.<sup>49</sup> The analysis showed positive trends for the incorporation of social and environmental dimensions, increased water user responsibility and water use efficiency, cost recovery, institutional strengthening, quality control, and monitoring arrangements. ADB's projects, however, tended to be identified, processed, administered, and evaluated in their subsector context, reflecting a fragmented approach to planning and implementing water projects in most DMCs. Similarly, ADB's water loans focused largely on improving water services (supply-side solution), and relatively few addressed water resources issues, including water scarcity and efficient allocation of water between different uses. As competition for water continued to increase, a more comprehensive and integrated approach to water operations was needed to encompass goals of social welfare, environmental integrity, and economic productivity.

ADB launched its water policy in 2001, following extensive stakeholder consultations.<sup>50</sup> At the time, water was widely viewed as one of the greatest global challenges, accentuated by population growth, urbanization, and changes in climatic patterns. Improvement in water and sanitation coverage was one of the MDG targets. The policy was established in response to this crisis and its potential link to poverty and regional stability. The policy had seven main elements: (i) promoting a national focus on water sector reform; (ii) fostering the integrated management of water resources, especially in river basins; (iii) improving and expanding the delivery of water services (including PSP and emphasizing equity in access to water for the poor); (iv) fostering the conservation of water and increasing system efficiencies; (v) promoting regional cooperation and increasing the mutual beneficial use of shared water resources within and between countries;

(vi) facilitating the exchange of water sector information and experiences (including public-private, community and/or NGO partnerships); and (vii) improving governance (including the promotion of decentralization). ADB established the Cooperation Fund for the Water Sector in December 2001 as a multidonor facility to help catalyze the implementation of the new policy in its DMCs. The fund would be closed financially on 31 May 2010.

A preliminary internal review of the policy was conducted in 2003, followed by a more detailed review in 2005 by an external panel of experts.<sup>51</sup> The panel's review, completed in April 2006, summarized progress in key areas of the policy, and identified remaining challenges and required actions. The panel outlined five main recommendations to improve ADB's water operations and investments: (i) increase ADB's commitments and develop its capacities; (ii) develop a long-term partnerships with DMC stakeholders and aid agencies; (iii) focus the implementation of integrated water resource management on stakeholder needs and ownership; (iv) promote "business unusual" by leveraging innovations to increase access, affordability, efficiency, and cost-effectiveness; and (v) improve processes to ensure effective policy implementation. The review recommended doubling the allocation for water sector funding and introducing innovative and flexible financial instruments to leverage additional investment in the sector by 2010 to ensure achievement of the MDGs by 2015. ADB accepted the challenges outlined by the panel and committed to increase investments in the water sector to more than \$2 billion a year. In November 2006, ADB approved the establishment of the Water Financing Partnership Facility as the successor fund to the Cooperation Fund for the Water Sector. Its main objective was to mobilize cofinancing and investments from development partners to support ADB's expanded water operations.

<sup>49</sup> The review was undertaken during preparation of the 1999 Annual Report, which devoted an entire chapter to the special theme, "Water in the 21st Century." The work led to the preparation of a new ADB water policy.

<sup>50</sup> ADB. 2000. *Water for All: The Water Policy of the Asian Development Bank*. Manila (R230-00).

<sup>51</sup> ADB. 2006. *Water for All: Translating Policy into Action. Comprehensive Review of ADB's Water Policy Implementation, Final Report and Recommendations of the Review Panel*. Manila.

## 5. Agriculture

Lending support to agriculture declined, both in absolute terms and as a share of total lending. Over 1997–2006, agriculture lending reached \$5.6 billion or 9% of total lending, down from \$6.8 billion or 16% of total lending a decade earlier. This was mainly attributed to a decline in the number of projects; average project size; and a sharp reduction in large, new irrigation projects. Agriculture loans were concentrated in agricultural policy, institutional and capacity development (18%), irrigation (17%), water-based natural resources management (16%), and agricultural production (12%). The rest went to rural flood protection (9%); rural water supply services (7%); rural market infrastructure and agro-industry; marketing and trade (4% each); rural water policy (3%); forestry, livestock, and fishery (2% each); and agriculture research and application, land-based natural resources management, agricultural drainage, and rural sanitation (1% each). Slightly more than half of ADB support (52%) was financed from ADF. The top five country recipients were Pakistan (17%), the PRC (13%), Viet Nam (11%), Indonesia (10%), and Bangladesh (8%).

ADB's approach in the agriculture sector evolved over time, in line with changing DMC requirements. In the 1960s and 1970s, ADB assistance was concentrated on building public sector capacity in ways that would complement the introduction of green technologies through investments in irrigation, farm-to-market transport, rural finance, and research and extension services. Over time, a more diverse array of approaches to fostering rural progress was adopted. In 1988, a strategy paper on rural development was prepared, which highlighted the need for assistance tailored to varied challenges of each subregion as well as the need for improved policy and institutions to combat rural poverty.<sup>52</sup> More people-oriented approaches were put into effect to improve project performance. Attempts were made to nurture and harness the collective talents of rural stakeholders to promote a more

balanced and socially inclusive pattern of growth and development. Despite a more participatory, diverse, and decentralized approach to the sector, the slow rates of agriculture growth and persistent rural poverty of the 1990s challenged policy makers and development agencies alike. It soon became clear that the best available practices may be inadequate or inappropriate in the medium term as rapid urbanization, population growth, land conversion, environmental degradation, climate change, protectionism in developed countries, and other factors worked against increases in production, incomes, and living standards in rural Asia and the Pacific. In response, ADB decided in 1998 to undertake a study to examine the achievements and prospects of rural Asia, and to provide a vision for the future of agriculture and rural development in the next century.

The Third Asian Agricultural Survey was prepared in 1998–1999.<sup>53</sup> It stressed that continued progress in the agriculture and natural resource sector would be essential to combat poverty and improve living standards in Asia. It also identified a number of critical new challenges facing rural Asia related to globalization, technological change, natural resources management, demographic developments, and structural transformation. The study proposed a variety of new approaches for revitalizing the sector, including maintaining sufficient levels of investments in rural infrastructure, education, health, and agricultural research (particularly biotechnology); eliminating or reducing unnecessary public expenditures on subsidies that are either biased against rural areas or are favoring already well-off residents; adopting rationalized agricultural pricing policies that provide stability and reduce risk; undertaking institutional reforms; creating effective safety nets to protect vulnerable people; adopting macroeconomic policies that are conducive to long-term investments; improving natural resources management; and facilitating the roles of NGOs and civil society in implementing good governance reforms.

<sup>52</sup> ADB. 1988. *Sector Paper on Rural Development*. Manila.

<sup>53</sup> ADB. 2000. *Rural Asia: Beyond the Green Revolution*. Manila. ADB staff and internal experts prepared the study under the guidance of an interdepartmental ADB steering committee.



To support ADB operations, ADB also prepared sector policies focusing on selected subsectors. A new fisheries policy was approved in 1997. The policy emphasized five main principles to guide ADB fisheries operations: (i) anchoring ADB's fisheries strategy on sustainability in conservation and utilization of fisheries and aquatic resources, equity in balancing the interests of competing resource users, and efficiency in the development and management of aquatic resources; (ii) encouraging a larger role for the private sector in fish marketing and processing; (iii) emphasizing that governments are responsible for establishing a policy, institutional, and regulatory framework to support sustainable management of fisheries resources; (iv) calling for rigorous application of ADB's environmental guidelines in developing and implementing fisheries and aquaculture projects; and (v) adopting a participatory process in formulating projects, and encouraging active involvement of the community, NGOs, and targeted beneficiaries in project design and implementation. Fisheries have always formed a minor part of ADB operations. Following approval of the policy, the share of agricultural support going to fisheries decreased further, accounting for only 2% of agriculture sector lending compared to 6% in the previous decade. With the stronger movement toward sustainable livelihoods and ecosystem-based management, ADB increasingly supported environment projects with fisheries-related components, within a multisector perspective on natural resource management.

## 6. Social Sectors

The Poverty Reduction Strategy recommended that ADB focus on sectors and subsectors that particularly help the poor, including health and education. In absolute terms, support to those two sectors increased from \$3.2 billion (or 8% of total ADB lending) in the third decade to \$4.6 billion (or 7% of total lending) in the fourth decade. The increase was much more pronounced in the health sector (from \$904 over 1987–1996 to \$1.8 billion over 1997–2006) than in the education sector (from \$2.3 billion to \$2.9 billion over the same

period). This was due in part to large programs loans that ADB provided as part of a broad strategy to address the AFC in Indonesia and Thailand. These loans worth \$1.1 billion accounted for half of health sector lending over the decade. The increase in lending to the health sector was also partly due to the global move toward the achievement of Millennium Development Goals. In addition, significant activities were conducted through grants, such as that for HIV/AIDS and other communicable diseases. Overall, 45% of health sector lending went to health sector development and reform, 28% to health system development, 11% to disease control of communicable disease, and 9% to mother and child health care. The remaining 8% were split between nutrition (7%) and health care finance (1%). The majority (53%) of health sector lending was financed from OCR. The top borrowers were: Indonesia (32%), Pakistan (19%), the Philippines (13%), Viet Nam (10%), and Bangladesh (4%).

ADB approved a new Policy for the Health Sector in 1999.<sup>54</sup> The policy was designed to provide direction to ADB operations in the sector and assist DMCs in identifying their own priorities and strategies for achieving them. It included recommendations for an overall increase in ADB's efforts in the health sector both in terms of lending and staffing. Five strategic considerations were highlighted: (i) primary health care for vulnerable groups, paying particular attention to the poor, women, children, and indigenous peoples; (ii) strengthening monitoring and evaluation, emphasizing effective interventions, and improving project quality at entry and during project implementation; (iii) supporting innovations and pilot testing in health care financing, organization, and management, and the deployment of new technologies, particularly new vaccines; (iv) encouraging DMC governments to conduct health sector reforms; and (v) increasing sector efficiency by improving managerial capacity and collaboration with partner institutions. Nutrition issues were not covered in the policy in detail.<sup>55</sup> Neither did populations issues, since they were covered in ADB's Population Policy, approved in 1994.<sup>56</sup>

<sup>54</sup> ADB. 1999. *Policy for the Health Sector*. Manila (R28-99).

<sup>55</sup> A separate policy on nutrition, originally planned for 2002, did not materialize.

<sup>56</sup> ADB. 1994. *Population Policy Paper: Framework for Bank Assistance to the Population Sector*. Manila (R80-94).

A special evaluation study on the health sector policy was conducted by OED in 2005.<sup>57</sup> The study concluded that the policy had a generally positive impact in changing the way ADB operates in the health sector. It was consistent with the PRS; the Long-Term Strategic Framework (LTSF); the eighth ADF replenishment (known as ADF IX covering 2005–2008); and the MDGs, which reinforced performance benchmarks, systematic evaluation, and the use of feedback to improve and enhance the effectiveness of interventions. After the policy was adopted, there was an increase in the number of loans using specific health-outcome indicators, the inclusion of cost-benefit and/or economic sustainability analysis in almost all health sector projects, and the inclusion of economic internal rate of return calculations in the design of these projects. There was also more attention to supporting governance through health sector reforms and institutional capacity building.

ADB support for social protection grew in response to the AFC, prompting a 3-year process to develop ADB's first Social Protection Strategy.<sup>58</sup> The strategy was approved in 2001 and defined social protection as a “set of policies designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income.” Five major components were identified: (i) labor markets, (ii) social insurance, (iii) social assistance, (iv) micro and area-based schemes to protect communities, and (v) child protection. Projects related to these five components were to be spread, fully or partly, across several sectors of ADB operations. The strategy proposed that ADB's role should shift from one of providing social protection support in response to crises to one of assisting DMCs in building more effective national social protection policies and systems.

A special evaluation study on ADB's Social Protection Strategy undertaken by the Independent Evaluation Department in the following decade

would show that, following approval of the policy, the bulk of ADB lending in support of social protection remained predominantly crisis-driven.<sup>59</sup> Outside of lending, however, ADB provided useful social protection advice and research, mostly through TA, to strengthen policy, planning, and strategies related to social protection; and to undertake research on a range of social protection-related topics. A good example in this area is the Social Protection Index, which helped raise awareness of social protection in the region, improved capacity for monitoring and measurement of social protection expenditures, and provided new knowledge concerning public and private sector social protection expenditures not available from other sources. Over the decade, however, ADB corporate commitment to social protection declined. With the adoption of MST II in 2006, ADB's strategic and operational focus narrowed and social protection was deemphasized. Consequently, social protection specialist positions in ADB were reduced.

Under ADF IX (which was finalized in May 2004), 2% of the replenishment was earmarked for grant expenditures for HIV/AIDS and other communicable diseases in ADF-eligible countries. In February 2005, ADB established an HIV/AIDS trust fund to provide support for complementary activities. Aside from project lending, policy-based lending for issues such as drug and people trafficking, legal reform, and drug rehabilitation programs were also encouraged. A strategic framework for ADB's response to the HIV/AIDS epidemic was put in place in April 2005.<sup>60</sup> The goal of ADB support was to help DMCs achieve MDG 6 (to halt and reverse the spread of HIV/AIDS by 2015). Three priorities were identified: (i) leadership support to strengthen the commitment of regional leaders to address HIV/AIDS; (ii) capacity building at country and regional levels; and (iii) targeted programs to expand HIV/AIDS interventions that mitigate risks among the poor, the vulnerable, and other high-risk groups.

<sup>57</sup> ADB. 2005. *Special Evaluation Study: ADB Policy for the Health Sector*. Manila (SES: REG 2005-04).

<sup>58</sup> ADB. 2001. *Social Protection Strategy*. Manila (R121-01).

<sup>59</sup> ADB. 2012. *Special Evaluation Study: Social Protection Strategy 2001*. Manila (SES: REG 2012-14).

<sup>60</sup> ADB. 2005. *Development, Poverty and HIV/AIDS: ADB's Strategic Response to a Growing Epidemic*. Manila (IN 90-05).



ADB approved a new Policy on Education in 2002.<sup>61</sup> ADB's 1988 education policy had emphasized the importance of investing in primary and secondary education in the context of broader human and social development. The new policy underpinned ADB's support for the MDGs, which included enrolling all children in primary school, promoting gender equality, and empowering women. The policy focused on increasing equity and access, improving quality, strengthening management and partnerships, mobilizing resources, and applying innovative technologies, especially in ICT. In literacy and nonformal education, innovative programs in collaboration with NGOs were to receive more support. Early childhood development programs were also to be expanded, particularly those that are low-cost and community-based.

From 1997 to 2006, ADB's education sector lending reached \$2.9 billion (or 4% of total ADB lending). Secondary education received the largest share (30%) followed by preprimary and primary education (25%), education sector development (23%), technical and vocational trainings (16%), tertiary and higher education (5%), and nonformal education (1%). Compared to the previous decade, there was a marked increase in the share of lending going to primary and secondary education as well as education sector development, with a corresponding decrease in technical and vocational training, tertiary, and higher education. ADB support to basic education focused on ensuring equitable access, improving quality, and strengthening community development. Secondary education investments emphasized cost sharing, private sector provision, and special programs to increase access by the poor and women. About two-thirds of education sector lending were financed from ADF. The top five borrowers were: Indonesia (22%), Bangladesh (18%), Pakistan (11%), Viet Nam (10%), and Uzbekistan (8%).

## D. Cross-Cutting and Thematic Issues

### 1. Pro-Poor Economic Growth

Following the AFC, ADB in coordination with other development partners, emphasized achieving and maintaining macroeconomic stability, improving fiscal management, and aiding financial sector restructuring. ADB also worked with its DMCs to develop institutional and regulatory frameworks conducive to private sector development. Implementation of the PRS also led to a sharper poverty focus in ADB's policy dialogue with its DMCs. ADB contributed to the formulation and implementation of more pro-poor, macro-level, and sector-level policies in individual countries. The bases for these policy discussions were poverty assessments and other analytical work. ADB also assisted in the preparation of national poverty reduction strategies in many DMCs, working closely with other development partners. At the sector level, ADB policy dialogue became more sharply focused on removing policy and institutional constraints to poverty reduction. In some countries such as India, Kazakhstan, and Viet Nam, the dialogue aimed at public expenditure reforms to improve the poor's access to basic social services.

One of the main bottlenecks facing growth prospects in the region was the lack of infrastructure. Hence, a large share of ADB operations supporting pro-poor economic growth concerned infrastructure investments. During the decade, the role of infrastructure in reducing poverty was studied and empirically verified. An ADB study in the PRC, India, and Thailand found that a range of infrastructure interventions (including roads, railways, and rural electrification) had significant positive effects on poverty reduction.<sup>62</sup> Transport and energy sector interventions not only helped

<sup>61</sup> ADB. 2002. *Policy on Education*. Manila (R146-02).

<sup>62</sup> ADB. 2005. *Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction*. Manila (RETA 5945).

to raise incomes but also addressed non-income dimensions of poverty. Poor people's incomes and assets were increased by growth in productivity, agricultural wages, and nonfarm employment and incomes. Non-income dimensions were improved by broadening educational coverage and raising attainment (especially for girls), improving health status, empowering the poor to participate in civil society, and increasing their security. Such effects were found to be especially high where (i) existing infrastructure coverage was limited, and poverty rates were high; (ii) policies promoted competition in transport services and facilitated electricity connections; and (iii) government policies and programs supported the poverty reducing activities that transport and energy would facilitate.

The ADB-supported Jamuna Bridge project in Bangladesh is an example of an infrastructure intervention that has promoted inclusive growth. The project provided a link between Bangladesh's eastern and western regions. Separated from the west by the Jamuna River, the country's east was more developed because it had better access to Dhaka and international markets through the port of Chittagong. The project (worth \$754 million to which ADB contributed \$200 million) helped construct a bridge over the Jamuna River. The bridge included road lanes and could support an electric power line, telecommunications

cables, a gas pipeline, and a railway line. The bridge facilitated the movement of more goods and people across Bangladesh and linked more than 30 million people in the country to infrastructure and transport networks. Market and social activities increased on both sides of the bridge, and new commercial and residential development occurred. Household income grew by 3%, compared with 1% in control villages. At the same time, income inequality, as measured by the Gini coefficient, declined from 0.45 to 0.43 in the project villages. Overall, the bridge was estimated to have lifted at least 1 million people out of poverty at the national level. The bridge also reduced the number of poor in Northwest Bangladesh by 20%–40%. A special evaluation study conducted in 2014 would rate the project *highly successful*.<sup>63</sup>

In addition, the PRS significantly influenced the project preparation process and encouraged more participatory and pro-poor analytical approaches (Box 14). Stakeholder participation during project preparation increased, notably in infrastructure projects where such approaches were rarely used prior to 1999. Project teams increasingly started to use techniques such as poverty mapping, geographic information systems, and distribution analyses to strengthen the pro-poor focus of projects and to improve monitoring of benefit incidence.

#### **Box 14: Reaching the Poor—Some Innovative Approaches**

##### **Community-Based Provision of Water in Pakistan**

Using a community-based approach, the Punjab Rural Water Supply and Sanitation Project provided safe drinking water and drainage facilities to about 800,000 people. A survey found that the project helped reduce by 2–6 hours per day the time devoted by women and children for carrying water. It also found a more than 90% reduction in waterborne diseases, 24% average increase in household income, and an 80% increase in enrollment of schoolchildren.

##### **HIV/AIDS Prevention in Transport Projects**

Several transport projects integrated prevention of HIV/AIDS and human trafficking. The Western Yunnan Roads Development Project in the People's Republic of China included a component to support the prevention of HIV/AIDS among ethnic minorities affected by the project. Similarly, the Road Network Improvement Project in Bangladesh and the National Highway Corridor Development Project in India had HIV/AIDS prevention components aimed at construction workers and truck drivers.

Source: ADB. 2004. *Review of ADB's Poverty Reduction Strategy*. Manila (R95-04).

<sup>63</sup> ADB. 2014. *Thematic Evaluation Study: ADB's Support to Inclusive Growth*. Manila (SES: REG 2014-03).

## 2. Social Development

The AFC raised awareness of the vulnerability of the poor and those with incomes just above the poverty line. Consequently, the PRS and LTSF identified the need for inclusive social development, which covered investment in social sectors and a policy and reform agenda to promote equity and empowerment, especially for women and disadvantaged groups. Various policy and strategic changes were made over the decade to accommodate this focus.

A new policy on gender and development (GAD) was approved in May 1998.<sup>64</sup> Unlike the earlier policy on Women in Development, which promoted individual interventions to improve the well-being and empowerment of women, the new policy adopted mainstreaming as a key strategy in promoting gender equality in ADB's DMCs. Mainstreaming entailed the incorporation of gender considerations into all aspects of ADB activities from macroeconomic and sector work through policy dialogue, lending, and TA operations. The policy focused on particular sectors, specifically, health, education, agriculture, natural resource management, and financial services, especially microcredit, while also ensuring that gender concerns were addressed in other sectors, including infrastructure. The main point of the policy was that ADB should address GAD throughout the whole range of its operations from the country strategy, all the way through the project cycle.

Following the adoption of the GAD policy, ADB introduced in 2001 a four-category classification of gender orientation in ADB projects.<sup>65</sup> Building on this classification, ADB would introduce targets for Category I and II projects, as part of the new ADB Results Framework adopted in 2008.<sup>66</sup> To implement the policy, ADB issued the Gender

and Development Plan of Action for 2000–2003 in October 2001 and subsequently updated it in 2002 to harmonize it with an institutional reorganization. ADB also established a GAD database, an informative website, and prepared manuals or handbooks. The first handbook on gender was prepared in 1994. The second handbook was prepared in 2001 and would be further updated in 2007. An implementation review of the GAD policy was undertaken in 2006. The review highlighted (i) gaps in upstream and downstream implementation of the policy; (ii) challenges in promoting gender as a crosscutting theme, where most ADB operations were structured across regional and sector lines; (iii) the need to identify and monitor gender-related results; and (iv) the need to prepare a second action plan with monitorable departmental commitments to further guide policy implementation Bankwide.

ADB's support to GAD would be evaluated in the following decade. The study showed that most regional departments followed the requirements of the policy.<sup>67</sup> This, however, did not necessarily lead to a larger share of GAD projects in country portfolios. Regional departments were quite responsive to the policy initially, with the share of qualified GAD projects reaching 47% out of total ADB public sovereign projects in 2003 (above target). However, the share steadily declined after that. Other factors seemed to influence the share of GAD projects in a country: availability of ADF, TA, or other resources such as the Japan Fund for Poverty Reduction to supplement financing for software components (i.e., training, development of institutional capacity) in OCR projects; availability of champions among individual mission leaders, directors, and directors general committed to gender mainstreaming; ADB's own leverage in the country; and the commitment of the executing agency to gender mainstreaming.

<sup>64</sup> ADB. 1998. *The Bank's Policy on Gender and Development*. Manila (R74-98).

<sup>65</sup> Category I projects refer to gender equity as a thematic classification, including gender analysis during project preparation, gender action plans, and loan covenants to support implementation. Category II refers to effective gender mainstreaming with several design features to facilitate women's access to program or project benefits. Category III has some gender benefits and considers gender issues as part of the social analysis during project preparation. Category IV does not have a gender element.

<sup>66</sup> Category I and II projects were to constitute at least 40% of all sovereign projects by number by 2012.

<sup>67</sup> ADB. 2009. *Special Evaluation Study: The Asian Development Bank's Support to Gender and Development Phase 1: Relevance, Responsiveness and Results to Date*. Manila (SES: OTH 2010-03).

Indigenous people (IP) are among the poorest people in the world. Before 1994, IP issues were addressed in ADB as part of social impact guidelines applied in the preparation of projects but were not given any special status. In February 1994, President Sato directed the use of the World Bank's IP guidelines in the preparation and implementation of ADB-supported projects. ADB approved its first Policy on Indigenous Peoples in April 1998.<sup>68</sup> The policy required that a series of safeguard principles be upheld in preparing and implementing ADB-supported projects in areas with IP to (i) ensure that development interventions were compatible in substance and structure with the affected IP's social, cultural, and economic institutions, and that the interventions were consistent with the needs and aspirations of those peoples; (ii) design and implement projects to ensure that IP and populations were at least as well off as they would have been without development interventions; and (iii) ensure that IP benefited from these interventions. Fixed procedures were to be followed, which include screening, consultation, preparation of IP plans in certain cases before loan appraisal, and establishment of monitoring and evaluation arrangements during project implementation. The procedures were set in motion when a mandatory initial social assessment identified IP that might be adversely and significantly affected.

Following approval of the policy, ADB paid more attention to IP issues. A special evaluation study would review the IP policy in 2007.<sup>69</sup> The study would rate the policy as *relevant*, due to its compatibility with the PRS. The study concluded that there were little reasons to suspect that ADB projects had regularly caused serious adverse impacts on IPs, though some isolated cases were found. These cases were widely reported by international NGOs and often involved older projects, with issues largely related to loss of land, resettlement, or environmental impacts on livelihood. In contrast, a considerable number of projects in sectors such as agriculture, health,

education, and water supply were expected to improve the lives and livelihoods of IP. Following approval of the policy, ADB also administered more grants and TAs to build capacity for IP development and safeguards issues. Nonetheless, some weaknesses would be identified in project administration, such as inadequate supervision and monitoring of IP plans to mitigate serious risks during implementation and after construction.

### 3. Environment

Since the first Board paper on Environmental Considerations in Bank Operations in 1979, ADB produced a number of papers on its environmental policies. The goals and objectives of these policies evolved over the years. The focus of early policies was on ensuring that “no significant harm” to the environment would result from ADB's activities. The main tool to achieve this was the environmental assessment process, aimed at assessing and mitigating potential adverse environmental impacts of ADB-supported projects. The 1990s witnessed a shift of strategies and assistance programs from ensuring “no significant harm” to trying to “do better” in terms of environmental and social objectives. The panel report on The Asian Development Bank in the 1990s, for example, stressed the need for ADB to balance its focus on economic growth in DMCs with support for protection of the environment, along with social infrastructure development, improvement of the living standards of the poorest groups, and a reorientation of public sector assistance to meet these new priorities. Entering the new millennium, the PRS and LTSF recognized environmental sustainability as a prerequisite for sustainable pro-poor economic growth and efforts to reduce poverty (Box 15).

ADB's Environment Policy, 2002 was grounded in the PRS and LTSF. To reduce poverty through environmentally sustainable development, the policy highlighted five main elements: (i) promoting environment and natural resource management

<sup>68</sup> ADB. 1998. *The Bank's Policy on Indigenous Peoples*. Manila (R55-98).

<sup>69</sup> ADB. 2007. *Special Evaluation Study: Indigenous Peoples Safeguards*. Manila (SES: REG 2007-01).

### Box 15: Key Environmental Concerns in the Asia and Pacific Region

- (i) **Urban air pollution.** The level of air pollution in Asia's cities was among the world's highest. Suspended particulates were generally twice the world average, and more than five times that in industrial countries.
- (ii) **Water pollution.** Asia's rivers typically had four times the world average level of suspended solids and 20 times the levels in countries of the Organisation for Economic Co-operation and Development. Water pollution resulted in diarrheal diseases, which led to high infant and child mortality and long-term health impacts.
- (iii) **Municipal and industrial solid waste.** Increasing urbanization and economic growth led to a sharp increase in the quantities of municipal and industrial solid waste generated in Asia.
- (iv) **Land degradation.** In 1992, Asia had only 0.3 hectares of agricultural land per capita, compared with 1.6 hectares for other developing regions, and 1.4 hectares in countries of the Organisation for Economic Co-operation and Development. Asia's soils were also generally of poor quality. Deforestation, cultivation of steep slopes, poor drainage, and inadequate soil conservation all contributed to severe soil degradation.
- (v) **Deforestation.** Asia had less forest cover per capita than the rest of the world, just one third the world average, and was losing it at a rate of 1% a year. Desertification was believed to be largely responsible for increased soil erosion, flooding, biodiversity loss, and drying up of rivers and streams, all of which affected the rural poor the most.
- (vi) **Biodiversity loss.** Asia accounted for 40% of the world's species of flora and fauna; but with few exceptions, Asian countries had lost 70%–90% of their original wildlife habitats to agriculture, infrastructure, deforestation, and land degradation.
- (vii) **Coastal, marine, and freshwater resources.** Asia's coastal and marine fisheries were among the most diverse in the world. Freshwater ecosystems in Southeast Asia were also among the world's largest and best developed. However, more than half of Asia's wetlands had been lost.
- (viii) **Climate change.** While the major sources of greenhouse gases remained the developed countries, several rapidly growing Asian countries that depended on fossil fuel significantly increased their share in global emissions. The impacts of climate change included sea level rise, coral bleaching (which destroys fish habitats), changes in agricultural potentials, forest degradation, accelerated desertification, increased range of vector-borne disease, changes in precipitation, and enhanced frequency and severity of extreme weather events such as cyclones and droughts.

Sources: ADB. 1997. *Emerging Asia: Changes and Challenges*. Manila; ADB. 2001. *Asian Environmental Outlook 2001*. Manila.

interventions to reduce poverty directly, (ii) assisting DMCs to mainstream environmental considerations in economic growth, (iii) helping maintain global and regional life support systems that underpin future development prospects, (iv) building partnerships to maximize the impact of ADB lending and nonlending activities, and (v) integrating environmental considerations across all ADB operations. The policy was to be implemented in a flexible fashion, tailored to the specific needs and capacities of each DMC. Country ownership was to be a guiding principle, with mix and depth of environmental interventions determined during the country strategy and program process. However, the fifth policy element on integrating environmental considerations was to be applied uniformly by ADB to all its operations in all DMCs. As it was concerned specifically with internal procedures, its implementation would be subject to ADB's Inspection Policy.

Following approval of the policy, ADB's role in promoting environmentally sustainable growth broadened beyond building environmental safeguard capacity to include policy, institutional, and investment support to key development sectors, such as energy, water, transport, agriculture, and natural resources. ADB also provided TA to prepare loans to improve natural resources management such as water, coastal fisheries, and wetlands; to develop and improve water supply and sanitation; and to improve environmental quality. Grants were awarded to strengthen national institutions and build capacity for environmental and natural resource management, to explore alternative energy sources, to combat land degradation, and to develop environmental monitoring and management information systems. Through strategic partnerships with key development agencies, ADB addressed regional and global



environmental problems. ADB's active partnership with the Global Environmental Facility helped generate additional cofinancing opportunities to strengthen the program pipeline. ADB also made substantial efforts in the areas of clean development mechanisms, carbon market initiatives, energy efficiency initiatives, and clean energy (Box 16). Grants from other financing sources played an important role in softening the overall costs of ADB's environmental interventions.

#### 4. Disaster and Emergency Assistance

ADB gradually increased its attention to natural disaster management over the decades, in response to the gradually increasing impact of natural disasters on the Asia and Pacific region. Following ADB's first policy on natural disasters, issued in 1987, the main objective of ADB's involvement in disaster response was in small DMCs to prevent diversion of resources and loss of development momentum, focusing primarily on the straightforward repair of damaged socioeconomic infrastructure.<sup>70</sup> A second policy issued in 1989 expanded the scope to other DMCs and by giving “due regard to feasible improvements and disaster risk reduction measures” in rehabilitation work, i.e., using disaster response as an opportunity to upgrade infrastructure (“build

back better”).<sup>71</sup> While the 1989 policy supported a more active role of ADB in disaster risk reduction and mitigation, it remained primarily in the context of recovery operations.

ADB adopted a new Disaster and Emergency Assistance Policy in 2004.<sup>72</sup> The new policy took a comprehensive approach to disaster risk management that also included disasters not related or less related to natural events, such as postconflict situations, food price crises, or health crises. Prevention and mitigation of the impact of possible future disasters were further emphasized, highlighting the importance of these operations and disengaging them from recovery operations. The policy encouraged the use of hazard mapping on top of emergency assistance loans. To enable quick financing of emergency responses, portfolio restructuring within and across existing projects and sectors was allowed, as well as reallocating surplus funds from loans. The use of normal development loans for emergency purposes beyond emergency assistance loans was made possible for the first time. ADB also began to offer grant-based TA to accompany emergency assistance loans, and to address the short-term needs of a DMC affected by a disaster. Specialized funds were developed for this purpose (see Section VII.B.2).

#### Box 16: Energy Initiatives

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

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

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

Source: ADB 2005. *Asian Development Bank Annual Report 2004*. Manila.

<sup>70</sup> ADB. 1987. *Rehabilitation Assistance to Small DMCs Affected by Natural Disasters*. Manila (R74-87).

<sup>71</sup> ADB. 1989. *Rehabilitation Assistance after Disasters*. Manila (R191-88).

<sup>72</sup> ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila (R71-04).



ADB's natural disaster portfolio reached \$3.4 billion from 1997 to 2006, compared to \$1.3 billion in the previous decade.<sup>73</sup> ADB financing was by necessity somewhat lumpy, since it was influenced by large amounts approved for disaster response in particular years. There was a spike in 2001, due to the Gujarat earthquake, and another one in 2005, following the December 2004 Asian tsunami.<sup>74</sup>

Overall, ADB approved 25 projects on natural disaster projects in 2005 (eight earthquake and nine tsunami emergency assistance loans) making this the year with the largest number of natural disaster projects and highest financing amount (\$1.4 billion) for ADB (Box 17). All completed disaster recovery operations approved over the decade were rated *successful* or better.<sup>75</sup>

### Box 17: ADB's Response to Natural Disasters

#### 2001 Earthquake in Gujarat, India

The earthquake, measuring 7.7 on the Richter scale, occurred on 26 January 2001, and killed 19,000 people; left 200,000 people injured; and rendered up to 1.7 million homeless. The Asian Development Bank (ADB) fielded an emergency mission to Gujarat within 2 weeks after the earthquake. In coordination with other development institutions, ADB formulated a joint development report, and completed the appraisal barely a month after the earthquake. On 26 March 2001, ADB approved a \$500 million loan that financed reconstruction work to restore economic activities essential for the survival of residents in the heavily affected areas. The Gujarat Earthquake Rehabilitation and Reconstruction Project received the biggest earthquake recovery funding in one developing member country. Rated as *successful* by ADB's Operations Evaluation Department, the project was found to be well designed and well executed, in spite of the enormous devastation the earthquake brought, and the complexity of implementation arrangements.

#### 2004 Asian Tsunami

On 26 December 2004, a 9.0-magnitude earthquake off the coast of Sumatra triggered tsunamis that destroyed vast coastal areas bordering the Indian Ocean. The earthquake and tsunami, one of the worst natural disasters to hit the region in recent history, caused 260,000 deaths and displaced more than 1.7 million people in 14 countries. The most affected countries were Indonesia, India, Maldives, Sri Lanka, and Thailand. Along with other development partners, ADB responded almost immediately with pledges of massive aid. Within 6 weeks of the disaster, ADB had set up a \$600 million multidonor Asian Tsunami Fund grant facility. In March 2005, the Bank earmarked around \$775 million (\$600 million in new loans and grants and \$175 million redirected from ongoing projects and programs) for emergency relief, the largest response of the Bank to a single natural disaster. Results of loan projects and grants were mixed. The Earthquake and Tsunami Emergency Support Project in Indonesia was ranked *successful*. In contrast, the Tsunami Emergency Support Project in Maldives was ranked *less successful*, owing to shortcomings in project design, lack of experience in required sector, and sustainability concerns.

#### 2005 Pakistan Earthquake

A 7.6 magnitude earthquake struck Pakistan on 8 October 2005, with epicenter located 100 kilometers northeast of Islamabad. Around 2.8 million people were left homeless and 2.3 million were affected by disruptions in the transport system and by inadequate food supply. ADB provided emergency loans and grants from the following sources: (i) \$220 million ADF (plus \$12.5 million from loan savings from the Second Science Education Sector Project); (ii) \$110 million from the Pakistan Earthquake Fund; (iii) \$37.5 million from Asian Tsunami Fund and European Commission; and (iv) \$2 million technical assistance on Capacity Building for the Office of the Auditor General of Pakistan. The Earthquake Emergency Assistance Project intended to rehabilitate and restore infrastructure damaged and destroyed by the earthquake. It addressed urgently required rehabilitation and reconstruction in the transport, power, and health and education sectors. ADB approved it in 2005 with a completion target of December 2008. The transport component targeted rehabilitating earthquake-damaged major roads and bridges within all nine affected districts in northeastern Pakistan. A field visit that would be carried out by the Independent Evaluation Department in May 2012 would find that out of 860 kilometers of roads included in the Earthquake Emergency Assistance Project, about 800 kilometers had already been completed by June 2011.

Source: ADB. 2012. *Special Evaluation Study: ADB's Response to Natural Disasters and Disaster Risks*. Manila (SES: REG 2012-12).

<sup>73</sup> Data is from the ADB Regional and Sustainable Development Department database of ADB's disaster-related projects, limited to loans and grants.

<sup>74</sup> The largest approved amount for earthquake recovery in one country was for the Gujarat Earthquake Rehabilitation and Reconstruction Project (\$500 million) in 2001. The amounts approved for recovery from the December 2004 tsunami in various countries were also large (ranging from \$22.8 million in Maldives, to \$312.5 million in Indonesia). Together, they comprised the largest response to a single natural disaster (\$777 million).

<sup>75</sup> ADB. 2012. *Special Evaluation Study: ADB's Response to Natural Disasters and Disaster Risks*. Manila (SES: REG 2012-12).

Maintaining peace and security emerged as a serious challenge for the region. ADB provided postconflict support to help the process of institutional and physical restoration in several countries, including Afghanistan, Sri Lanka, and Tajikistan. ADB also supported rehabilitation of infrastructure in Timor-Leste and Sri Lanka following conflict between the government and the Liberation Tigers of Tamil Eelam. Violence resurged in July 2006 destabilizing communities and lowering economic growth. In response, ADB approved a series of postconflict projects from 2001 to 2005, largely focused on the rehabilitation of roads, schools, petroleum storage facilities, and community infrastructure (Box 18).

Tajikistan gained independence following the breakup of the Soviet Union in 1991. The sudden demands of nationhood and the 1992–1997 civil war left the economy in ruins. By 1996, gross domestic product had contracted more than 60%. Unemployment exceeded 30%, and it was estimated that over 80% of the population lived in

poverty. A reconciliation process began in 1997, culminating in parliamentary elections in 2000. Building on the work of its development partners and in consultation with the government and NGOs, ADB prepared an interim operational strategy for Tajikistan in October 1998. ADB support focused on supporting the transition to a market economy, assisting in postconflict rehabilitation, and supporting natural disaster rehabilitation. Efforts to rebuild agriculture, infrastructure—particularly roads and power—and social sectors were given priority. ADB and Tajikistan concluded a poverty partnership agreement in 2002 based on the national poverty reduction strategy. This was ADB's first poverty partnership agreement with a Central Asian republic.<sup>76</sup>

ADB became formally involved in the international fragile situations agenda in 2004 with the circulation of its Approach to Weakly Performing DMCs at the ninth donors' meeting of the ADF (ADF X) in Lisbon. Intended to serve as a starting point for enhancing ADB engagement and improving

### Box 18: Support to the Conflict-Affected North and East of Sri Lanka

The North East Community Restoration and Development Project supported by the Asian Development Bank (ADB) carried out from 2001 to 2009 helped restore basic services, shelter, and livelihoods for over 500,000 beneficiaries, and indirectly benefited a further 500,000 people in conflict-affected areas. This was achieved with \$25 million from ADB and \$8 million in cofinancing. The project helped people who had been displaced to return home and rebuild their livelihoods. Between 2002 and 2006, the project reconstructed 63 rural health centers and major medical facilities and more than 1,500 school buildings. In 58 villages, basic facilities, including houses, village roads, and common meeting halls were constructed. To restart agriculture, 13 major irrigation systems were supported, as were veterinary facilities and agrarian outreach centers. To improve connections to markets, 77 kilometers of rural roads, including 15 bridges, were rehabilitated and two ferries were supplied to cross major rivers. Nearly 600 young persons (male and female) were trained in skilled trades.

All eight conflict-affected districts were equally supported, in line with priorities defined by local communities and authorities. The bottom-up selection of subprojects helped to build confidence and ownership of the process. Close coordination among development partners and the government supported the “do no harm” principle, thereby avoiding any negative impact on the 2002 ceasefire agreement. The success and lessons learned from the project helped ADB, the government and development partners to further rehabilitate these conflict-affected areas.

Source: ADB. 2009. *Completion Report: North East Community Restoration and Development Project in Sri Lanka*. Manila.

<sup>76</sup> ADB. 2003. *ADB Annual Report 2002*. Manila. p. 18.

aid effectiveness in countries showing limited development progress, the paper (i) proposed initial indicators and factors that underpin weak performance, (ii) outlined country analytical work and strategic partnerships with other donors, and (iii) requested donor guidance on how to move forward in refining the approach. The ADF IX donors' report in 2004 reaffirmed the need to remain engaged while quickly operationalizing a special approach for working in these country contexts. MTS II approved in May 2006 and covering 2006–2010 emphasized support for weakly performing countries and fragile states, and committed to develop a distinct and more flexible strategic approach for those countries, given their very specific needs.

## 5. Private Sector

In line with market trends, ADB's strategies started to assign an important role to the private sector from the late 1990s. Apart from a stable and predictable macroeconomic environment, DMCs need policies, regulations, and institutional capacity that support competitive private investment. While scaling up the number and volume of private sector investments, ADB sought to strengthen its internal planning processes to address more effectively the multitude of factors that affect the business environment. ADB prepared its first formal private sector strategy paper in 1985.<sup>77</sup> Despite gradual growth throughout the 1990s, private sector operations remained modest in size. The Private Sector Division—after it was transferred to a Private Sector Department in 1989—was renamed as Private Sector Group in 1994. Following the AFC, the need to mobilize private capital to help build the foundation for economic recovery became apparent. ADB began to recognize private sector development as a strategic priority. ADB's PRS acknowledged the importance of a strong and dynamic private sector for achieving long-term, rapid economic growth and reducing poverty. Promotion of the private sector was also one

of three cross-cutting themes in the LTSF 2001–2015. ADB's Private Sector Development (PSD) Strategy was approved in 2000 to improve the integration of ADB's public and private sector operations.<sup>78</sup> It was supplemented by a strategic directions paper for private sector operations, adopted in 2001.<sup>79</sup>

ADB's 2000 PSD strategy provided the broad framework for ADB's private sector operations and had three strategic thrusts: (i) creating enabling conditions for the private sector and improving the investment climate; (ii) generating business opportunities in ADB-financed public sector projects through support for PPPs and privatization programs; and (iii) providing direct financial assistance to private sector projects that have clear development impact and/or demonstration effects, to leverage additional funds in such investments. ADB's public sector operations were responsible for the first two strategic thrusts, whereas ADB's private sector group took the lead in directly catalyzing investment. Support for strengthening the enabling environment was to be implemented mainly through policy dialogue in a wide range of areas (macroeconomic policies; financial markets; competition frameworks; trade, judicial, and tax regimes; labor and land markets; and physical and social infrastructure), with particular emphasis on strengthening public sector governance, financial intermediation, and public and private partnerships. The strategy was to be operationalized through the preparation of country-specific PSD strategies as part of country operational strategies, a core staff of PSD specialists, and systematic screening of projects to ensure that public sector projects incorporated elements that promote a better business environment.

The 2001 Private Sector Operations: Strategic Directions and Review Paper was the defining strategic document for private sector transactions under ADB's PSD strategy. The review paper recommended (i) focusing on infrastructure and capital markets; (ii) developing new areas such

<sup>77</sup> ADB. 1995. *Strategy for the Bank's Assistance for Private Sector Development*. Manila (R56-95).

<sup>78</sup> ADB. 2000. *Private Sector Development Strategy*. Manila (R78-00).

<sup>79</sup> ADB. 2001. *Private Sector Operations: Strategic Directions and Review*. Manila (R122-01).

as information communication technology and social infrastructure on a pilot basis; (iii) continuing to focus on middle-tier and larger DMCs, while seeking to extend ADB's reach, where feasible, to transition and smaller economies; (iv) making wider use of innovative financial instruments, such as guarantees; (v) developing strategic alliances and partnerships with other international financial institutions; and (vi) revising ADB's internal controls to increase the maximum amount of capital allocated to the Private Sector Operations Department (PSOD) in 2002, raise project limits, and streamline procedures for approving restructuring proposals. Along with the review, the Private Sector Operations Group was upgraded to a department (PSOD) and restructured. Staff numbers were increased to support more activity, strengthen risk management procedures, and upgrade financial reporting systems. New staff were recruited, primarily from the private sector with commercial banking experience. Transactions volume started to pick up from 2003 onward. This trend was particularly evident in Bangladesh, the PRC, India, Indonesia, and Sri Lanka. There was a substantial shift away from manufacturing and agribusiness toward infrastructure, with power projects dominating ADB's private sector operations portfolio.

In 2006, a task force conducted a Bankwide review of the PSD strategy and concluded that its objectives were valid and continued to be important.<sup>80</sup> However, a range of internal problems had prevented full implementation. There were issues with regard to its design, such as (i) the absence of an implementation plan and effective monitoring mechanisms, including performance indicators and targets; and (ii) an insufficient emphasis on the role of public sector goods and services in facilitating private investment. There were also implementation issues, such as (i) weak leadership, (ii) inadequate attention paid to the quality of country partnership strategy (CPS) documents, and (iii) a limited skills base and limited teamwork between regional departments and PSOD. To help resolve these issues, the task force recommended

that (i) PSD be established as a core business theme under MTS II; (ii) country strategy formats and processes be revised to include sector road maps that explicitly recognize private sector; (iii) policies and procedures be revised so that private sector development impacts could be identified much earlier in the project review process; (iv) operating restrictions on nonsovereign lending be reviewed, and where appropriate removed; (v) internal and external reporting arrangements for sovereign, nonsovereign, and cofinancing operations be clarified, with clearly defined accountabilities; (vi) more market-oriented products and services in areas such as cofinancing be developed; (vii) skills mix be rebalanced and incentives realigned to increase the capacity and willingness to process nonsovereign transactions; and (viii) ADB's risk management capacity be strengthened, along with client and relationship management responsibilities.

## 6. Regional Cooperation and Integration

Since its establishment in 1966, ADB has supported regional cooperation and integration (RCI) among its DMCs, in line with its Charter. However, it was only in 1994 that a formal RCI policy was adopted.<sup>81</sup> The policy called for a phased approach for ADB based on three complementary functions: (i) provider of information to borrower countries, (ii) acting as an honest broker among DMCs, and (iii) leveraging public and private resources toward regional investments. Over 1994 to 1996, regional cooperation initiatives remained quite limited. Only the Greater Mekong Subregion economic cooperation program was active.

During the fourth decade, the RCI agenda expanded and became more complex. During the aftermath of the AFC, ADB played an important role in helping to build a more resilient environment against external shocks. In response to a request by ASEAN, ADB initiated and supported several important measures. Internally, ADB established REMU in 1999 to support transregional initiatives

<sup>80</sup> ADB. 2006. *Private Sector Development: A Revised Strategic Framework*. Manila (IN 27-06).

<sup>81</sup> ADB. 1994. *Bank Support for Regional Cooperation*. Manila (R60-94).

such as the Asia Pacific Economic Cooperation and the Asia Europe Meeting, collect RCI data, and produce RCI publications. At the same time, ADB's regional cooperation initiatives expanded to cover more knowledge work, honest brokering among borrower countries, regional public goods, and studies of global and regional value chains. New subregional cooperation programs were introduced (Box 19). REMU was upgraded to an office, the Office of Regional Economic Integration, in April 2005, to act as the focal point for RCI knowledge and information and act as the driver of ADB's RCI agenda.

In 2006, a new Regional Cooperation and Integration Strategy was approved to guide ADB's support for the ongoing process of RCI initiatives in Asia and the Pacific.<sup>82</sup> The strategy viewed RCI not

as an end in itself but as a means to achieve ADB's overarching objective of poverty reduction in Asia and the Pacific. The strategy had four pillars: (i) subregional economic cooperation programs on cross-border infrastructure and related software, (ii) trade and investment cooperation and integration, (iii) monetary and financial cooperation and integration, and (iv) cooperation in regional public goods. The aim of these four pillars was to help reduce poverty through regional collective action that led to greater physical connectivity; expansion of trade and investment; development of financial systems and macroeconomic and financial stability; and improved environmental, health, and social conditions in ADB's DMCs. The four pillars were intended to be mutually reinforcing so they could better contribute to achieving ADB's overarching goal of poverty reduction. In addition

### Box 19: ADB Subregional Cooperation Programs

The Asian Development Bank (ADB) implemented its regional cooperation and integration agenda mostly through subregional cooperation programs. The first subregional program, the Greater Mekong Subregion (GMS) cooperation program, was established in 1992, predating the launch of ADB's first regional cooperation and integration policy in 1994. The GMS was followed in quick succession by the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA) program in 1995 and the Central Asia Regional Economic Cooperation (CAREC) and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) programs in 1997. The South Asia Subregional Economic Cooperation (SASEC) program was established in 2001 followed by the Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT) program in 2006.

#### Greater Mekong Subregion Economic Cooperation

In 1992, six countries—Cambodia, the People's Republic of China focusing on Yunnan Province, the Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam—established the GMS Economic Cooperation Program. Guangxi Zhuang Autonomous Region in the People's Republic of China joined the program in 2004. The program focuses on (i) increasing connectivity through sustainable development of physical infrastructure and economic corridors; (ii) improving competitiveness through efficient facilitation of cross-border movement of people and goods, integration of markets, and enhancing value chains; and (iii) building a greater sense of community through shared social and environment concerns. The GMS program paid particular attention to building strategic alliances and partnerships, especially with ASEAN, ASEAN+3, and the Mekong River Commission.

#### Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area

The BIMP-EAGA program was launched in 1995 to address subregional inequalities in development both across and within the four nations involved. The program comprised the entire sultanate of Brunei Darussalam; the provinces of Kalimantan, Sulawesi, Maluku and West Papua of Indonesia; the states of Sabah and Sarawak and the federal territory of Labuan in Malaysia; and Mindanao and the province of Palawan in the Philippines. ADB has been BIMP-EAGA's regional development advisor since 2001. The program focused on five strategic pillars: (i) connectivity, (ii) food basket, (iii) tourism,

*continued.*

<sup>82</sup> ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila (Sec. M30-06).



Box 19. continued.

(iv) environment, and (v) trade and investment facilitation. Its long-term goal was to ensure that nonresource-based industries were established in the subregion. BIMP-EAGA cooperation aimed to increase trade, tourism, and investments within and outside the subregion and take full advantage of the subregion's resources and existing complementarities.

#### **Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation**

The BIMSTEC program was launched in 1997 and comprised Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand. Trade-led economic integration through the BIMSTEC Free Trade Area was one of the key objectives of the program. ADB support has facilitated subregional strategies for transport and energy trade.

#### **Central Asia Regional Economic Cooperation**

The CAREC program was established in 1997 to promote economic cooperation in central Asian countries. In the beginning, it included the following members: Azerbaijan, the PRC (through its Xinjiang Uygur Autonomous Region), Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. In 2005, three new countries joined the program: Afghanistan, Pakistan, and Turkmenistan, enabling a north–south opening to the Arabian sea through Pakistan. The program design also involved a partnership between member countries and a group of multilateral development partners. Besides ADB, the European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank were included. ADB served as the CAREC secretariat, which started functioning in 2000. The sectoral focus of the program has been on transport, energy and trade (both trade facilitation and trade policy).

#### **South Asia Subregional Economic Cooperation**

The SASEC program was established in 2001 as a project-based initiative that initially promoted economic cooperation through the enhancement of cross-border connectivity and facilitation of trade between Bangladesh, Bhutan, India, and Nepal. Sri Lanka and Maldives would join the program later (in 2014). Originally, the priority areas for cooperation were transport, trade facilitation, energy, and information and communication technology. Subsequently, the information and communication technology focus area was dropped from the program.

#### **Indonesia–Malaysia–Thailand Growth Triangle**

The IMT-GT program began in 1993 as a subregional framework for accelerating economic cooperation and integration of the member states and provinces in the three countries. The program currently covers 14 provinces in southern Thailand, eight states of Peninsular Malaysia, and 10 provinces of Sumatra in Indonesia. The strategic objectives of the program relate to (i) facilitating trade and investment, (ii) promoting agriculture, agro-industry, and tourism; (iii) strengthening infrastructure linkages and supporting integration of IMT-GT subregion; (iv) addressing cross-sectoral concerns such as human resource development, labor, and environment; and (v) strengthening institutional arrangements and mechanisms for cooperation.

Source: ADB. 2015. *Thematic Evaluation Study on ADB's Efforts on Regional Cooperation and Integration*. Manila.

to the four pillars, the RCI strategy envisaged ADB playing four distinct roles to support and promote RCI in Asia and the Pacific: (i) as a money bank—increasing financial resources for RCI projects, programs, and related TA, and/or helping DMCs mobilize such funding; (ii) as a knowledge bank—expanding the creation and dissemination of knowledge and information on RCI to borrower countries; (iii) as a capacity builder—furthering support to borrower countries and regional bodies to build their institutional capacity to manage

RCI; and (iv) as an honest broker—strengthening ADB's role as a catalyst and coordinator of RCI for borrower countries.

The RCI strategy also advocated four strategic thrusts to transform ADB support from stand-alone activity-based programs to a coherent and strategically focused RCI program. First, the strategy advocated a closer alignment of subregional cooperation strategies and country partnership strategies. Second, it supported initiatives that

would develop links across subregions and enhance cooperation partnerships between ADB and regional bodies such as ASEAN. Third, a stronger and more coordinated, policy-relevant research capacity was established to enable ADB to meet its knowledge bank role. Fourth, it supported more substantial cooperation and coordination between ADB and its multilateral and bilateral development partners as well as researchers, media, NGOs, and other stakeholders to promote RCI. A results-based monitoring framework with a set of outcomes and performance indicators was included to monitor the progress of the strategy over the period 2006–2010. ADB RCI activities would increase further following adoption of the new strategy (from 2007 onward), both in terms of lending, TA, and other knowledge activities.

## 7. Governance

In October 1995, ADB became the first MDB to adopt a governance policy, reflecting global recognition of the importance of policies and institutions for achieving development results.<sup>83</sup> The policy defined governance as “the manner in which power is exercised in the management of a country’s social and economic resources for development.” Four elements or necessary conditions of good governance were highlighted: accountability, participation, predictability, and transparency. The policy emphasized that, in accordance with ADB’s Charter, ADB’s governance activities should be based primarily on economic considerations. However, in the process of implementing governance reforms, it became clear that these were unlikely to succeed if the political realities underlying governance problems were not taken into account.

Following the adoption of the policy, ADB became involved, through both its loans and TA, in a fairly wide range of governance activities, with special emphasis on public sector management. PSM lending surged over the decade, reaching \$4.3 billion or 7% of total lending, due in part to

large loans in response to country requests for support following the AFC. Other types of support focused on the following.

- (i) **Law and development.** Through policy dialogue with its DMCs, ADB sought to address systemic problems that undermined the efficacy, and ultimately, the legitimacy of legal, judicial, and law enforcement institutions.
- (ii) **Corporate governance and the public private interface.** Regulatory issues were relevant in many sectors, as the development impact of ADB projects depended on a major extent on the existence of a sound balance between public and private interests in the sectors in question.
- (iii) **Core governance functions at the national level.** TA or program lending were used in areas such as revenue administration, public expenditure management, public administration, and civil service reforms.
- (iv) **Decentralization.** Priorities for support included promoting intergovernmental fiscal relations and finance, strengthening government institutions at the subnational level, and enhancing the delivery of critical municipal services.

Over the decade, the definition of good governance was broadened to include other policies and strategies, including participation of civil society, anticorruption, and anti-money laundering. Elements of good governance were also increasingly reflected in other thematic and/or sectoral policies (i.e., indigenous people, gender and development, water, urban development, health, education, etc.) Good governance was also established as one of three main strategic pillars under the PRS and the LTSF.

<sup>83</sup> ADB. 1995. *Governance: Sound Development Management*. Manila (R151-95).

Strengthening civil society was perceived as a key factor to improve a political environment that was not wholly committed to improved governance. In 1987, ADB established a broad framework of cooperation with NGOs.<sup>84</sup> The 1987 policy viewed cooperation with NGOs as means of supplementing efforts in selected operational areas. Advocacy NGOs and activist networks critical of the mainstream international development agenda emerged in the ensuing years. These groups chose public protests as a mode of involvement. This prompted ADB to review its strategies and policies for working with NGOs—those interested in collaboration on projects, as well as “anti-globalization” NGOs.

In April 1998, ADB adopted a new policy on cooperation with NGOs.<sup>85</sup> The policy recognized the diversity of NGOs, and identified “developmental NGOs” as ADB’s civil society partners. The policy reaffirmed that an expanded program for cooperation with developmental NGOs should be pursued to strengthen the effectiveness, sustainability, and quality of ADB development services. The expanded program of cooperation identified, in addition to loan and TA activities, operational programming and country-level work, and policy development work, areas not explicitly envisaged in the 1987 policy. To facilitate closer operational relationships with NGOs, ADB started to significantly strengthen its internal capacity for NGO cooperation through staff training, skills development, and other related activities. The NGO Center was established in 2001 to guide this work.

The 1998 Anticorruption Policy represented a major extension of the governance policy.<sup>86</sup> Covering both public and private sectors, it had three main objectives: (i) support competitive markets and public administrations that are efficient, effective, accountable, and transparent; (ii) support promising anticorruption initiatives on

a case-by-case basis and improve the quality of governance dialogue with the DMCs on governance issues, including corruption; and (iii) ensure that ADB’s projects and staff adhere to the highest ethical standards. The policy emphasized efforts to reduce or eliminate fertile grounds for corruption, as well as to deal with identified corruption cases. To this end, ADB sought to reduce the scope of direct government interventions in the economy. Examples of ADB support included liberalization of licensing regimes and foreign exchange markets, elimination of administered prices and removal of credit subsidies; introduction of institutional and public administration reforms aimed at advancing integrity (in areas such as procurement); and increasing the use of effective audit systems. The policy led to the establishment in 1999 of the Anticorruption Unit (renamed Office of Anticorruption and Integrity in 2009).

The First Governance Action Plan followed in 2000.<sup>87</sup> This led to ADB preparing general country governance assessments covering five areas: (i) legal and regulatory frameworks, (ii) public administration, (iii) public financial management, (iv) judicial system, and (v) civil society. While country governance assessments raised awareness of governance issues and increased opportunities for dialogue, these were broad in scope and lacked the operational focus needed to mainstream governance in sector operations. In 2005, ADB reviewed the implementation of its governance and anticorruption policies. The review concluded that the policies were only partially implemented, because they covered such a wide range of topics. As a result, ADB was unable to respond effectively given competing demands on its limited resources.

The review led to the introduction of the Second Governance and Anticorruption Action Plan (GACAP II), which became effective in 2006.<sup>88</sup> GACAP II aimed to improve ADB’s performance in the implementation of governance and

<sup>84</sup> ADB. 1987. *The Bank's Cooperation with Non-Governmental Organizations*. Manila (R79-87).

<sup>85</sup> ADB. 1998. *Cooperation Between the Asian Development Bank and Nongovernment Organizations*. Manila (R54-98).

<sup>86</sup> ADB. 2000. *Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan*. Manila (R229-00).

<sup>87</sup> ADB. 1998. *ADB Anticorruption Policy*. Manila (R89-98).

<sup>88</sup> ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila (IN 216-06).

anticorruption policies in sectors and subsectors where ADB was active, and to design and deliver better quality projects and programs. GACAP II introduced a risk-based approach for assessing three priority governance thematic areas viewed as critical to poverty reduction and development effectiveness: public financial management, procurement, and combating corruption. These areas were to be assessed at country, sector, and project levels—leading to the preparation of risk assessments and management plans (RAMPs) identifying major risks and mitigation measures. The purpose of the RAMPs was to mainstream governance assessment and management in ADB operations from the (i) CPS, (ii) sector assessments, and (iii) projects and programs. The RAMPs sought to assist DMCs in strengthening country governance systems and reducing vulnerability to corruption.

ADB's initial efforts in assisting DMCs combat money laundering were implemented primarily through its financial sector loan operations in a number of countries. In the aftermath of the AFC, ADB's activities focused particularly on developing the soundness, safety, and integrity of financial institutions. Some of these activities had a direct bearing on anti-money laundering (AML) activities. For example, under the financial governance reform program loan to Indonesia in 1998, the enactment of legislation to prevent money laundering was a prerequisite to disbursement of the third tranche. ADB's efforts were also channeled through TA to assist DMCs in identifying needed institutional and regulatory reforms and strengthening their AML regimes. In September 2000, ADF donors requested ADB to prepare a policy paper proposing a larger role for ADB in the field of AML. Taking into account the events in the United States on 11 September 2001, and related developments at the international level, a new policy on anti-money laundering and combating the financing of terrorism (AML/CFT) was approved in 2003.<sup>89</sup> Under the policy, ADB sought to (i) assist DMCs to establish and implement effective legal and institutional systems for AML/CFT, (ii) increase collaboration with other international and donor organizations,

(iii) strengthen internal controls to safeguard ADB's funds, and (iv) upgrade ADB's staff capacity. When the policy was adopted, most DMCs were in varying stages of implementing AML/CFT requirements. Five DMCs were at that time regarded by the Financial Action Task Force on Money Laundering as noncooperative. By the end of the decade, no DMC remained on the watch list.

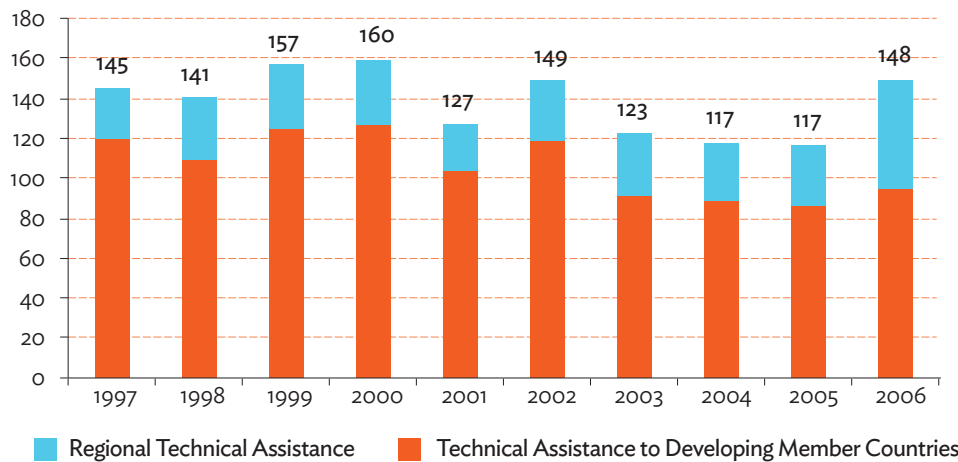
## E. Technical Assistance

Technical assistance is a key operational instrument for ADB. Three main types of TA have evolved by the fourth decade. Preparatory TA was used to prepare projects, program, or sector loans. Advisory TA (ADTA) was used to finance institution building; operation and management of ADB-financed projects; and sector, policy, and issues-oriented studies. Regional TA (RETA) could finance any of the above activities covering more than one DMC and for conducting regional studies, conferences, seminars, and training courses. TA could be financed either as a grant or as a loan. Most TAs were grant-financed, except for detailed engineering and large advisory services attached to project or program loans.

Over 1997–2006, TA approvals reached \$1.4 billion, compared to \$882 million in the previous decade (Figure 4). Average annual approvals averaged around \$140 million a year, equivalent to 2.16 % of total of ADB assistance (up from 2.01% a decade earlier). Of the total amount, 77% were allocated to specific countries, while the remaining 23% funded regional TA. Excluding RETA, the top five country recipients of TA projects were the PRC (14%), Indonesia (9%), Viet Nam (6%), Pakistan (6%), and the Philippines (5%). ADB's TA operations covered a multitude of sectors and subsectors. Compared to the previous decade, there was large increase in the share of TA support for public sector management following the AFC (the largest recipient sector accounting for 27% of total TA) with a further decrease in the share of TA going to agriculture (accounting for 16% down from 30% in the previous decade).

<sup>89</sup> ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila (R45-03).

**Figure 4: Technical Assistance Approvals, 1997–2006**  
 (\$ million)



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

ADTA accounted for the largest share of TA (almost half by the end of 2006). The growth in ADTA actually started in the previous decade, fuelled by the increasing importance that ADB attached to policy, institutions, strategy, and knowledge. Among these was the drive to make ADB a more broad-based development institution. This involved providing support for a wider range of sectors and thematic areas and shifting from financing stand-alone investments to financing interventions at the level of policies, sectors, and institutions. TA was increasingly seen as the delivery mechanism for transferring knowledge, disseminating best practices, facilitating exchanges of views between DMCs and the rest of the development community, and creating awareness of reforms and policies. This role became even more important in the aftermath of the AFC. Similarly, the adoption of poverty reduction as ADB's overarching goal supported by pillars and cross-cutting themes related to governance, gender, environment, private sector development, human development, and regional cooperation led to further growth in ADTA to support the shift in ADB operations, from general socioeconomic development to supporting poverty reduction.

Technical assistance was financed from three main sources: (i) the Technical Assistance Special Fund, provided through voluntary contributions and from OCR net income transfers; (ii) the Japan Special Fund (JSF), provided by the Government of Japan; and (iii) trust funds and other sources. Over the decade, TA approvals reached the limits of the financing available from the Technical Assistance Special Fund and JSF. This led to attempts to improve the screening of TA proposals. It was also associated with rapid growth in the amount of TA financed from trust funds. By the end of the decade, there were 34 trust funds, each with their own rules and procedures for eligibility, processing, and implementation; and with responsibility for administration shared by the Office of Cofinancing Operations, Regional and Sustainable Development Department (RSDD), SPD, and Office of Regional Economic Integration.

Several reviews of TA were undertaken over the decade. They emphasized the strategic importance of TA to ADB's operations, and recognized that, in many cases, TA had contributed significantly to development results. However, the reviews also found that



TA was not realizing its full potential. A first review undertaken in 1997 found that while TA operations had been fairly successful in achieving intended outputs, less was known about their actual outcomes and impacts.<sup>90</sup> The major finding concerned the need for greater selectivity through tighter screening of TA proposals and for closer links between TA and longer-term sector or subsector strategies at the country level. The review also proposed upgrading RETA screening procedures to ensure strategic relevance, including a project framework in all TA papers, increasing stakeholder participation in TA design and implementation, assigning more administrative resources to strengthen TA supervision; and improving the system of monitoring TA. Subsequently, the LTSF 2001–2015 called for ADB to develop improved mechanisms and procedures for TA to be used effectively, including more flexible and longer-term models of TA and greater ownership.

Another review was undertaken in 2003, followed by an action plan.<sup>91</sup> The review recognized that ADB had made a concerted effort to improve the strategic programming and planning of TA through improved country focus, a streamlined approach to RETA programming, and new approaches to knowledge management. However, there were still problems with the lack of integration of TA within country strategies and programs, and the lack of sufficient long-term perspective in TA programming and design. The action plan recommended that all proposed ADTA and PPTA be included in country strategy partnerships (CSPs) based on proposals submitted by DMCs. Lack of country ownership was cited as one of the main factors limiting TA effectiveness, and a checklist of good practices was proposed for enhancing country ownership. Another concern was that TA implementation periods should allow more time for dissemination and planning for implementation. Within ADB, an easily

accessible knowledge base was needed to support more efficient use of knowledge generated by TA. This was to be launched after endorsement of proposals for establishing an ADB knowledge management framework.

The 2003 review again referred to the need to devote more staff resources to TA implementation, but recognized that staff resources were constrained. It discussed adopting more efficient approaches to interaction between staff, consultants, and DMC officials. It found that more use should be made of domestic consultants, and expected that this would be facilitated by quality- and cost-based consultant selection, which was introduced in 2002. It also proposed an examination of further options for greater DMC involvement in consultant selection. The review indicated that internal management of TA funds and tracking of TA progress had been strengthened by the introduction of the TA performance report system. By 2003, ADB required design and monitoring frameworks to be prepared for all TA. The TA action plan proposed that the success of TA be measured in terms of outcomes not outputs, and that ADB's Operations Evaluation Department (OED) should update its guidelines for evaluating TA. OED updated the guidelines for TA performance evaluation reports in 2005.

In March 2005, Management formed an interdepartmental TA Reform Task Force to prepare an analysis of issues and options for improving the overall quality of TA over the medium term. The need for more strategically focused TA was also highlighted in MTS II, more specifically the need to (i) use TA resources in line with MTS II priorities, (ii) more closely integrate TA with ADB lending and nonlending operations at the country level, and (iii) improve monitoring of TA at the ADB Management level. Appendix Tables A2.1 and A2.2 provide more detailed data on lending and technical assistance approvals by country.

<sup>90</sup> ADB. 1997. *Review of the Bank's Technical Assistance Operations*. Manila (R119-97).

<sup>91</sup> ADB. 2003. *Review of the Management and Effectiveness of Technical Assistance Operations of the Asian Development Bank*. Manila (R225-03).  
ADB. 2003. *Updated Action Plan: Review of the Management and Effectiveness of Technical Assistance Operations of the Asian Development Bank*. Manila (IN195-03).



## VI. INTERNAL REFORMS

- To strengthen the overall effectiveness of its operations, ADB recognized the need to realign key organizational elements with its broad strategic agenda.
- ADB began implementing various reform initiatives to more effectively pursue its mission of poverty reduction. These became integral parts of ADB's Reform Agenda, launched in 2004, to make ADB more relevant, responsive, and results-oriented.
- Implementation of the Managing for Development Results agenda became one of ADB's key reform initiatives.

In August 2004, ADB brought various ongoing reform initiatives together and made a commitment to a Bankwide internal reform agenda aimed at improving ADB's performance (Box 20). The reform agenda was not a holistic or strategically driven institutional reform initiative, but a means through which various institutional reforms at varying stages of development were brought together, implemented, and monitored. It included 19 initiatives across the institution in five broad areas: (i) managing for development results; (ii) improving operational policies, strategies, and approaches; (iii) refining organizational processes; (iv) reinforcing knowledge management; and (v) improving human resources management. A monitoring framework was developed to enhance monitoring and reporting on implementation progress.

### A. Mainstreaming Managing for Development Results

Externally, the late 1990s and early 2000s saw rising criticisms from the development community that aid programs were not delivering on their intended development objectives. Development literature characterized this as a sense of "aid fatigue." There was perceived overemphasis on funding of development inputs and activities through resource transfers, and not enough attention given to broader development results or outcomes. As a result, several "results-based management" approaches emerged. At the International Conference on Financing for Development, held in March 2002 in Monterrey, Mexico, MDBs agreed to progressively introduce

results-oriented initiatives to improve their development effectiveness. Immediately after, in 2003, ADB formed a Bankwide working group to advance results-based management in ADB. This led to the adoption of the Managing for

Development Results (MfDR) framework, which sought to align ADB's values, culture, policies, strategies, and practices with a set of well-designed and defined results in order to better measure and monitor ADB's performance (Box 21).

### Box 20: ADB's Reform Agenda—Excerpts from President Haruhiko Kuroda's Speech at the 38th ADB Annual Meeting

The reform agenda of ADB is a comprehensive and challenging framework for institutional change and renewal. After 4 months in office, I am confident in the progress we are making. We will continue to build upon this progress to further strengthen our development effectiveness.

- (i) **Relevance.** To remain relevant in the new era of development, ADB must address some fundamental challenges, both internally and in our developing member countries. To deal with these issues, we must strive for greater focus and selectivity in our operations. This is the only way we can offer and sustain high-quality products and services to our clients. Our next Medium-Term Strategy will set out the specific priorities we intend to address over the next 5 years. These priorities will be achieved within the context of our unique role in promoting closer regional cooperation and integration.
- (ii) **Responsiveness.** To be responsive, we must be timely in all our operations. We must be innovative and we must be more flexible.
- (iii) **Results.** Ultimately the value we add to our borrowing member countries and our shareholders depends on achieving demonstrable results. All of us at ADB are accountable for ensuring that we achieve results. As part of the Bankwide implementation of the Managing for Development Results framework, our focus is shifting from activities and inputs to outcomes and impacts. As we move forward, we are committed to adhering to the highest levels of accountability and transparency.

Source: ADB. 1995. *Address by President Kuroda delivered at the 38th Annual Meeting of the ADB Board of Governors*. Istanbul, Turkey. May 2005. Manila.

### Box 21: Incorporating Managing for Development Results Approaches at the Country and Project Levels

The Asian Development Bank (ADB) mainstreamed results-based country strategy and programs (CSPs) to enhance focus and alignment of its operational programs with national priorities and to provide the tools to monitor and manage the delivery of its programs. The results-based country partnership strategy was first piloted in Nepal in 2004. By the end of 2006, 10 other developing member countries had results-based CSPs: Bangladesh, Bhutan, Cambodia, Indonesia, the Lao People's Democratic Republic, Mongolia, Papua New Guinea, the Philippines, Uzbekistan, and Viet Nam. The results approach was formally integrated into ADB business processes in 2006 as all CSPs were required to be results-based. Related business changes were introduced. This included a discontinuation of annual updates of CSPs, replacing them with a midterm review of the CSP and the preparation of annual rolling business plans as a tool for learning and self-evaluation. Mainstreaming was supported by targeted staff training, preparation of staff guidelines, and a stocktaking exercise.

At the project level, ADB introduced the design and monitoring framework (DMF) as a tool for conceptualizing, implementing, and evaluating projects. The DMF spelled out how the project intended to achieve certain results by converting inputs into a defined set of outputs that were expected to deliver a desired outcome contributing to broader development impact. The DMF outlined specific risks that might prevent achievement of the intended results as well as the underlying assumptions; and included time-bound performance targets to allow the project to be monitored during implementation and evaluated after completion. The new DMF was to be used for both lending and nonlending operations and is now considered as a primary tool for enhancing the quality-at-entry of ADB projects. It provided a logical, results-oriented structure, suitable for participatory project design. The use of the DMF was supported by extensive training programs, both in-house and in-country. The *Guidelines on Preparing a Design and Monitoring Framework* were published in March 2006. These guidelines focused on applying the DMF at the program, project, and technical assistance levels.

Source: ADB. 2006. *ADF IX Paper on Managing for Development Results at the Asian Development Bank*. Manila.

ADB's Results Management Unit in the Strategy and Policy Department was established in February 2004. Thereafter, ADB approved the first MfDR action plan to mainstream MfDR into all operations. An updated action plan was formulated in 2006 covering the period 2006–2008. Implementation of the MfDR action plans became one of ADB's key reform initiatives aimed at enhancing results orientation at all levels (i.e., institutional, country, sector, and project). ADB worked more closely with its DMCs to increasingly define assistance programs in terms of expected outputs, outcomes, and impacts, including progress in achieving the MDGs. The initial period of MfDR implementation was marked by an incremental and pilot-testing approach that facilitated experimentation, innovation, and learning. This was accompanied by extensive staff training. ADB also developed methodologies to monitor and assess performance at various levels: country strategy and programs (CSPs); projects, policies and strategies; and corporate work programs. ADB has also provided a number of TA to strengthen MfDR capacities in its DMCs.

In 2005, a private consulting firm was commissioned to undertake an independent evaluation of the ADB's efforts to mainstream MfDR.<sup>92</sup> Overall, the assessment was positive. ADB was able to initiate a wide set of institutional reforms aimed at modernizing and improving its performance. The assessment included recommendations to support the institutionalization of MfDR within ADB. They were used as an input for ADB's 2006 revised MfDR Action Plan to mainstream MfDR more systematically within ADB and use it as a management tool for improved decision making. The action plan recognized that a central challenge in implementing MfDR was changing organizational behavior and culture. The following strategic directions were identified to address these challenges: (i) a general shift in emphasis from results measurement and reporting to results management and learning; (ii) greater emphasis on quality in project implementation; (iii) accelerated reforms to support performance-based human resources management, and results-oriented work

planning; (iv) development of unified corporate level performance indicators; and (v) a more systematic application of results-based approaches through staff guidance and learning.

## B. Improving Operational Policies, Strategies, and Approaches

In parallel, ADB was facing mounting internal pressures. Demand for ADB financing was stagnating, despite growing investment needs in the region. ADB's clients expressed concerns on ADB's rising transaction costs, slow and bureaucratic processes, and lack of responsiveness to their emerging developing needs. In response, and in order to be more responsive and relevant to DMCs' needs, ADB widened the menu of its lending instruments and modalities. Various aspects of ADB's business processes were streamlined, harmonized with other MDBs, and made more flexible.

### 1. Innovation and Efficiency Initiative

The innovation and efficiency initiative (IEI) was a Bankwide initiative launched in November 2003 in response to the operational concerns raised by both ADB clients and donors (Box 22). The IEI aimed to help ADB become more client and results-oriented, efficient, and effective. A working group was formed to identify a list of priority issues related to operational bottlenecks in ADB at various stages of ADB's operational cycle. The IEI focused on developing change proposals in the following priority areas:

- (i) **Country strategy.** Covered ways to improve strategic clarity and results-orientation, quality at entry, and thereafter the development of a sound business pipeline covering investment and other forms of assistance (financial and nonfinancial).

<sup>92</sup> ADB. 2005. *Independent Assessment of Managing for Development Results at ADB*. Consultant's report. Manila.

- (ii) **Business processes.** Explored approaches, procedures, and practices related to the development of the pipeline, and the efficient conversion of this into investment and noninvestment operations thereafter (i.e., processing, approvals and implementation);
- (iii) **Procurement.** Looked at approaches, practices, and policies covering consultancy services; and procurement of goods and works as well as harmonization with other development partners;
- (iv) **Cost sharing and expenditure eligibility.** Included proposals to improve the cost sharing system and the widening of expenditure eligibility criteria for greater client responsiveness and harmonization with other development partners.
- (v) **Safeguards.** Called for proposals to improve quality and efficiency during processing and implementation.
- (vi) **Financial instruments and modalities.** Developed new instruments and modalities on a pilot basis, accompanied by an independent credit risk management function and improved procedures and practices. In coordination with IEI, the Treasury Department also developed a proposal to introduce local currency lending to private and public sector clients.

## 2. ADB Financing Instruments and Lending Modalities

During the fourth decade, program lending experienced a substantial increase. This was largely caused by ADB's response to the AFC. Several crisis loans were approved in quick succession to help contain the negative impact of the crisis, and the 15% ceiling was exceeded. However, even without crisis lending, there was

strong demand from DMCs for program lending. In 1999, to separate substantial program lending in a crisis situation from policy-based lending in noncrisis situations, the special program loan modality was introduced. Equally important, and in recognition of the extended time it sometimes took to achieve sector reform, the program cluster approach, which allowed a sequence of program loans over a longer time period, was introduced. At the same time, the ceiling on program lending was raised from 15% to 20% of total ADB public sector lending.<sup>93</sup>

In the same year (1999), ADB also reviewed its guarantee operations. The review confirmed that guarantees were important instruments to support DMC reform programs and catalyze private financing for infrastructure projects. It recommended changes in certain key provisions of the policy involving discount rates, country eligibility, mainstreaming of guarantees, staff training, TA, and the Asian Currency Crisis Support Facility guarantees to ensure the instrument's continued usefulness and flexibility. In 2002, ADB introduced the London interbank offered rate (LIBOR)-based loan (LBL) products to meet the needs of its public and private sector borrowers in managing interest rate and exchange rate risks.

ADB's Policy on Supplementary Financing (adopted in 1973 and reviewed in 1983 and 1988) to meet cost overruns and close financing gaps in projects was further reviewed in 2005. The 2005 revision introduced three major changes.<sup>94</sup> First, it reduced the number of restrictions on accessing supplementary financing. Second, it expanded the scope of supplementary financing and permitted its use to expand operations that were performing well. Third, it simplified business processes. These changes were aimed at increasing the relevance of supplementary financing, extend support to operations that were performing well, cut processing time, and reduce cost underruns and loan cancellations. The 2005 revision led to an increase in the use of supplementary financing.

<sup>93</sup> ADB. 1999. *Review of ADB's Program Lending Policies*. Manila (R201-99).

<sup>94</sup> ADB. 2005. *Review of the Policy on Supplementary Financing: Addressing Challenges and Broader Needs*. Manila (R303-05).



On 25 August 2005, as part of IEI, the Board approved the 3-year pilot testing of three new financing instruments and modalities: the multitranche financing facility, the nonsovereign public sector financing facility, and the refinancing facility (Box 22). The new instruments were intended to provide ADB clients and operational teams with additional and flexible alternatives to help finance individual projects and investment programs. After the pilot, the performance, suitability, and outcomes of the new instruments would be evaluated. If found sound, relevant, and effective, they would be mainstreamed into ADB's operational toolkit. As a precondition for the pilot instruments, the independent Risk Management Unit was created in 2005 to evaluate nonsovereign finance transactions. The unit became fully operational in 2006.

As part of the IEI, the Board approved a new policy framework in 2005 on cost sharing, expenditure eligibility, and local cost financing for public sector assistance. In the past, cost-sharing limits were fixed upfront and equally for all projects based on the DMC's classification. The new policy harmonized ADB's approaches and practices with those of other development institutions. In March 2006, new staff instructions and operations manual sections were issued to provide detailed guidance on the implementation of the new policy. Under the new policy, cost-sharing ceilings and financing parameters for each DMC would be established in conjunction with the country partnership strategy. Occasionally, the ceilings and parameters could be reviewed and redefined on a stand-alone basis.

### **Box 22: Piloting New Instruments under the Innovation and Efficiency Initiative**

#### **Multitranche Financing Facility**

The multitranche financing facility allows the Asian Development Bank (ADB) to offer financial resources to clients for an agreed investment program or a set of interrelated investments. These resources may be provided in a series of separate financing tranches over a fixed period. Of the various pilot financing modalities, the multitranche financing facility was the most in demand among clients. From August 2005 to December 2006, 10 multitranche financing facility proposals were submitted to and approved by the Board. Financing made available through this facility amounted to \$5.3 billion. By end of 2006, two loans (India's Rural Roads Sector II Investment Program and Pakistan's National Highway Sector Investment Program) were declared effective.

#### **Nonsovereign Public Sector Financing Facility**

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

#### **Refinancing Facility**

Using the refinancing facility, ADB could restructure the existing debt of public, private, or public-private clients who were burdened by a legacy of inappropriate or onerous financing plans. By end of 2006, no refinancing transaction had been processed and no concept paper for a refinancing transaction had been cleared. Two factors limited its uptake: skills mix and ability to restructure financing plans, and tight conditions and criteria for its use. As with nonsovereign public sector financing facilities, refinancing facilities were to be processed in accordance with private sector operations procedures.

Source: ADB. 2005. *Innovation and Efficiency Initiative*. Manila.

### 3. Business Processes

ADB introduced new business processes (NBPs) in 2002 for its key operations—programming; economic, thematic, and sector work; and project processing and implementation.<sup>95</sup> The NBPs emphasized the centrality of the CSP in ADB operations. The NBPs were designed to be more streamlined and flexible; to enable greater responsiveness to clients; and to delegate more authority to the resident missions. Accountability for the delivery of products and services was more clearly established with operational Vice-Presidents given the authority to supervise and oversee the work of the regional departments. The director general of each regional department was made accountable for the effective and timely delivery of quality loan and nonlending products and services. The NBPs emphasized greater need for teamwork: first, by creating a regional management team for each regional department; second, with each country having a country team (headed by senior staff at ADB headquarters or in the respective resident missions joined by staff from within the regional department and from other ADB departments as needed); and third, through project teams established for all loan projects. Under the NBPs, better identification and conceptualization of projects at the initial stage of the project cycle was emphasized to ensure quality at entry. Provisions for compliance with safeguard policies were also strengthened with the appointment of a chief compliance officer.

Business processes were further streamlined in 2004. ADB aligned its CSPs to DMCs' own national poverty reduction strategies. Acknowledging the key role of resident missions, ADB continued to delegate responsibilities for project administration and management, for preparing CSPs and CSP updates, and conducting country portfolio reviews. To promote efficiency, the NBPs rationalized CSP preparation and TA processing by reducing and streamlining document circulation. To eliminate redundancies, a review of instructions

and guidelines on operational procedures was conducted. To ensure quality, ADB amended its business processes to ensure (i) a greater focus on the overall quality of country assessments and the introduction of a results framework in each CSP; (ii) improved thematic and sector assessments by involving experienced thematic and sector staff in CSP preparation; and (iii) the introduction of a biennial stocktaking of CSPs and their lending and nonlending operations to examine if they are results-based.

Business processes were further reviewed and updated in 2006. A number of measures to enhance quality-at-entry of both CSPs and projects and to improve analytical work during country planning and programming were introduced. The new approaches were meant to support a more strategic approach to project identification and speed up processing.<sup>96</sup> Quality assurance mechanisms were reinforced, with ADB completing its first biennial quality-at-entry assessment of CPS and projects in 2006 (covering ADB projects and country strategies approved during 2004–2005).

In parallel, the Project Administration Instructions were revised completely in 2001 (and became effective in 2002) to reflect improvements in business processes and changes in delegation authority. Efforts continued to simplify key documents to avoid repetition and ensure clearer presentation. ADB's Operation Manual was reviewed and updated in 2002/2003. In 2004, the project classification system was revised, with the introduction of poverty targeting classification. In 2005, guidelines were introduced to improve the quality of country poverty analyses, along with results-based country partnership strategies. ADB financial management guidelines were updated in December 2005. Streamlined procedures for the procurement of goods and services and the engagement of consultants became effective in 2006 to respond to borrowers' demands for more flexibility and modernization in procurement and consultant engagement. ADB's *Loan Disbursement Handbook* was revised.

<sup>95</sup> ADB. 2002. *Business Processes for the Reorganized ADB*. Manila.

<sup>96</sup> ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila

## 4. Other Operational Policies

To better serve client countries at different stages of development, ADB worked to more clearly define its approaches to middle-income and weakly performing countries. To enhance relevance and effectiveness of OCR operations, a number of measures were initiated.<sup>97</sup> To reduce the cost of doing business with ADB, the Bank sought to (i) ensure that ADB financial costs remain competitive; (ii) explore means to soften terms for regional public goods and social services; (iii) introduce greater flexibility in the ADB programming cycle; (iv) delegate operational services and decisions to RMs; and (v) streamline operational policies, strategies, and business processes. A second group of measures, new instruments were introduced under IEI to allow ADB to work with different sets of partners: national or local governments, state-owned, newly privatized, private, nonprofit, or nongovernmental entities. Existing instruments were improved, including ADB's TA, program lending and credit enhancement and risk management products. Measures to enhance service quality called for enhancing knowledge management within the organization, improving human resources management, and increased emphasis on quality-at-entry, development effectiveness and results. In parallel, MTS II emphasized support for weakly performing countries and fragile states and committed ADB to develop a distinct and more flexible approach for those countries, given their very specific needs. A background paper was prepared and discussed during the ADF IX midterm review exercise held in December 2006 in Frankfurt, Germany.

### C. Reinforcing Knowledge Management

ADB had accumulated extensive knowledge in its nearly 4 decades of development work in Asia and the Pacific and recognized the importance of this institutional asset. Under the LTSF 2001–2015, ADB committed to become

a learning institution and a primary source of development knowledge in the region drawing upon resources, skills, and expertise both inside and outside the organization. Subsequently, ADB appointed a vice-president for knowledge management and sustainable development in 2003 and adopted a knowledge management framework in June 2004. The framework identified five distinct but complementary outcomes: (i) improved organizational culture for knowledge sharing; (ii) improved management system of knowledge products and services; (iii) improved business processes and information technology solutions for knowledge capture, enrichment, storage, and retrieval; (iv) establishment of well-functioning communities of practice or networks; and (v) expanded knowledge sharing, learning, and dissemination through external relations and networking. In achieving these goals, ADB sought to establish itself, and be recognized as a learning institution. ADB established 10 communities of practice in August 2005 to better capture and share information. A knowledge management center was established to implement the framework. ADB also joined the Most Admired Knowledge Enterprises network.

### D. Enhancing Accountability and Transparency

In December 1995, ADB approved the establishment of an Inspection Function to provide a forum for project beneficiaries to appeal to an independent body relating to ADB's compliance with its operational policies and procedures in ADB-assisted projects.<sup>98</sup> This was done in the context of increased attention to accountability, transparency, and public participation by ADB and other MDBs. Approval of the Inspection Function was designed to complement ADB's existing audit, supervision, and evaluation systems. The policy stipulated a review within 2 years from its approval to assess the operations of the Board Inspection Committee and related inspection procedures. In

<sup>97</sup> ADB. 2006. *Enhancing Asian Development Bank Support to Middle-Income Countries and Borrowers from Ordinary Capital Resources*. Manila (Sec. M64-06).

<sup>98</sup> ADB. 1995. *Establishment of an Inspection Function*. Manila.

1998, ADB commenced a review, but ADB had limited experience with the inspection process, and few conclusions could be drawn regarding the existing system. Only two requests, both regarding the Korangi Wastewater Management Project in Pakistan, had been filed, and the Board Inspection Committee had deemed them both ineligible. In 2000, during the seventh replenishment of ADF (ADF VIII: 2001–2004), donors recommended a strengthened and more independent inspection function that should also have oversight of private sector projects.

The first full inspection process, relating to the Samut Prakarn Wastewater Management Project in Thailand, was conducted from April 2001 to March 2002. It became evident that the inspection process and procedures were lengthy, confusing,

and complex for most stakeholders inside and outside ADB. The case also raised concerns about the independence, credibility, transparency, and effectiveness of the Inspection Function. There was nearly universal agreement that the current system should be replaced (see Box 23).

In 2002, ADB carried out an extensive review of the Inspection Function. Extensive external and internal consultations were held in the process. In May 2003, ADB introduced a new Accountability Mechanism Policy.<sup>99</sup> The most significant change introduced was the establishment of two separate but complementary phases: (i) a consultation phase to respond to specific problems of people affected by ADB-assisted projects through a range of informal and flexible methods; and (ii) a compliance review phase to investigate

### Box 23: The Samut Prakarn Wastewater Management Project—ADB’s First Inspection Case

Seven years after the creation of the Asian Development Bank’s (ADB) Inspection Function, ADB undertook a full inspection of the Samut Prakarn Wastewater Management Project in Thailand. The inspection was the first ever approved by ADB’s Board of Directors. The case started when the Board Inspection Committee (BIC) received in April 2001 a request for inspection from the Mayor of Klong Dan and two Klong Dan villagers. The project was located in Samut Prakarn Province, an industrialized urban area outside Bangkok. It was designed to improve the health and well-being of Samut Prakarn district residents, and was supposed to directly benefit 1 million residents through provision of a cleaner environment and improved water quality by eliminating organic pollutants and heavy metals that were previously discharged with little or no treatment into the Gulf of Thailand. The complaint alleged that ADB moved the wastewater treatment plant to a new location at the Klong Dan site without reassessing the environmental and social impacts of the project on local communities, and without conducting a full reappraisal at the time of a supplementary loan to the project. The requesters charged that ADB had violated 13 policies, including, among others, the policy on supplementary financing of cost overruns of ADB-assisted projects.

The ADB panel inspecting the request concluded that there was noncompliance with six policies, and that by failing to conduct a full reappraisal at the time of the supplementary loan, ADB violated the policy on supplementary financing of cost overruns. Management disagreed with the panel’s conclusions but BIC agreed that there should have been a full reappraisal. Further, by not conducting the full reappraisal, there was also a breach of policies on involuntary resettlement, incorporation of social dimensions, and benefit monitoring and evaluation.

Key recommendations from BIC and the Board on the outcome of the Samut Prakarn Inspection case included the following: (i) ADB should affirm its commitment to being an active participant in the discussions with the Klong Dan community; and (ii) management should monitor resettlement impacts, ensure public participation, and provide semiannual reports on the status of resettlement implementation. BIC and the Board also requested ADB Management to provide semiannual reports on initiatives that management had already undertaken, including the system for monitoring of socioeconomic impacts based on baseline data, progress in community development, and measures taken to respond to any problems associated with odor and effluent.

Sources: ADB. 2001. *Final Report of Inspection Panel on Samut Prakarn Wastewater Management Project*. Manila.

<sup>99</sup> ADB. 2003. *Review of the Inspection Function: Establishment of a New ADB Accountability Mechanism*. Manila (R79-03).

alleged violations of ADB's operational policies and procedures that resulted, or were likely to result, in direct and material harm to project-affected people. ADB was the first MDB to establish an accountability mechanism that went beyond an inspection function, by introducing the dual dimensions of consultation and/or problem solving and compliance review for both private and public sector operations of the Bank.<sup>100</sup> Following ADB, most international financial institutions instituted problem solving in their own accountability mechanisms. Dedicated institutional support was provided for both the consultation and compliance review phases to reflect their distinctive features and needs. The Special Project Facilitator handled the consultation phase, and reported directly to the President. The compliance review phase was handled by three Compliance Review Panel members. The new policy became effective on 12 December 2003.

Twenty-one years after its creation, ADB's Post-Evaluation Office, which had evolved and grown through the years, was renamed Operations Evaluation Office in 1999. In March 2001, reflecting its changed and broader mandate as well as the increasing importance of operational evaluation activities within ADB, and the growing concern in the international development community for enhancing development effectiveness, the office was upgraded and renamed as the Operations Evaluation Department (OED). A new Evaluation Policy was approved in 2003.<sup>101</sup> With the approval of the new policy, structural changes to increase the independence of OED took effect on 1 January 2004. The policy introduced new reporting arrangements for OED—to the Board through its

Development Effectiveness Committee instead of to the President. Accordingly, a new responsibility and accountability structure was implemented to evaluate operations. The most significant changes were (i) the Board, rather than the President, appointed the Director General of OED; and (ii) Management's role in evaluation changed from approving evaluation reports to responding to the reports' conclusions. Management responses evolved from a "no comment" nature at the outset to carefully considered commitments to specific improvements and actions by 2006. A system to monitor these actions was put in place under the leadership of the MDG.

ADB adopted in April 2005 a new Public Communication Policy, which became effective in September 2005.<sup>102</sup> The policy included two main components to guide ADB toward improved disclosure of information and external relations. The disclosure requirements provided ADB stakeholders with much better access to ADB information. More project information was made available during project preparation and during implementation. Through more proactive communication, ADB sought to build stronger partnerships with stakeholders. The PCP also called for more robust program of external communications—through public speaking events and media outreach. As part of the PCP, the Office of External Relations was upgraded to a department—the Department of External Relations—and representative offices were placed within the new department. Representative offices and resident missions are supposed to play a frontline role in promoting open communication at the field level.

<sup>100</sup> The compliance advisor ombudsman of the International Finance Corporation was the first to introduce problem solving for private sector operations. ADB was the first to introduce problem solving for both public and private sector operations.

<sup>101</sup> ADB. 2003. *Enhancing the Independence and Effectiveness of the Operations Evaluation Department*. Manila (R263-03).

<sup>102</sup> ADB. 2005. *Public Communications Policy of ADB: Disclosure and Exchange of Information*. Manila.



# VII. FINANCIAL POLICIES AND RESOURCE MOBILIZATION EFFORTS



- The Asian financial crisis had a profound impact on ADB's operations and its financial management framework, resulting in the introduction of a more comprehensive and quantitative approach for measuring and monitoring risk exposures.
- No general capital increase was approved during the decade—the only decade when no such increase took place.
- Discussions on replenishment of the Asian Development Fund became increasingly difficult, with donors pushing for internal reforms, entailing implications well beyond the fund's operations.

## A. Ordinary Capital Resources

Funding from OCR comes from three distinct sources: funds borrowed from private placements and capital markets, paid-in capital provided by shareholders, and accumulated retained income (or reserves).<sup>103</sup> The financial strength of OCR is largely based on the support of shareholders and on financial policies and practices. By the end of the fourth decade, total authorized capital amounted to \$53.2 billion (equivalent to 3,534,230 shares).<sup>104</sup> This included subscriptions from earlier general capital increases and from 10 new members

who joined ADB between 1997 and 2006. The Charter mandates that the capital stock of ADB be reviewed by ADB's Board of Directors (BOD) at intervals of not less than 5 years. This periodic assessment process had resulted in regular increases to the capital subscriptions of the Bank over the years to ensure that operational growth of the institution could be conducted in a prudent and sustainable fashion. However, no general capital increase was approved during the decade. This was the only decade when no such increase took place.

<sup>103</sup> This section draws heavily from ADB. 2015. *A History of Financial Management at Asian Development Bank: Engineering Financial Innovation and Impact on an Emerging Asia*. Manila.

<sup>104</sup> ADB. 2007. *ADB Annual Report 2006*. Manila, p. 37.

## 1. Financial Policies and Risk Management

The AFC had a profound impact on the Bank's operations and its financial management framework, leading to a complete reassessment of the Bank's approach to determining capital adequacy and risk bearing capacity. It also resulted in the introduction of a more comprehensive and quantitative approach for measuring and monitoring risk exposures, in particular, taking into account the Bank's expected and unexpected losses. Prior to the onset of the crisis, however, as the fourth decade started, ADB was focused on other priorities. In 1997, ADB's Income and Reserves Policy underwent a major review.<sup>105</sup> The review was undertaken because for years, the Bank's actual decisive indicators, the interest coverage ratio (ICR) and reserve loan ratio (RLR), had consistently exceeded their minimum targets.<sup>106</sup> This was mainly due to high levels of net income associated with fixed rate loans, a long period of high investment return, and relatively slow growth in outstanding loans. Some members of the Board were concerned by what they interpreted as the Bank's overly conservative income policy, which they felt was preventing the Bank from reducing its loan charges to match those prevailing at other MDBs.

The primary objective of the Income and Reserves Policy was to ensure that the Bank could absorb unexpected financial shocks with enough margin to inspire continued confidence among investors, and continue to honor its commitments as a development lender, even under conditions of stress. The review modeled various types of risk events and concluded that while exchange rate and interest rate risks could expose parts of the balance sheet and income statements, the most significant risk continued to be country credit risk, exacerbated by the high concentration of lending to a small group of countries. The review concluded that to protect

the Bank's risk bearing capacity, an ICR of about 1.31 was deemed prudent. In addition, the RLR target of 25% was retained, with a medium-term goal of reducing actual RLR from the existing level of 33.6% (at the end of 1997) to 25% by 2001. The Board also decided to give priority in the allocation of excess net income annually to the Technical Assistance Special Fund and ADF. It opted to maintain OCR loan charges unchanged. By the end of 1999, however, it became evident that a review of ADB's loan charges was required, in light of the increased risk to its loan portfolio arising from the AFC and a drop in yield on liquid asset investments. In addition, total operating expenses had increased by 15.5% over the previous year, driven largely by an increase in interest and other financial expenses associated with higher borrowing levels, which put additional pressure on net income. Loan charges were increased beginning January 2000.<sup>107</sup>

The BOD approved a new Liquidity Policy in 2002 aimed at assuring investors of ADB's capacity to meet its cash requirements in the event of a major disruption in cash flows.<sup>108</sup> During the same year, and in connection with a study of future OCR resource requirements, the Bank's lending and borrowing limitations were reviewed relative to a projected 3-year rolling work program for OCR operations. The review concluded that ADB should limit its outstanding commitments, i.e., the sum of outstanding disbursed loan and undisbursed loan balances, equity investments and guarantees, to no more than the sum of its total callable capital; paid-in capital; and reserves (including surplus, but excluding special reserve). In addition, the review introduced a policy limiting ADB's gross outstanding borrowings to no more than the sum of callable capital of nonborrowing member countries, paid-in capital, and reserves (including surplus and special reserves). BOD approved these recommendations as policy in March 2003.<sup>109</sup>

<sup>105</sup> ADB. 1997. *Review of the Bank's Income and Reserves Policy*. Manila (R215-97).

<sup>106</sup> The ICR refers to the ratio of net income (before deducting financial expenses on borrowings) to financial expenses on borrowings. It measures the Bank's capacity to meet interest obligations on its debts from income. The RLR is a capital adequacy ratio that measures capacity to generate net income, and is computed by dividing total reserves by outstanding loans plus equity investments and the present value of guarantees. Both the ICR and RLR measure ADB's risk bearing capacity. See ADB. 1998. *Annual Report 1997*. Manila. p. 162.

<sup>107</sup> ADB. 1999. *A Review of OCR Loan Charges*. Manila (R205-99).

<sup>108</sup> ADB. 2002. *Review of the Asian Development Bank's Liquidity Policy*. Manila (R98-02).

<sup>109</sup> ADB. 2003. *Review of the Asian Development Bank's Lending and Borrowing Limitations*. Manila (R31-03).

In February 2004, BOD approved the introduction of a Risk-Based Capital framework to replace the Income and Reserves Policy.<sup>110</sup> Like the Income and Reserves policy, the Risk-Based Capital framework was used to assess ADB's capital and provisioning requirements and assist in determining the adequacy of loan charges and the feasibility of other uses of net income. Under the framework, a more dynamic approach of annually assessing the credit risks to ADB's loan portfolio and its impact on a risk-bearing capacity indicator was introduced. Equity capital would measure the Bank's ability to meet its "economic capital requirement," i.e., the capital required to protect it against *unexpected losses* on its loan and guarantee portfolio. In this context, the amount of equity capital, and its relationship to outstanding loans (the equity-loan ratio), was considered a more appropriate measure of capital adequacy than ICR and RLR. Hence, the use of RLR and ICR as key financial indicators was discontinued, and an equity-loan ratio target of 35% was established.

Following the AFC, measurement and management of various risks was enhanced within the institution. In September 1998, a Risk Management Division was established in the Treasury Department to formulate and implement necessary systems, procedures, and guidelines for portfolio risk management activities. In 2002, the Bank completed installation of an advanced treasury risk management system, to enable more accurate, effective, and efficient risk management of treasury operations. Risk guidelines were consolidated and enhanced and investment benchmarks were reviewed. By December 2004, an internal country credit risk rating system to independently assess the creditworthiness of

ADB's borrowers was developed. In November 2005, an independent Risk Management Unit was established to manage credit risk of the public and nonsovereign loan and guarantee portfolios, as well as ADB's market and treasury-related risks. In 2006, the loan loss provisioning methodology for ADB's nonsovereign operations was revised to incorporate a risk-based model.<sup>111</sup> Finally, at the end of the decade, ADB reevaluated its Liquidity Policy.<sup>112</sup> Under the new policy, ADB increased its prudential minimum liquidity from 40% of the next 3 years' net cash requirement to 50%. This was deemed prudent to enable ADB to cover normal cash requirements under both normal and stressed circumstances without borrowing. The Bank also began a more dynamic process of monitoring liquidity levels and net cash requirements on an ongoing basis and reviewing them with the Board every quarter.

In 2006, the Bank issued a comprehensive Asset and Liability Management Policy that linked the general principles of OCR financial management contained in the Charter with individual financial policies, including liquidity, investments, equity management, and capital adequacy.<sup>113</sup> The policy sought to provide technical and operational guidance to the day-to-day efforts of ADB's Treasury Department in managing ADB's financial risks, under an interdepartmental asset and liability management committee. The introduction of an asset and liability management policy was significant as it acknowledged and provided the framework for addressing emerging complexities in the management of the Bank's balance sheet related to the introduction of the LBL, local currency lending, multitranches financing facilities, new accounting standards, and the growth of nonsovereign lending.

<sup>110</sup> ADB. 2004. *Review of the Asian Development Bank's Income Planning Framework*. Manila (R24-04).

<sup>111</sup> ADB. 2006. *Review of Loss Provisioning Policy for Nonsovereign Operations*. Manila (R263-06).

<sup>112</sup> ADB. 2006. *Review of the Asian Development Bank's Liquidity Policy*. Manila (R220-06).

<sup>113</sup> ADB. 2006. *Asset and Liability Management Policy of the Asian Development Bank*. Manila (R174-06).

## 2. Loan Products

A major review of OCR loan products was initiated in 2000.<sup>114</sup> The review aimed to assist ADB in being more responsive to the needs of its borrowers. At the time, ADB had three OCR lending windows: (i) the pool-based multicurrency loan window established in July 1986, where loan disbursements were made in a variety of currencies of the Bank's choice; (ii) the pool-based single currency loan window in US dollars established in July 1992; and (iii) the market-based loan window established in 1994, which provided single currency loans (in US dollars, Japanese yen, or Swiss francs at either fixed or floating rates) to private sector borrowers and to financial intermediaries in the public sector. On 1 July 2001, ADB introduced a new LBL product.<sup>115</sup> With the introduction of the LBL, the pool-based multicurrency loans and market-based loans were no longer offered. The LBL had market-based features, including a fixed spread and pricing relative to standard market references. With LBL, a high degree of flexibility was given to borrowers in terms of choice of currency and interest rate basis.<sup>116</sup> A unique characteristic of LBLs was the introduction of rebates and surcharges. Since the concept of automatic cost pass-through pricing was maintained, a surcharge would arise if ADB's actual average funding cost was above the 6-month LIBOR, while a rebate would be given if ADB's actual average funding cost was below the 6-month LIBOR. Lending charges were regularly reviewed to ensure that funds were provided at the lowest possible costs to ADB's borrowers.

## 3. Borrowings

From 1997 to 2006, the Bank completed 329 medium and long-term borrowing transactions (47 public and 282 private), raising about \$39 billion funds with maturities of more than 1 year. Additionally, the Bank raised short-term funds (under its Euro Commercial

Paper Program). Almost a third (29%) of the total borrowings were raised during the crisis years (1997 and 1998). The rapid increase in lending following the AFC had an immediate impact on the Bank's borrowing program. In December 1997, BOD approved an increase in the Bank's 1997 borrowing program from \$2.6 billion to \$5.6 billion. ADB was able to raise these funds efficiently and on relatively short notice, reflecting the credibility that the Bank had built for itself on the international capital markets. In 1998, with OCR loan disbursements increasing further, ADB raised a record \$9.6 billion in the capital markets. As in previous years, issuance of global bonds continued to dominate the Bank's borrowing strategy. The Bank also introduced a new investment policy in 1999, which had significant ramifications for liquidity management and, by extension, the borrowing program.<sup>117</sup> In effect, introduction of the new investment policy meant that the borrowing program could be relied upon even more intensively to meet net cash requirements as they arose.

Over the next 2 years, the Bank continued its funding strategy of selective bond issuance, concentrating mainly on private placement transactions, where cost-efficient funding could be raised relatively quickly. In 2001, ADB established a \$20 billion Global Debt Issuance Facility to increase its responsiveness to opportunities in the private placement market. This facility would allow the Bank to issue bonds on short notice and in a currency, size, and structure that met the needs of investors. In subsequent years, the Bank continued to diversify its funding sources across markets, instruments, and maturities.

In 2004, ADB initiated local currency borrowings to support the newly introduced local currency financing facility of ADB private sector operations. This also would contribute to the development of regional bond markets. Since the onset of the

<sup>114</sup> ADB. 2000. *Review of Asian Development Bank's Loan Products*. Manila (WP 11-00).

<sup>115</sup> ADB. 2001. *Review of Asian Development Bank's Financial Loan Products*. Manila (R79-01)

<sup>116</sup> For all conversions and interest rate caps and collars, ADB would pass on to borrowers the rates or cost of the corresponding hedge prevailing at the time of executing the conversion. In addition, a transaction fee applied, ranging from 0.0625% to 0.125% of the principal amount involved. ADB. 2001. *ADB Annual Report 2001*. Manila. p. 117.

<sup>117</sup> ADB. 1999. *Review of Investment Strategy and Authority*. Manila (R72-99).



AFC, borrowers, project sponsors, cofinanciers, and host governments had been increasingly focused on hedging currency mismatch risks by borrowing in the same currency as the revenues generated by the project. ADB used its partial credit guarantee product, which could cover local currency debt, including domestic bond issues or long-term loans from local financial institutions, to help meet these aspirations. The new local currency borrowing program increased the Bank's flexibility and responsiveness in meeting the needs of its clients. Initially offered to private sector borrowers from November 2002, the facility was extended to public sector borrowers in August 2005. Inaugural issues were launched in the domestic capital markets of India; Hong Kong, China; Malaysia; and Singapore. Subsequent issues in 2005 and 2006 were launched in the Thai baht, the PRC renminbi, and the Philippine peso markets. In April 2006, ADB launched an Asian Medium Term Note Program in the Malaysian market, the first such program launched by ADB and the first by a supranational in Malaysia. In September of that year, the Bank launched a \$10 billion Asian currency note program by issuing notes in the domestic capital markets of Hong Kong, China. This was Asia's first multicurrency bond platform since the AFC, linking the domestic capital markets in the region under a single unified framework.

## B. Special Funds

ADB is authorized by its Charter to establish and administer Special Funds. A number of new Special Funds were created over 1997–2006, in response to specific needs. These included the Asian Development Bank Institute Special Fund, the Asian Currency Crisis Support Facility, the Asian Tsunami Fund, and the Pakistan Earthquake Fund.<sup>118</sup>

## 1. Asian Development Fund

Founded in 1974, the ADF is ADB's largest Special Fund. ADF is a major instrument of concessional financing, offering loans at very low interest rates to help reduce poverty in ADB's poorest member countries. ADF resources were first mobilized to conduct ADB's concessional lending operations over 1973–1975. Initial contributions to ADF were designated as ADF I. Since then, donors have met periodically to plan ADF replenishments. Over the fourth decade, replenishment discussions became increasingly difficult, with donors pushing for internal reforms, with implications well beyond ADF operations.

### Completion of ADF VII Negotiations.

Negotiations for the sixth replenishment of ADF (ADF VII: 1997–2000) were completed in January 1997, after lengthy negotiations that spanned over seven meetings. Ultimately, donors agreed to an ADF VII lending program of \$6.3 billion. For the first time, near parity was achieved between donor contributions from regional and nonregional members. However, traditional donors indicated that to ensure continued support, they would need to be assured that their level of contributions would gradually decrease over time. This would require more effective financial management of ADF resources to augment nondonor resources on one hand, along with accelerated development and graduation of ADF borrowers from concessional assistance on the other. ADF VII became effective on 24 September 1997.

**New Graduation Policy.** In December 1998, the Bank adopted a formal graduation policy.<sup>119</sup> Since 1977, ADB had used a three-tier classification system for determining ADF eligibility among its DMCs.<sup>120</sup> Classification was determined when a country joined the Bank. No borrowing country

<sup>118</sup> Other Special Funds not discussed in this volume include the Technical Assistance Special Fund and the Japan Special Fund. These are discussed in the earlier volumes.

<sup>119</sup> ADB. 1998. *A Graduation Policy for the Bank's DMCs*. Manila (R204-98).



had ever been reclassified or graduated from one group to the next. Also, no DMC had formally graduated from ADB's assistance. Under the new policy, two criteria (per capita gross national product and debt repayment capacity) were used to determine ADF eligibility, resulting in DMCs being classified into four groups with varying levels of access to ADF and OCR: (A) ADF-only; (B1) ADF with limited amounts of OCR; (B2) OCR with limited amounts of ADF; and (C) OCR-only. As DMCs moved out of Group A and progressed toward Group C, they would have increasing access to OCR. Eventually, the policy envisaged graduation of such DMCs from regular Bank assistance. Cost sharing limits for projects were revised in line with the new groupings, and new cost sharing norms were introduced for ADB TA to enhance DMC ownership.

As a result of the new policy, the status of eligibility for both ADF and OCR changed for many DMCs. Bangladesh, the Cook Islands, and the Marshall Islands graduated from Group A to Group B1, as did the Federated States of Micronesia, Pakistan, Sri Lanka, Tonga, and Viet Nam. Indonesia was classified as B2 and put on a watch list for graduation out of ADF. The PRC and India were also classified as B2. However, donors mandated that they should not have access to ADF during the ADF VII period. Kazakhstan, Papua New Guinea, the Philippines, and Uzbekistan graduated from blend status to OCR-only, with a 2-year period allowed in the case of Papua New Guinea for graduation to take effect. Thailand had earlier ceased to have access to ADF in 1983 and this status was formalized by graduation to Group C. Finally, four developing members (Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China) formally

graduated from regular Bank assistance. They would, however, remain eligible for emergency assistance from the Bank, if necessary.

**New ADF Financial Planning Framework.** In April 1997, the Bank approved a new financial planning framework for the management of ADF resources. The framework was developed during the ADF VII negotiations and focused on two main elements: to maximize efficiency in the use of resources other than donor contributions to increase the ADF commitment authority; and to trigger donor replenishments only when the legitimate concessional needs of borrowers exceed the internal capacity of the Bank to generate the required concessional resources. Two approaches were considered to augment nondonor resources, namely, hardening of ADF loan terms, and OCR net income transfers to ADF and Technical Assistance Special Fund. Soon after the ADF VII resolution was adopted in March 1997, the BOD confirmed the General Counsel's legal interpretation of the Charter permitting OCR net income and surplus transfers to ADF (subject to approval of the Board of Governors for each such transfer)<sup>121</sup> and recommended the transfer of \$230 million from the surplus account to ADF.<sup>122</sup> Moreover, an Expanded Advance Commitment Authority scheme was introduced to substantially increase the level of commitment authority from reflows.<sup>123</sup> In 1998, the BOD considered and approved further changes. Resources made available as a result of annual loan savings and cancellations in the pre-ADF VII period could be allocated on an annual basis to generate additional commitment authority. ADF loan terms were also amended (and slightly hardened) with effect from 1 January 1999.

<sup>120</sup> ADB. 1977. *A Review of Criteria for Lending from Asian Development Fund*. Manila (R83-77).

<sup>121</sup> ADB. 1997. *Legality of OCR Net Income and Surplus Transfers to the Asian Development Fund*. Manila (R48-97).

<sup>122</sup> ADB. 1997. *Transfer of OCR Surplus to the Asian Development Fund*. Manila (R50-97).

<sup>123</sup> ADB. 1998. *Review of the Financial Planning Framework for the Management of ADF Resources*. Manila (R49-97).

**ADF VII Midterm Review.** A progress report on the implementation of ADF VII commitments was prepared and discussed with ADF donors during the Bank's 1999 Annual Meeting.<sup>124</sup> This was the first time that a formal ADF midterm review was held and it proved useful in laying the groundwork for the next replenishment. The report took note of the significant adverse impact of the AFC on ADF VII, both on the demand and supply side. On the demand side, ADF borrowers whose growth prospects were negatively affected by the crisis looked to ADB for increased ADF assistance to cushion the adverse and prolonged social impacts of the crisis. On the supply side, the crisis had three adverse impacts. First, exchange rate movements, along with a general appreciation of the US dollar against most ADF donor currencies, substantially reduced the US dollar equivalent of donor contributions to ADF VII. Second, when considering proposals for hardening ADF loan terms, the BOD requested that the amended terms should not have any medium term negative impact on ADF borrowing DMCs, thereby essentially limiting the opportunities for hardening ADF loan terms. Third, the Bank responded quickly to members in distress with increased level of OCR assistance that were not previously planned, resulting in a deterioration of key financial indicators that constrained OCR net income transfers to ADF. This created additional challenges for ADF financial management for the remaining ADF VII period.<sup>125</sup> It was decided that the ADF VIII negotiations should start in the second half of 1999 and be completed in 2000, to enable ADF VIII to become effective in 2001.

**Seventh ADF Replenishment (ADF VIII: 2001–2004).** The first meeting of the ADF VII negotiations was held in October 1999 in Brisbane. The negotiations would span over 11 months and five meetings (Brisbane in October 1999, Edinburgh in February 2000, Chiang Mai in May 2000, Rome in June 2000, and

Okinawa in September 2000). The negotiations were concluded in September 2000 in Okinawa. Donors eventually agreed to a replenishment size of \$5.6 billion consisting of \$2.9 billion in donor contributions and \$2.7 billion of commitment authority to be generated from existing resources (mostly repayment of earlier loans). The largest contribution (\$1.1 billion) was offered by Japan. The US agreed to contribute \$412 million, while European donors committed \$860 million. Regional contributions accounted for almost half of the total donor contributions. Portugal (as an expected new member of ADB) and Singapore were first-time contributors. Resolution No. 276, which set out the terms and conditions of the replenishment, was adopted by the Board of Governors on 13 December 2000. ADF VIII became effective on 14 June 2001.

During the negotiations, donors agreed that ADF VIII operations should be implemented under the general Bankwide framework for poverty reduction, as contained in ADB's new PRS. In this context, greater support was to be given to social development, good governance, private sector development, gender, environment, and regional cooperation in the Asia and Pacific region. More efforts should be made through stronger partnerships (both with other development partners and recipient governments), a more robust performance-based system for ADF resources allocation, and improved internal governance within ADB (including better evaluation systems and more delegation to resident missions). ADF donors endorsed ADB's intention to assist reconstruction in Timor-Leste upon becoming a member of ADB. On the financial side, donors recommended that ADB adopt the practice of the International Development Association and have no loan loss provisioning for ADF loans. They felt that provisioning for ADF was not practical, because of its concessional character. They also indicated that since ADF

<sup>124</sup> ADB. 1999. *Thirty Second Annual Meeting—ADF VII: Progress Report*. Manila (R54-99).

<sup>125</sup> ADF experienced intrayear and interyear funding gaps. As a result, some loans were approved by the BOD on the condition that they would not be signed by the President, until he had determined that there were sufficient financial resources to finance the loan. This at times resulted in unanticipated delays in loan signing and initial project implementation.

was a completely segregated account from OCR, and had no external investors, any impairment or volatility of ADF net income would not have any adverse impact on ADB's creditworthiness.

**Performance-Based Allocation for ADF Resources.** Following adoption of ADB's PRS, the need to strengthen the link between country performance and resource allocation became apparent, as evidence showed that aid had helped reduce poverty most where policy and institutional performance was strong. The performance-based allocation policy was introduced as part of ADF VIII and approved in March 2001.<sup>126</sup> The policy explicitly recognized that in seeking to reduce poverty, ADF resources should be directed to the poor (needs) and to situations where they would be used most effectively (performance). The policy also recognized the importance of providing incentives for better performance. Although the policy had many elements, its cornerstone was the country performance assessment (CPA). CPAs measured country policy and institutional performance against common criteria. Beyond the mechanics of measurement and allocation, it was intended to strengthen country knowledge and served as a means to improve dialogue, the country planning process and the quality and relevance of ADB operations.

The policy would be substantially reviewed during ADF IX and a revised policy adopted in 2004.<sup>127</sup> The revised policy provided a stronger link between performance (as measured by the CPA) and ADF allocations, through a recalibrated allocation formula. The transparency of the process was also enhanced, with CPA ratings being published starting from 2005. A number of other changes were also put in place: (i) a new assessment framework harmonized with the World Bank's; (ii) a new institutional arrangement and distribution of responsibilities for conducting CPAs (responsibilities were shifted from operations

departments to a focal point in the Strategy and Policy Department); iii) new and more rigorous requirements for discussions of the CPAs with country authorities; (iv) a new assessment questionnaire; and (v) a separate questionnaire for postconflict countries. As part of the ADF IX midterm review and ADF X replenishment, further refinements to the performance-based allocation system would be discussed and introduced.

**ADF VIII Midterm Review.** ADF donors and ADB Management met in April 2003 in Washington, DC to undertake a midterm review of ADF VIII and take stock of ADB's progress in implementing the recommendations set out in the ADF VIII Donors report.<sup>128</sup> Donors identified a number of challenges to be addressed for ADB to achieve greater development effectiveness and to ensure continued donor support. In particular, ADB operations should be derived from the national poverty reduction strategies of borrowing countries; there should be greater selectivity in ADF operations; and higher priority should be given to gender, the environment, water and the role of the private sector. ADB should make greater progress on improving its internal governance, with stronger emphasis given to transparency in decision making, accountability, and clear and meaningful delegation of responsibilities and authority. Donors also proposed that OED be made independent. They noted that the current planned level of demand for ADF VIII resources may exceed total resource availability due to major unforeseen events. Following the tragic events of 11 September 2001, large, unplanned commitments of ADF to Afghanistan led to reallocations and a revisiting of funding levels for other ADF-eligible countries. To alleviate the crowding out of such assistance, donors were encouraged to consider additional contributions. Spain made an additional commitment of \$100 million.

<sup>126</sup> ADB. 2001. *Policy on Performance-Based Allocation for Asian Development Fund Resources*. Manila (R29-01).

<sup>127</sup> ADB. 2004. *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of ADF Resources*. Manila (R249-04).

<sup>128</sup> ADB. 2003. *Asian Development Fund VIII Midterm Review Meeting*. Manila (IN 95-03).

### **Eighth ADF Replenishment (ADF IX: 2005–2008).**

In the first meeting of the ADF VIII negotiations held in Copenhagen in October 2003, “development effectiveness” became the main theme of the negotiations. Donors identified other issues that they wanted to see addressed in later meetings, including performance-based allocation of ADF resources, the Bank’s approach toward results-based management, and the way ADB intended to address the special problems of weakly performing states. Donors also assessed ADB’s progress in reducing poverty under its new Poverty Reduction Strategy. Three additional meetings were held in December 2003 in Tokyo, in March 2004 in Lisbon, and in May 2004 in Seoul. Informal discussions were also held in Washington, DC in April 2004, during the World Bank and IMF Spring meetings. Huguette Labelle and Peter McCawley chaired the meetings.

Donors decided to increase transparency and widen the ADF consultation process. For the first time, all main ADF IX reports were made publicly available by prompt posting on the ADB website. Official representatives from selected ADF borrowing countries attended the negotiations and participated in the discussions. A formal meeting was held with members of BOD to hear their views about issues affecting ADF policies and management. In addition, civil society representatives from four ADF borrowing countries addressed donors. This small group was selected during national-level consultation workshops held in Bangladesh, Cambodia, the Kyrgyz Republic, and Pakistan.

The negotiations were concluded on 12 May 2004 in Seoul. Donors endorsed an ADF program of \$7 billion, significantly higher than the previous replenishment (\$5.6 billion in ADF VIII), taking into account the increased need for concessional assistance in the region for (i) accelerating progress toward the MDGs; (ii) meeting the special needs and circumstances of smaller, less developed countries;

(iii) assisting countries in their transition from conflict; (iv) assisting countries with significant debt challenges; (v) strengthening regional cooperation; and (vi) supporting priority TA across the region. ADB committed to maximize the mobilization of internal resources, while maintaining its financial integrity. Of the total \$7 billion, at least \$3.7 billion were to be provided from internal resources, with the remainder provided by new contributions pledged by donors on a burden-shared basis of \$3.2 billion, plus some additional, voluntary contributions. Contributions to ADF IX included a first-time contribution from the PRC and renewed support to ADF from Malaysia.

Beginning during the ADF VIII midterm review and continuing through the ADF IX negotiations, donors consistently expressed concerns about various aspects of ADF operations. In response, ADB Management (led by President Chino) committed to a series of reforms, including establishing a new accountability mechanism; making the Operations Evaluation Department independent; strengthening the results agenda; reviewing ADB’s PRS; strengthening ADB’s senior management team; reviewing the performance-based allocation system; adopting a new HR strategy; addressing bunching; conducting an independent review of the reorganization; introducing a new public communication policy; reviewing ADB’s governance and anticorruption policies; and reviewing ADB’s private sector development strategy.

After some difficult discussions, including sharp differences of views between delegations, donors agreed to establish a grant program in ADF IX to (i) help reduce the debt burden in the poorest countries of the region, (ii) assist poor countries in transition from postconflict situations to peace and stability, (iii) combat HIV/AIDS and other infectious diseases, and (iv) undertake priority TA.<sup>129</sup> Donors endorsed an ADF IX grant allocation framework in which grants would

<sup>129</sup> ADB. 2004. *Eighth Replenishment of the Asian Development Fund and Third Regularized Replenishment of the Technical Assistance Special Fund*. Manila (R111-04).

represent up to 21% of total ADF IX operations, including an allocation of 3% as priority TA. The framework would apply to ADF IX only and did not commit future replenishments. Donors recognized that while enhanced concessionality through grants would likely provide financial and development benefits to ADF borrowers, it would also affect the future capacity of ADF to support new concessional operations. Future decisions on the use of grants would therefore have to take into account the development effectiveness of ADF operations and associated instruments and/or modalities in poor countries, access by poor countries to other concessional resources, and implications for ADF's financial capacity.

**New ADF Currency Management Framework.**

To make ADB more relevant, responsive, and client-oriented, the BOD approved a new currency management framework for ADF loans to be implemented beginning 1 January 2006.<sup>130</sup> Under the new framework, the practice of managing ADB resources in as many as 15 currencies was discontinued, and an approach based on the special drawing rights (SDR) basket of currencies was introduced. While ADF contributions continued to be made in national currencies, US dollar, or SDR, they would be converted, along with ADF loan reflows and liquidity portfolio, into SDR. In addition, the borrower's obligations for new ADF loans would be determined in SDR.

**ADF IX Midterm Review.** The ADF IX Midterm Review meeting was held in December 2006 in Frankfurt. The meeting was chaired by Peter McCawley and headed by the two operations VPs (VP Greenwood and VP Jin).

Donors noted the significant progress achieved in some aspects of the reform agenda, but pointed out remaining weaknesses ADB should address (particularly with respect to the management of human resources and budget). They urged acceleration in implementation of the reform agenda. They emphasized the need for ADB to continue its focus on poverty reduction, with greater effort to demonstrate a link between ADF operations and progress on poverty reduction in the region. Donors supported aligning the ADF grant framework with that of the International Development Association, and voiced strong support for the revised performance-based allocation policy, especially its increased transparency. There was a clear consensus among the participants that ADB should participate in debt relief for heavily indebted poor countries, should any ADF country become eligible, while reaffirming the need to maintain the financial viability of ADF and not to impair support for ADF countries. Participants agreed to hold an informal meeting on the sidelines of the ADB Annual Meeting in May 2007 to plan for the ADF X negotiations. Many donors also expressed a desire for further dialogue with President Chino on reforms and strategic issues in further ADF discussions.

## 2. Other Special Funds

**Asian Development Bank Institute Special Fund.** In March 1997, the Government of Japan provided 1.5 billion yen as an initial contribution to the ADB Institute Special Fund. The fund was established to cover the costs of operating ADBI and was administered by ADB. Additional contributions were made on a yearly basis throughout the decade.

<sup>130</sup> ADB. 2005. *Asian Development Fund Currency Management Proposal*. Manila (R265-05).



Resources were used mainly for research and capacity building activities, including organization of various symposia and training, preparing research reports and publications, and associated administrative expenses.

**Asian Currency Crisis Support Facility.** The ACCSF was established in March 1999 for a 3-year period (up to March 2002), as an independent component of the Japan Special Fund. The fund was funded entirely by the Government of Japan as part of its financial assistance under the New Miyazawa Initiative to help countries most affected by the AFC. The fund was administered by ADB and served to augment ADB's own resources.

**Asian Tsunami Fund.** The Asian Tsunami Fund was established on 11 February 2005 to help meet the financing needs associated with the medium-term rehabilitation and reconstruction in DMCs affected by the deadly tsunami on 26 December 2004. ADB contributed \$600 million to the Fund from its OCR net income. In addition, Australia and Luxembourg made additional contributions (\$3.8 million and \$1 million, respectively).

**Pakistan Earthquake Fund.** The Pakistan Earthquake Fund was established in November 2005 in response to the special needs of Pakistan subsequent to the earthquake on 8 October 2005. The fund was dedicated to delivering emergency grant financing for investment projects and TA to support immediate reconstruction, rehabilitation, and associated development activities. ADB contributed \$80 million to the fund. In addition, Australia, Finland, and Norway committed \$15 million, \$12.3 million, and \$5 million, respectively.

## C. Trust Funds Managed by ADB

In addition to OCR and Special Funds resources, ADB also managed and administered other Trust Funds, which did not form part of ADB own resources.

### 1. Japan Fund for Poverty Reduction

The Japan Fund for Poverty Reduction (JFPR) was established in May 2000 in support of ADB's new PRS.<sup>131</sup> Unlike most other funds administered by ADB, JFPR grants were not meant for TA, but rather to finance investment grants linked to ADB loans to pilot innovative poverty reduction approaches that may later be upscaled and mainstreamed in ADB operations. DMCs that had been adversely affected by the crisis were eligible for the JFPR. Among other things, the JFPR provided opportunities for ADB to work more directly with civil society, such as NGOs and community-based organizations, and with communities themselves. The scope of activities covered included (i) provision of small-scale basic economic and social services to the poor, including community level water supply and sanitation, small clinics, local product market facilities, skill training centers, etc.; (ii) social development funds supporting small-scale projects targeting the poor and communities that were otherwise excluded from access to jobs and essential social and economic infrastructure; (iii) NGO activities in support of poverty reduction and social development; and (iv) capacity building for local government and for community-based organizations. To promote knowledge sharing

<sup>131</sup> ADB. 2000. *Cooperation with Japan: Japan Fund for Poverty Reduction*. Manila (R105-00).

on poverty reduction, the JFPR was linked to the work of ADB's newly established Poverty Unit. Management of the JFPR was located initially in the Strategy and Policy Department. It was moved to RSDD in 2001 and to Office of Cofinancing Operations in 2003.

A special evaluation study on the JFPR would be undertaken by OED in 2007.<sup>132</sup> The study would conclude that the JFPR was successful in helping ADB implement its new PRS. However, JFPR processes could be refined to make them simpler for ADB staff to apply. The study would find that many JFPR projects had substantial socioeconomic impacts. Notable were the HIV/AIDS project in Cambodia and a project concerning disabled people in Mongolia (Box 24). Projects in the education, rural development, and urban waste sectors also generated significant positive impacts.

## 2. Japan Fund for Information and Communication Technology

The Japan Fund for Information and Communication Technology was established in 2001 to assist DMCs bridge the digital divide. The grant-financed trust fund had an initial contribution of 1.3 billion yen (\$10.7 million) for a 3-year period. It was originally scheduled to close by July 2004, but was extended by 1 year to accommodate new proposals. By the end of 2006, \$10.4 million for 13 projects had been committed. While the fund had officially closed, projects remained under implementation and the Office of Cofinancing Operations continued to provide administrative support. The Fund would finance on a pilot basis activities related to information and communication technology (ICT), including the purchase of ICT equipment and services, software development, and

### Box 24: Examples of Successful Projects Funded by the Japan Fund for Poverty Reduction

#### Community Action for Preventing HIV/AIDS

Poverty is a major factor leading to behaviors that expose people to HIV infection. Consequently, the productive capacities of people with HIV/AIDS are curtailed. This project in Cambodia (JFPR 9006-CAM, \$8 million, approved May 2001) yielded high economic returns by limiting the spread of HIV/AIDS and reducing the need for hospital care, which was economically and socially disruptive to the community. The HIV/AIDS project laid down the foundation for mutual trust and a good working relationship between nongovernment organizations and the Ministry of Health National Center for HIV/AIDS, Dermatology, and Sexually Transmitted Diseases. Project techniques were extended to several areas in the country, effectively magnifying project benefits. The HIV/AIDS project was the basis for a regional loan on communicable disease control with a \$30 million grant component. The project showed that a high level of management and a close interest taken by the government could lead to successful project outcomes and a high probability of replication into other national based programs.

#### Expanding Employment Opportunities for Poor Disabled Persons

Disabled people were some of the poorest and most vulnerable people in Mongolia. The JFPR was instrumental in increasing their productivity and welfare. The project (JFPR 9014-MON, \$1 million, approved April 2002) produced excellent synergies in job placements and had a major impact on raising awareness in the government and among the population at large, concerning the predicament of the disabled, and the material contribution they can make to society. Trade fairs also promoted the value of putting the disabled to work and helped them manage small enterprises. Consequently, the project led to other service providers giving increased access to the disabled in businesses as well as to the installation of street crossing aids.

Source: ADB. 2007. *ADB's Japan Funds: Japan Fund for Poverty Reduction, Japan Special Fund and Japan Scholarship Program Summary Report*. Manila (JFS: OTH 2007-20).

<sup>132</sup> ADB. 2007. *ADB's Japan Funds: Japan Fund for Poverty Reduction, Japan Special Fund and Japan Scholarship Program Summary Report*. Manila (JFS: OTH 2007-20).

provision of TA. It would also cover activities to create and improve DMC environments for ICT development, such as policy initiatives for developing ICT infrastructure and human resources capacity; and to help establish a center for learning, information, communication, and knowledge in the Asia and Pacific region.

### 3. Channel Financing Arrangements

During the decade, given resource constraints with the Technical Assistance Special Fund and ADF, ADB increased its efforts to mobilize grant funds from external sources to finance its TA program and to finance soft components of loan projects. A majority of such grants were provided by bilateral donors under channel financing arrangements (CFA). Under a CFA, the donor entered into a comprehensive agreement with ADB whereby (i) the donor provided an untied grant to be administered by ADB (but the fund did not become part of ADB resources); (ii) the donor indicated its preferred sectors and recipient countries in the use of the fund; (iii) ADB provided the donor on a regular basis with a list of potential TA projects; and (iv) the donor and ADB agreed on specific activities to be financed under the fund. Funds provided under a CFA were transferred to an interest-bearing account and could also be invested by ADB pending disbursement. Donors were provided with quarterly financial statements and progress reports on the use of the fund.

ADB was responsible for project preparation, processing, and administration. Funding for several TA projects could be provided under a single agreement.

The first CFA was negotiated in 1980. During the fourth decade, the use of CFA gained prominence, with ADB entering into CFAs with several bilateral donors. In addition to the traditional type of CFA (used for specific sectors), the processing of thematic CFAs with bilateral agencies also rose sharply in such areas as renewable energy, climate change, poverty reduction, governance, and water. Several such thematic CFAs were packaged as umbrella facilities to allow more than one donor to contribute (i.e., Gender and Development Cooperation Fund, Cooperation Fund for the Water Sector, Cooperation Fund in Support of Managing for Development Results, Cooperation Fund for Regional Trade and Financial Security Initiative, E-Asia and Knowledge Partnership Fund, Financial Sector Development Partnership Fund, Renewable Energy, Energy Efficiency and Climate Change Program, among others). New arrangements and development facilities were also being explored to expand the scope of partnership between ADB and its financial partners. In 2006, ADB approved an innovative Water Financing Partnership Facility aiming to raise \$100 million by 2008, in support of its water financing program. Resource from the facility could finance water projects through grants, concessional loans, guarantees, or other forms of assistance under framework agreements.

## D. Toward New Financing Partnerships

ADB official cofinancing operations commenced in 1970.<sup>133</sup> In the early years, ADB's cofinancing approach was relatively undeveloped and geared toward dealing with administrative aspects to fit financing by third parties (mostly bilateral and multilateral sources) with ADB arrangements, mainly for large ADB public sector infrastructure projects. Cofinancing was traditionally concerned with filling financing gaps in such projects, often on a parallel basis and late in the project cycle.

In the 1980s, a more active role was envisaged in seeking out cofinancing partners. In 1982, it was considered appropriate for the Bank to enhance its catalytic role by promoting a positive environment for commercial and export credit financing.<sup>134</sup> However, at the time, official cofinancing was still the preferred form of cofinancing, given its potential to be geared toward development concerns rather than purely commercial interests. In 1984, the Bank adopted a set of guidelines on official cofinancing.<sup>135</sup> In the mid-1980s, new mechanisms were introduced such as the Bank's Complementary Financing Scheme and guarantee operations.<sup>136</sup> The cofinancing strategy of 1995 advocated a more active role in bringing private capital to DMCs, including by applying credit enhancement products, while continuing to promote official cofinancing, particularly in low-income countries.<sup>137</sup> The strategy also included plans for reaching framework agreements on cofinancing principles rather than just individual project-based agreements, and to enhance the impact of official cofinancing activities. Reviews of the cofinancing strategy in 1999 and of cofinancing operations in 2001 confirmed this general approach, with minor incremental changes.

**ADB's Financing Partnership Strategy.** The trend toward an increasingly proactive approach to cofinancing continued with the new Financing Partnership Strategy, approved in July 2006 (see Box 25).<sup>138</sup> The Financing Partnership Strategy sought to improve the terms, structures, and development effectiveness and increase the flow of financial resources from external sources to ADB-supported projects or programs, by combining ADB's capital and knowledge with that of others. The Financing Partnership Strategy reinforced financial partnering as a mainstream activity inherent to ADB's operational model and went beyond the narrow focus of traditional cofinancing, adding a qualitative dimension by improving project structures through ADB's involvement. The strategy focused on two major areas. The first was concessional financing partnerships to mobilize and syndicate grants and concessional loans for investment projects and sectorwide approaches, with active participation by ADB. The second was mobilization of commercial resources through wider and innovative application of ADB credit enhancement instruments and syndication, particularly in projects or programs that commercial financiers perceived as too risky without ADB involvement. ADB also sought to maintain a stable and high volume of grant cofinancing for TA operations, primarily through trust fund operations and the Japan Special Fund.

The policy paper provided a comprehensive overview of ADB's past cofinancing operations and highlighted the following. From 1970 until end of December 2005, ADB cofinancing operations amounted to a cumulative total of about \$49.5 billion, \$25 billion from official sources, and \$24.5 billion from commercial sources. Of the total, \$40.9 billion was provided for 649 public sector projects, and \$8.6 billion

<sup>133</sup> ADB's first cofinancing agreement was approved in 1970 for a fertilizer plant project in Indonesia.

<sup>134</sup> ADB. 1982. *Co-Financing with Commercial and Export Credit Sources*. Manila (R89-82).

<sup>135</sup> ADB. 1984. *Co-Financing with Official Sources*. Manila (R74-84).

<sup>136</sup> ADB's Complementary Financing Scheme is a credit enhancement product that involves the prearranged sale to commercial lenders of participation in a cofinanced or "complementary" ADB loan without recourse to ADB for debt service. In the past, the scheme was used solely to facilitate commercial cofinancing of ADB-assisted private sector projects. ADB is the "lender-of-record" since the complementary is made in ADB's name.

<sup>137</sup> ADB. 1995. *The Bank's Cofinancing Strategy*. Manila (R80-95).

<sup>138</sup> ADB. 2006. *ADB's Financing Partnership Strategy*. Manila (Sec. M56-06).

## Box 25: Innovative Financing Partnerships with ADB

### **Bangladesh Education Sector: Sectorwide Approach (2003)**

The Second Primary Education Development Program brought together a developing member country government and development partners under an innovative sectorwide approach. Under this program, 11 development partners worked together with the Bangladesh government to support a holistic approach to education, harmonizing assistance and achieving greater efficiencies in administration, with a combined funding of \$654 million in grants and concessional loans to bring quality primary education to children in Bangladesh. The Asian Development Bank (ADB) acted as lead administrator for a syndicate of six development partners who contributed \$389 million in untied grants, including Canada (\$20 million), European Commission (\$100 million), the Netherlands (\$50 million), Norway (\$40 million), Sweden (\$29 million), and the United Kingdom (\$150 million). This was in addition to a \$100 million loan provided by ADB and closely coordinated with parallel contributions by the World Bank's International Development Association (\$150 million loan), Japan International Cooperation Agency (\$3 million grant), as well as the United Nations Children's Fund and Australia (\$12 million grant).

### **Nam Theun 2 Hydropower: Public Private Partnership (2005)**

The Nam Theun 2 Hydroelectric Project, a 1,070-megawatt power project on the Nam Theun River in the central part of the Lao People's Democratic Republic (Lao PDR), was a landmark deal in international project finance. The magnitude of the project was clearly beyond the financing capacity of the government and could only be realized through a wide-ranging partnership with the private sector. It was part of the Greater Mekong Subregion regional cooperation initiative, and up to 95% of electrical energy generated was sold to Thailand on a take-or-pay basis under a power purchase agreement. The project was a joint partnership between the Government of the Lao PDR and a private sector consortium, Nam Theun 2 Power Company, comprising investors from France and Thailand. Its total base cost of about \$1.25 billion were financed with equity of \$350 million and debt of \$900 million, comprising at least 27 financial institutions from the public and private sector (including ADB, International Development Association, European Investment Bank, Multilateral Investment Guarantee Agency, Nordic Investment Bank, Agence Francaise de Developpement, among others). ADB's financial support included a public sector loan (\$20 million) as well as a private sector loan directly to the project (up to \$50 million), and a political risk guarantee of up to \$50 million to cover selected political risks (with a government counterguarantee from the Lao PDR), as well as selected Thai political risks (without sovereign counterguarantee). The guarantee support was closely coordinated with the World Bank and the Multilateral Investment Guarantee Agency, which also provided guarantee cover. This involved extensive cooperation between the various financing partners and was instrumental in mobilizing some of the commercial loans to Nam Theun 2 Power Company, making the project happen.

### **Pakistan Earthquake Rehabilitation: Debt for Development Swap (2006)**

After a disastrous earthquake hit northern Pakistan in 2005, Norway offered to write off some of Pakistan's bilateral commercial (export credit) debt obligations in exchange for grant contributions to the Pakistan Earthquake Fund, a special vehicle set up by ADB to channel its grant contributions and those of cofinancing partners to the Pakistan Earthquake Emergency Assistance Project. A series of agreements was negotiated between Norway, Pakistan, and ADB that routed repayments worth about \$20 million over 2006–2008 through ADB into the Pakistan Earthquake Fund, in addition to contributions already received from Australia and Finland. This involved close coordination not only among development partners, but also internally within ADB to resolve accounting, legal, procurement, and project administration issues. The agreement ensured that Norway's debt reduction would translate directly into developmental benefits, with expansion of the scope of the Pakistan Earthquake Emergency Assistance Project to finance the reconstruction of more hospitals and schools, rather than general budget support. This was the first arrangement by ADB for this type of innovative financing partnership, with potential for selected replication in other countries eligible for debt-forgiveness.

Source: ADB. 2006. *ADB's Financing Partnership Strategy*. Manila (Sec. M56-06).



was in support of 43 private sector projects. The top country recipients were the PRC, Indonesia, Pakistan, the Philippines, Thailand, and India. By sector, energy accounted for \$21.6 billion or 44% of cofinancing resources, followed by transport and communications (\$12.6 billion or 26%), industry and trade (\$3.7 billion or 7%), multisector (\$3.5 billion or 7%), and other sectors (\$8.1 billion or 16%). By the end of December 2005, ADB had issued a total of 17 partial credit guarantees and nine political risk guarantees, mobilizing about \$3.2 billion in commercial cofinancing through syndicated loans and capital market instruments. Over the same period, the cumulative total of ADB-administered grants for TA projects and components of loan projects was nearly \$1.5 billion.

Cofinancing volumes over 1995–2005 remained fairly stagnant (except for a spike in 2005). However, there was a structural shift within the

composition of cofinancing, with the share of grants and commercial cofinancing increasing, while export credits and official financing declined. During ADB's fourth decade, direct value-added cofinancing from official sources increased to \$4.7 billion (against \$3.8 billion in the third decade). ADB also introduced new cofinancing modalities including grant financing from external sources for stand-alone components linked to ADB investment projects, such as through JFPR. ADB also processed a number of projects under sectorwide approaches. For TA projects, developments were more pronounced, with a consistent and considerable increase in the number of TA grants processed annually, the amount of TA grant financing (other than from the Japan Special Fund), and the number of cofinanced TA under administration. TA cofinancing from external sources doubled to \$381 million in the fourth decade (compared to only \$132 million in the previous decade).

## VIII. EPILOGUE



President Kuroda's speech at the 40th Annual Meeting of the Board of Governors in May 2007 in Kyoto, Japan summarized well the mood at the end of ADB's fourth decade (Box 26).

### Box 26: Excerpts from President Haruhiko Kuroda's Speech at the 40th ADB Annual Meeting

#### Asia's Achievements and ADB's Role

"In the closing session of ADB's inaugural meeting in November 1966, our first President, Mr. Takeshi Watanabe, said: '...The time has come to roll up our sleeves and prepare to cultivate this era of self-discipline. From the seeds of this sacrifice will surely spring the fruits of economic prosperity.' ADB's founding fathers had a vision: to contribute to the acceleration of economic development in the developing member countries, collectively and individually. And in partnership with member countries in and outside the region, we at ADB have put that vision into action.

"These seeds planted 40 years ago have flourished, bringing tremendous benefits to the people of Asia and the Pacific. Per capita income in developing Asia, in real terms, has grown from less than \$170 in 1967 to over \$1,000 in 2005. During a similar period, average life expectancy has risen from 53 years to more than 67. In 1990, more than one third of the region's people still lived in absolute poverty. Now, fewer than one in five. These are truly impressive achievements. And we can be proud of the role ADB has played in Asia's success. Together, we have funded infrastructure to connect people with jobs, provided electricity for homes and factories, and water for farms and families. We have helped build appropriate systems for public economic management, finance, and governance. We have invested in health, education, social services, and the environment to help the poorest in the region attain a better quality of life."

#### Key Challenges Ahead

"Despite impressive progress, we cannot be complacent. Increased inequality across the region, and within individual countries, threatens social cohesion and puts at risk the process of growth itself. Our region is increasingly a region of two faces—the shining Asia of vitality and wealth, and its shadows, where desperate poverty persists. Asia and the Pacific is fundamentally transformed, with new challenges to tackle—no longer arising from pervasive poverty, but instead from economic success. Going forward, we must ensure that Asia's future development is development that benefits all. In my mind, there are two fundamental principles that should guide us in our shared aspiration for development: prosperity with inclusiveness—and growth with sustainability."

#### ADB in Action

"A dramatically transformed Asia will require an equally transformed development partner in ADB. Our challenge will be to define how we will make that transition. Our process of change has already begun through our Medium-Term Strategy II. And we will be deepening our work further, as we review our Long-Term Strategic Framework. It is clear, however, that ADB has unique strengths that can be put to use to help create prosperity with inclusiveness and growth with sustainability. Let me touch on three key areas.

*continued.*

Box 26. *continued.*

- (i) **Regional cooperation and integration.** First, many of Asia's issues need to be tackled at a regional level. Through greater cooperation, economies affected by the financial crisis of 10 years ago have emerged stronger, with new tools to prevent such a crisis from recurring. ADB will continue to provide finance, capacity development, and expertise to facilitate and intensify regional cooperation and integration. This, in turn, will promote economic convergence at higher rates of growth, and provide a means to collectively tackle environmental threats, natural disasters, communicable diseases, and other crises that defy national borders. I am confident that accelerating regional cooperation and integration will profoundly change the region's social and economic landscape for the better, heralding a new era of hope and prosperity.
- (ii) **Mobilizing and intermediating financial resources.** Second, Asia's future development requires new approaches to mobilizing and intermediating the region's large savings, as well as global investor funds, to sustain growth and attain the Millennium Development Goals. Developing the region's capital markets is a crucial area that ADB has long supported. Equally important is to bring together the right partners at the right time to invest funds, enhance public-private partnerships, share risks, and mutually reap the benefits of higher levels of synergy. We need to make the greatest impact possible with limited resources. Under our new Financing Partnership Strategy, we will deepen partnerships for investment with our official development partners and the private sector while rationalizing, harmonizing, and simplifying multipartner projects. In addition to these endeavors, an adequate and steady flow of concessional funding through the ADF remains essential.
- (iii) **Creating and disseminating knowledge.** Finally, access to knowledge is critical to economic and social development. Knowledge is the foundation of productivity and competitiveness—and the backbone of good public policy. As a knowledge institution, we will continue to apply our deep and broad experience to each country's specific challenges, sharing the region's development successes more effectively so that we can achieve development for all. Our regular knowledge products such as the *Asian Development Outlook* and the *Asia Bond Monitor*; as well as special studies on issues such as regional integration, labor markets, and ASEAN+3 initiatives, can help shape the region's response to its coming challenges. We have also established communities of practice on important topics, including governance, gender and the environment, to more effectively share and manage knowledge. We are working vigorously to mainstream our expanded knowledge base into all our operational activities for attaining higher overall efficiency, greater development effectiveness, and increased results orientation.

"If the past 40 years have taught us anything, it is that the people of Asia and the Pacific have an indomitable spirit and the will to rise to untold challenges. With the support of development partners around the world, developing Asian countries have learned from each other; they have shared their successes, and established a place of pride for the region in the world economy. As we turn now to the challenges ahead, let us keep our shared aspiration for development squarely in our sights. By focusing on inclusive and sustainable development, we will together create an abundance of opportunity in this vast, resilient, and proud Asia and Pacific region, with the benefits of prosperity shared by all."

Source: ADB. 2007. *Address by President Kuroda delivered at the 40th Annual Meeting of the ADB Board of Governors.* Kyoto, Japan. May 2007. Manila.

# APPENDIXES

Appendix Table A1.1: Key Macroeconomic Indicators, 1996 and 2006

	GDP (2010 constant US\$, million)		Population (million)		GDP per capita (2010 constant US\$)		Share in GDP					
	1996	2006	1996	2006	1996	2006	Agriculture (%)		Industry (%)		Services (%)	
							1996	2006	1996	2006	1996	2006
<b>Central and West Asia</b>	<b>213,618</b>	<b>394,290</b>	<b>212.3</b>	<b>256.1</b>	<b>1,097</b>	<b>1,540</b>	<b>24</b>	<b>17</b>	<b>27</b>	<b>32</b>	<b>49</b>	<b>51</b>
Afghanistan	...	10,305	17.5	25.2	...	409	38(2002)	29	24(2002)	29	38(2002)	42
Armenia	3,554	8,680	3.2	3.0	1,120	2,891	37	20	33	45	31	35
Azerbaijan	9,467	33,290	7.8	8.5	1,220	3,924	28	8	39	69	33	24
Georgia	5,325	9,903	4.6	4.1	1,154	2,394	34	13	24	25	42	62
Kazakhstan	59,422	121,197	15.6	15.3	3,814	7,917	13	6	27	42	60	52
Kyrgyz Republic	2,613	3,979	4.6	5.2	565	763	50	33	18	20	32	47
Pakistan	105,001	159,256	125.7	156.5	835	1,017	25	23	24	21	50	56
Tajikistan	2,138	4,388	5.9	6.9	365	631	39	24	32	31	29	45
Turkmenistan	9,223	15,301	4.3	4.8	2,161	3,187	13	17	69	36	18	46
Uzbekistan	16,875	27,989	23.2	26.5	727	1,057	26	28	30	30	43	42
<b>East Asia</b>	<b>2,596,955</b>	<b>5,554,521</b>	<b>1,293.3</b>	<b>1,391.6</b>	<b>2,008</b>	<b>3,991</b>	<b>12</b>	<b>8</b>	<b>42</b>	<b>42</b>	<b>46</b>	<b>50</b>
China, People's Rep. of	1,625,871	4,023,920	1,217.6	1,311.0	1,335	3,069	19	11	47	48	34	42
Hong Kong, China	140,520	201,916	6.4	6.9	21,835	29,446	0.1	0.1	15	8	85	92
Korea, Rep. of	590,829	941,020	45.5	48.4	12,978	19,454	5	3	38	37	57	60
Mongolia	3,428	5,702	2.3	2.6	1,480	2,229	41	20	25	43	34	37
Taipei, China	236,308	381,963	21.4	22.8	11,021	16,736	3	2	33	32	64	66
<b>South Asia</b>	<b>742,648</b>	<b>1,380,088</b>	<b>1,141.2</b>	<b>1,353.2</b>	<b>651</b>	<b>1,020</b>	<b>27</b>	<b>18</b>	<b>26</b>	<b>29</b>	<b>47</b>	<b>53</b>
Bangladesh	55,328	91,589	121.0	144.8	457	632	24	19	23	25	53	56
Bhutan	534	1,077	0.5	0.7	1,043	1,615	31	22	34	39	35	39
India	649,877	1,227,441	979.3	1,162.1	664	1,056	27	18	27	29	46	53
Maldives	...	1,845	0.3	0.3	...	5,540	11	6	13	14	76	80
Nepal	9,083	13,311	21.9	25.8	415	516	42	35	23	17	36	48
Sri Lanka	27,825	44,826	18.2	19.5	1,528	2,296	23	11	27	31	51	58
<b>Southeast Asia</b>	<b>1,133,398</b>	<b>1,620,279</b>	<b>490.9</b>	<b>567.1</b>	<b>2,309</b>	<b>2,857</b>	<b>20</b>	<b>11</b>	<b>34</b>	<b>41</b>	<b>45</b>	<b>48</b>
Brunei Darussalam	11,528	13,848	0.3	0.4	38,115	37,614	1	1	56	73	43	26
Cambodia	3,857	9,015	11.0	13.5	350	667	47	32	16	28	38	41
Indonesia	471,391	602,627	199.9	229.3	2,358	2,629	17	13	43	47	40	40
Lao PDR	2,840	5,266	5.0	5.8	572	902	53	35	21	28	26	37

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 (%)	
	1996	2006	1996	2006	1996	2006	1996	2006	1996	2006	1996	2006
Malaysia	141,477	216,303	21.3	26.3	6,654	8,236	12	9	44	46	45	45
Myanmar	11,325	33,103	45.3	50.4	250	657	60	44	10	19	29	37
Philippines	111,364	165,099	71.4	87.6	1,559	1,885	21	12	32	33	47	54
Singapore	109,941	185,843	3.7	4.4	29,951	42,224	0.2	0.1	34	32	66	68
Thailand	221,897	297,868	59.9	66.2	3,706	4,501	9	9	37	39	54	51
Viet Nam	47,778	91,308	73.2	83.3	653	1,096	28	19	30	39	43	43
<b>The Pacific</b>	<b>12,208</b>	<b>17,447</b>	<b>7.6</b>	<b>9.4</b>	<b>1,822</b>	<b>1,867</b>	<b>29</b>	<b>20</b>	<b>30</b>	<b>28</b>	<b>42</b>	<b>52</b>
Cook Islands	...	289	0.0	0.0	...	12,144	10	5	7	9	83	86
Fiji	2,538	3,088	0.8	0.8	3,235	3,732	20	14	24	19	56	67
Kiribati	129	155	0.1	0.1	1,634	1,643	27	23	9	8	64	69
Marshall Islands	145	155	0.1	0.1	2,825	2,969	...	9	...	12	...	79
FSM	282	298	0.1	0.1	2,606	2,817	25	24	8	4	68	71
Nauru	...	...	0.0	0.0	...	...	7(1994)	8	14(1994)	2	79(1994)	90
Palau	194	207	0.0	0.0	10,970	10,364	4	5	9	14	87	82
Papua New Guinea	7,118	7,442	4.8	6.2	1,471	1,193	33	21	37	36	30	43
Samoa	439	639	0.2	0.2	2,564	3,531	18	12	27	30	54	58
Solomon Islands	595	574	0.4	0.5	1,611	1,194	41	36	16	7	43	58
Timor-Leste	...	3,622	0.9	1.0	...	3,636	...	5	...	85	...	10
Tonga	292	353	0.1	0.1	3,033	3,477	24	19	22	18	54	63
Tuvalu	23	30	0.0	0.0	2,528	3,063	25	24	11	6	64	70
Vanuatu	452	596	0.2	0.2	2,631	2,778	18	24	11	9	72	67
<b>Developing Member Economies</b>	<b>4,698,826</b>	<b>8,966,625</b>	<b>3,145.2</b>	<b>3,577.4</b>	<b>1,503</b>	<b>2,506</b>	<b>17</b>	<b>10</b>	<b>37</b>	<b>40</b>	<b>46</b>	<b>50</b>

... = data not available, 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, 1996 and 2006

	Trade Indicators				Social Indicators			
	Exports (% of GDP)		Imports (% of GDP)		Life expectancy (years)		Mortality, <5 (per 1,000 births)	
	1996	2006	1996	2006	1996	2006	1996	2006
<b>Central and West Asia</b>	...	...	...	...	<b>62</b>	<b>64</b>	<b>115</b>	<b>91</b>
Afghanistan	...	25	...	70	54	57	149	116
Armenia	23	23	56	39	69	74	37	22
Azerbaijan	30	67	56	39	65	69	92	49
Georgia	13	33	32	57	70	73	43	23
Kazakhstan	35	51	36	40	64	66	52	30
Kyrgyz Republic	31	42	57	79	67	68	59	38
Pakistan	17	14	21	22	62	64	123	99
Tajikistan	77	58	80	83	63	67	116	62
Turkmenistan	75	73	75	35	63	65	89	68
Uzbekistan	28	37	34	30	66	67	69	53
<b>East Asia</b>	...	...	...	...	<b>70</b>	<b>74</b>	<b>44</b>	<b>21</b>
China, People's Rep. of	18	36	16	28	70	74	46	22
Hong Kong, China	136	202	138	191	80	82	...	...
Korea, Rep. of	26	37	29	36	74	79	5	5
Mongolia	36	59	42	53	61	66	80	40
Taipei, China	47	66	44	60	75	78	...	...
<b>South Asia</b>	...	...	...	...	<b>61</b>	<b>65</b>	<b>105</b>	<b>70</b>
Bangladesh	10	16	16	22	63	68	109	63
Bhutan	35	54	46	59	57	66	100	55
India	10	21	11	24	61	65	105	72
Maldives	92	53	73	71	66	75	66	20
Nepal	23	13	36	31	59	66	102	57
Sri Lanka	35	30	44	41	69	74	20	13
<b>Southeast Asia</b>	...	...	...	...	<b>67</b>	<b>69</b>	<b>56</b>	<b>38</b>
Brunei Darussalam	60	72	61	25	74	76	10	9
Cambodia	25	69	44	76	56	64	123	60
Indonesia	26	31	26	26	65	67	64	40
Lao PDR	23	40	41	46	57	62	136	94
Malaysia	92	112	90	90	72	74	13	8
Myanmar	...	0.2	1	0.1	61	64	93	68
Philippines	41	47	49	48	66	67	44	35
Singapore	176	230	160	200	77	80	5	3
Thailand	39	69	45	65	70	73	27	17
Viet Nam	41	68	52	71	72	74	40	28

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)	
	1996	2006	1996	2006	1996	2006	1996	2006
<b>The Pacific</b>	...	...	...	...	<b>59</b>	<b>63</b>	<b>79</b>	<b>65</b>
Cook Islands	...	...	...	...	71	74	21	12
Fiji	63	47	59	68	67	69	26	24
Kiribati	13	11	92	91	63	65	79	65
Marshall Islands	...	28	...	89	67	70	42	40
Micronesia, Federated States of	...	...	...	...	67	68	56	46
Nauru	...	...	...	...	59	64	46	39
Palau	13	43	67	76	67	70	30	22
Papua New Guinea	59	72 (2004)	48	59	58	61	82	73
Samoa	32	29	50	53	68	71	25	19
Solomon Islands	34	35	56	56	60	66	35	33
Timor-Leste	...	97	...	26	55	65	134	79
Tonga	20	14	58	51	70	72	19	17
Tuvalu	...	...	...	...	62	63	50	36
Vanuatu	46	41	53	48	66	70	30	28
<b>Developing Member Economies</b>	<b>36</b>	<b>46</b>	<b>37</b>	<b>42</b>	<b>66</b>	<b>69</b>	<b>82</b>	<b>54</b>

... = data not available, GDP=gross domestic product, 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://sdfs.adb.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, 1997–2006

	Ordinary Capital Resources <sup>a</sup> (\$ million)	Asian Development Fund <sup>a</sup> (\$ million)	Technical Assistance <sup>b</sup> (\$ million)	Total (\$ million)	Percent <sup>c</sup>
China, People's Rep. of	11,969	–	146.88	12,116	18.51
India	10,478	–	56.09	10,534	16.09
Indonesia	7,716	746	97.76	8,560	13.08
Pakistan	5,522	2,150	61.63	7,734	11.82
Korea, Rep. of	4,015	–	0.00	4,015	6.13
Bangladesh	1,023	2,445	55.63	3,524	5.38
Philippines	3,406	24	58.48	3,488	5.33
Viet Nam	723	2,416	65.88	3,204	4.89
Sri Lanka	770	1,359	47.95	2,178	3.33
Thailand	1,634	–	20.07	1,654	2.53
Afghanistan	108	918	49.15	1,075	1.64
Region <sup>d</sup>	634	35	320.06	989	1.51
Uzbekistan	822	103	30.00	955	1.46
Nepal	–	885	39.37	924	1.41
Cambodia	–	714	41.55	756	1.15
Lao PDR	120	534	43.20	697	1.07
Kazakhstan	535	20	15.06	570	0.87
Kyrgyz Republic	–	469	25.55	495	0.76
Papua New Guinea	274	124	21.71	419	0.64
Mongolia	6	347	30.88	384	0.59
Tajikistan	–	308	24.14	332	0.51
Fiji	129	–	13.48	142	0.22
Bhutan	1	125	18.85	144	0.22
Azerbaijan	74	45	10.12	129	0.20
Maldives	40	58	11.55	109	0.17
Micronesia, Federated States of	5	53	12.63	71	0.11
Marshall Islands	4	43	7.94	55	0.08
Samoa	0.4	40	11.06	52	0.08
Solomon Islands	–	36	4.79	41	0.06
Vanuatu	–	22	8.84	31	0.05
Kiribati	–	10	6.34	17	0.03
Timor-Leste	–	10	12.25	22	0.03
Tonga	–	10	5.13	15	0.02
Tuvalu	–	8	2.85	11	0.02
Cook Islands	–	6	3.08	9	0.01
Nauru	5	–	1.14	6	0.01
Malaysia	–	–	1.45	1	0.00
Turkmenistan	–	–	0.57	1	0.00
Armenia	–	–	0.30	0	0.00
<b>TOTAL</b>	<b>50,013</b>	<b>14,062</b>	<b>1,383.41</b>	<b>65,458</b>	<b>100</b>

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

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

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

c As percent of total lending and technical assistance operations RETA includes RETA and TA projects of DMCs classified as “regional.”

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.

Sources: ADB Operations Dashboard, eOperations database.

**Appendix Table A2.2: Loan and Technical Assistance Approvals, by Fund Source, 1997–2006**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	%	%	Total
<b>Total Lending<sup>a</sup></b> (\$ million)	9,538	6,110	4,986	6,051	5,369	5,771	6,310	5,554	6,329	8,057	100	100	64,075
<b>A. Ordinary Capital Resources</b>	7,919	5,123	3,916	4,458	4,008	4,138	4,931	4,312	4,707	6,502	78	100	50,013
China, People's Rep. of	656	1,212	1,259	897	997	878	1,488	1,360	1,595	1,627	19	24	11,969
India	593	250	625	1,330	1,500	1,209	1,533	1,370	461	1,608	16	21	10,478
Indonesia	1,079	1,839	1,020	635	400	636	187	200	1,035	685	12	15	7,716
Pakistan	250	-	307	452	593	865	758	481	387	1,429	9	11	5,522
Korea, Rep. of	4,015	-	-	-	-	-	-	-	-	-	6	8	4,015
All Others	1,326	1,822	705	1,144	518	550	966	901	1,229	1,154	16	21	10,313
<b>B. Asian Development Fund</b>	1,620	987	1,070	1,592	1,362	1,633	1,379	1,242	1,622	1,554	22	100	14,062
Bangladesh	420	184	250	203	159	270	246	199	260	255	4	17	2,445
Viet Nam	360	284	180	189	243	234	179	176	243	328	4	17	2,416
Pakistan	251	-	96	257	364	276	178	228	394	107	3	15	2,150
Sri Lanka	162	185	149	194	86	160	185	75	117	47	2	10	1,359
Afghanistan	-	-	-	-	-	150	150	170	235	213	1	7	918
All Others	428	335	396	750	510	544	441	394	373	604	7	34	4,774
<b>Total TA Projects<sup>b</sup></b> (\$ million)	145	141	157	160	127	149	123	117	117	148	100 <sup>c</sup>	100 <sup>d</sup>	1,383
China, People's Rep. of	18	22	19	17	11	10	10	12	15	13	14	11	147
Indonesia	10	11	10	11	14	15	7	8	4	7	9	7	98
Viet Nam	9	5	9	7	5	8	6	4	6	8	6	5	66
Pakistan	7	4	2	7	6	6	6	6	9	8	6	4	62
Philippines	7	7	7	6	7	6	4	5	4	4	5	4	58
All Others (including RETA)	95	92	109	111	83	103	90	82	78	110	60	69	953

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

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

b Technical operations only cover grants funded by the TA 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 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."

Sources: ADB Operations Dashboard, eOperations database; and ADB loan, technical assistance, grant, and equity approvals database.

## Key ADB Milestones, 1997–2006

- 1997**
- The Asian Development Bank (ADB) approves its largest single loan—a \$4 billion emergency loan to the Republic of Korea in the wake of the Asian financial crisis
  - The ADB Institute is inaugurated
  - First formal midterm review of the Asian Development Fund (ADF VII) is undertaken
  - ADB formulates a Policy on Fisheries
  - Resident missions are established in Kazakhstan, Uzbekistan, and Sri Lanka
- 1998**
- Tajikistan joins ADB
  - ADB adopts a formal graduation policy
  - Anticorruption policy is adopted
  - Policy on cooperation with nongovernment organizations is updated
  - Policy on the role of women in development is replaced by a gender and development policy that adopts mainstreaming as a key strategy
  - Policy on indigenous peoples is approved to ensure that indigenous peoples participate and benefit equally from ADB's operations
  - Third Asian agricultural survey is launched
  - ADF loan terms are reviewed
- 1999**
- Tadao Chino becomes ADB's seventh President
  - ADB declares poverty reduction as its overarching goal and adopts a poverty reduction strategy anchored in pro-poor growth, inclusive social development, and good governance
  - Negotiations for the seventh ADF replenishment start (became effective 2000)
  - Azerbaijan joins ADB
  - ADB adopts a health policy
  - ADB formulates an urban sector strategy
  - Review of program lending policy introduces a special program loan to allow ADB to provide large-scale support to crisis-affected ordinary capital resources (OCR) countries; and a cluster approach to enhance flexibility and extend timeframe for program implementation
  - ADB reviews its policy on guarantee operations
  - ADB establishes the Asian Currency Support Facility
  - The Regional Economic Monitoring Unit (REMU) is established in the Strategy and Policy Office
  - The Anticorruption Unit is established within the Office of the General Auditor
  - The Kyrgyz Republic Resident Mission is established
- 2000**
- Turkmenistan joins ADB
  - ADB initiates work on a new Long-Term Strategic Framework, 2001–2015
  - Microfinance development strategy is approved
  - Review of the 1995 Energy Policy is completed
  - Private sector development strategy is developed
  - Medium-term agenda and action plan to promote good governance is approved
  - The Resident Mission Policy is approved
  - The Development Effectiveness Committee is established
  - ADB and the Government of Japan establish the Japan Fund for Poverty Reduction
  - Strategy and Policy Office is upgraded to Strategy and Policy Department
  - REMU is transferred to report directly under the President
  - Resident Missions are established in the Lao People's Democratic Republic, Mongolia, and the People's Republic of China
  - The Philippines Country Office is established

*continued.*



*ADB Key Milestones. continued.*

- 2001**
- Tadao Chino is reelected as ADB President for a new 5-year term
  - ADB's Long-Term Strategic Framework, 2001–2015 is launched, focusing on sustainable economic growth, inclusive social development, and governance as core areas of intervention
  - The accompanying Medium-Term Strategic Framework, 2001–2005 is launched, defining the operational priorities and organizational changes required to enhance development impact.
  - The Social Protection Strategy is approved
  - The Water Policy is formulated
  - ADB reviews its strategic directions for its private sector operations
  - Strategic approach for information and communication technology is developed
  - Performance-based allocation policy for Asian Development Fund resources is adopted
  - ADB introduces London interbank offered rate-based products
  - Operations Evaluation Office is upgraded to a department
  - An NGO Center is established in the Office of Environment and Social Development
- 2002**
- Portugal and Timor-Leste join ADB
  - The Education Policy is updated
  - The Environment Policy is approved
  - New business processes are put in place for programming; economic, thematic, and sector work; and project processing and implementation
  - ADB resumes operations in Afghanistan (after 23 years) and in the newly independent Sri Lanka
  - ADB approves new Liquidity Policy
  - New thematic poverty-focused multidonor channel financing agreement is established
  - Major reorganization is undertaken to strengthen country focus in ADB operations; five regional departments created (East and Central Asia, Mekong, Pacific, South Asia, and Southeast Asia); and the Regional and Sustainable Development Department is created
  - The Special Liaison Office in Timor-Leste (SOTL), created in 2000, functions as a resident mission with the joining of Timor-Leste
  - Controllers Department (CTL) is reorganized to rationalize functional distribution within CTL following the introduction of the London interbank offered rate-based new loan product
  - The Economics and Development Resource Center is renamed Economics and Research Department to be ADB's major knowledge department, reporting directly to the President
  - Resident missions are established in Afghanistan and Papua New Guinea
- 2003**
- Luxembourg and Palau join ADB
  - ADB initiates a comprehensive review of its Poverty Reduction Strategy
  - The new Evaluation Policy is issued and the Operations Evaluation Department is made to report directly to the Board through the Development Effectiveness Committee
  - ADB's Inspection Function is reviewed and replaced by a new Accountability Mechanism Policy; the Compliance Review Panel and Office of Special Project Facilitator are established
  - A policy on ADB's role in combating money laundering and the financing of terrorism is issued
  - ADB provides support to respond to HIV/AIDS and avian influenza
  - A comprehensive review and revision of ADB's Operation Manual is completed
  - A comprehensive review of financial management policies is undertaken
  - ADB prepares a new Human Resource Strategy and Gender Action Plan
  - A fourth vice-president is appointed to oversee knowledge management and sustainable development
  - ADB creates a new managing director general post to facilitate the coordination of the work of senior management
  - Negotiations for the eighth replenishment of ADF start
  - Resident missions are established in Azerbaijan and Tajikistan
  - Timor-Leste establishes a Representative Office, replacing the SOTL

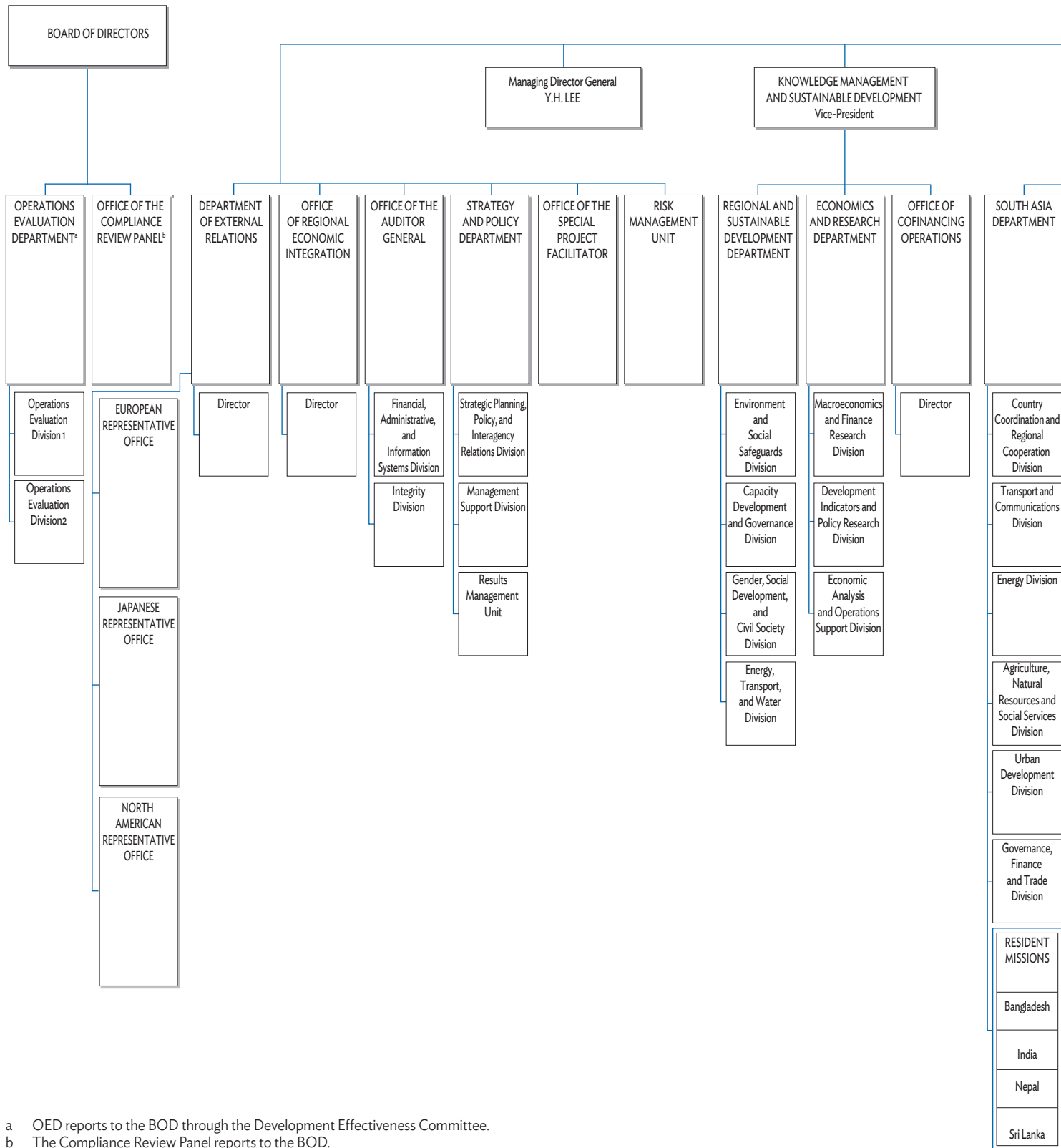
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ADB Key Milestones. *continued.*

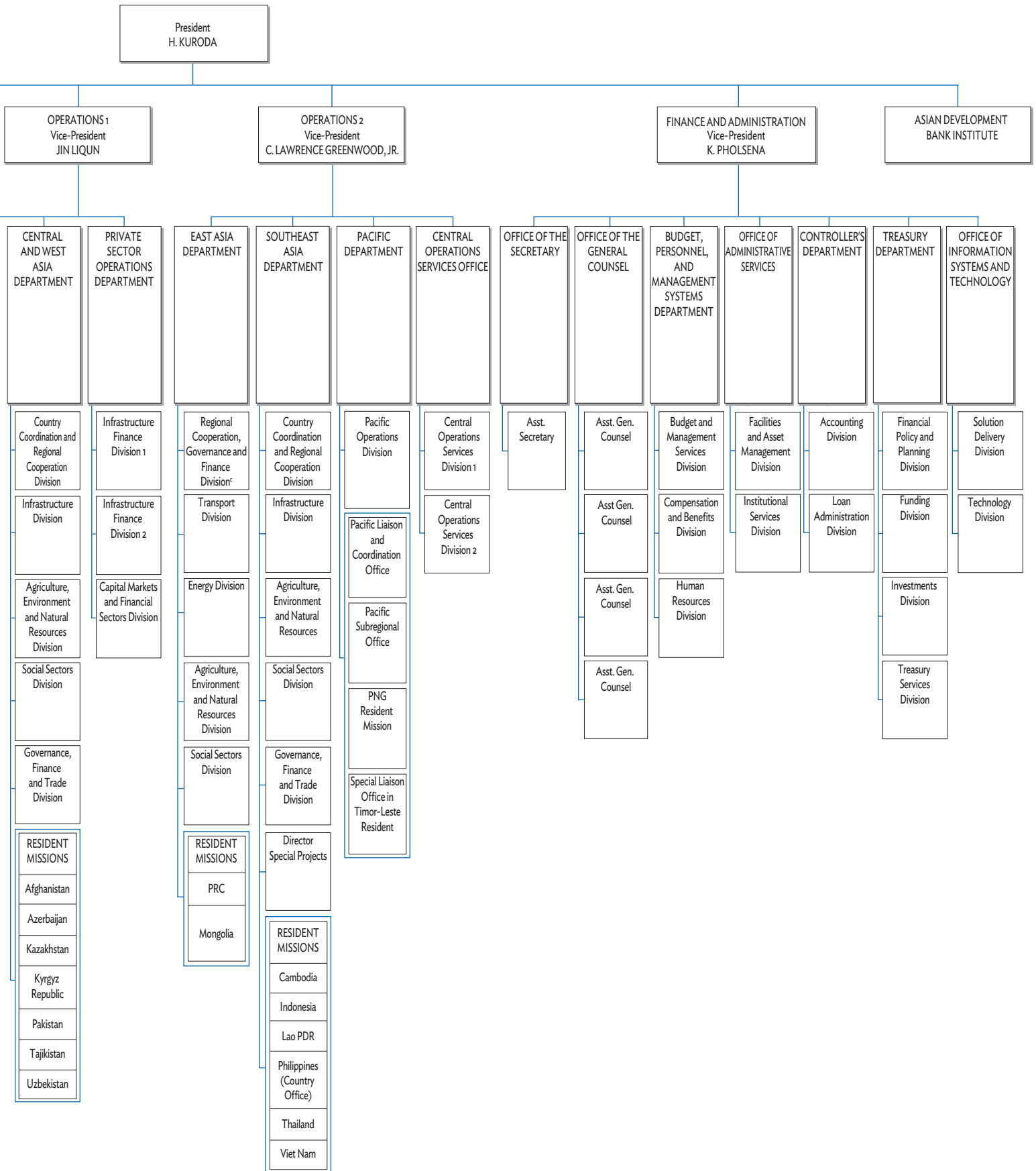
- 2004**
- The ADB reform agenda is adopted to include 19 Bankwide initiatives, chief among them, managing for development results
  - ADB enhances its poverty reduction strategy
  - A Disaster and Emergency Assistance Policy is approved
  - A Knowledge Management Framework is formulated
  - Information System and Technology Strategy for 2005–2009 (ISTS II) is approved
  - A new human resources strategy is approved
  - A new sector and thematic classification is introduced; capacity development is added as a new theme
  - Business processes are streamlined, focusing on client orientation and responsiveness, efficiency, and product quality
  - ADB's first female Vice-President (Khempheng Pholsena) is appointed
  - Resident mission is established in Thailand; a regional office is established in Suva to replace the South Pacific Regional Mission in Vanuatu
  - The Results Management Unit is established in SPD, and the results-based Country Strategy and Programs is introduced
  - ADB launches local currency bond issues in Hong Kong, China; India; Malaysia; and Singapore
- 2005**
- Haruhiko Kuroda becomes ADB's eighth President
  - Armenia joins ADB
  - ADB endorses the Paris Declaration on Aid Effectiveness
  - The Asian Tsunami Fund is established; ADB commits more than \$850 million for recovery in the tsunami-hit areas of India, Indonesia, Maldives, and Sri Lanka
  - ADB pledges support for the rehabilitation of earth-quake devastated Pakistan, starting with the establishment of the Pakistan Emergency Fund.
  - Work on the Medium-Term Strategy II starts
  - HIV/AIDS strategic directions paper is approved
  - ADB adopts its new Public Communications Policy, which makes information about ADB operations publicly available
  - ADB introduces, on a pilot basis, an array of financing instruments (including multitranches financing facilities) under the Innovation and Efficiency Initiative to provide DMCs with greater flexibility in meeting their investment needs
  - ADB reviews its Supplementary Financing Policy
  - New performance-based allocation policy for ADF becomes effective, with focal point established in SPD
  - ADB adopts a centralized risk management structure, and the Risk Management Unit is established
  - Anticorruption Unit in the Office of the Auditor General is upgraded to an Integrity Division
  - The Office of Regional Economic Integration is established to replace the Regional Economic Monitoring Unit and provide a more coherent and strategic focus on regional cooperation and integration initiatives
  - Pacific Liaison and Coordination Office opens in Sydney, Australia
- 2006**
- Haruhiko Kuroda is reelected for a second term as ADB President
  - Brunei Darussalam and Ireland join ADB
  - ADB's second medium-term strategy (MTS II) is adopted
  - ADB commissions a Panel of Eminent Persons Group (led by United Nations Conference on Trade and Development Secretary General Supachai Panitchpakdi) to refine ADB's long-term goals and advise on key trends and development challenges in ADB
  - ADB's Regional Cooperation and Integration Strategy is approved
  - ADB's Private Sector Development Strategy is reviewed. ADB recommends a number of initiatives to enhance support to middle-income countries and OCR borrowers
  - ADB establishes a Water Financing Partnership Facility to support investments, reforms, and capacity development in the water sector
  - The Second Governance and Anticorruption Plan is approved
  - ADB's new Financing Partnership Strategy is approved
  - An Ethics Committee is established to assist the Board of Directors in addressing matters related to the application of the Code of Conduct for Directors, Alternates, and the President
  - The regional departments' country groupings are realigned: Vice-President Operations (1) is assigned responsibility for Central and West Asia Department, South Asia Department, and Private Sector Operations Department; Vice-President Operations (2) is placed in charge of East Asia Department, Southeast Asia Department, and Central Operations Services Office
  - Country groupings across regional departments are realigned
  - ADB launches its \$10 billion Asian currency note program

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, 2006



a OED reports to the BOD through the Development Effectiveness Committee.  
 b The Compliance Review Panel reports to the BOD.  
 c Its full name is Country Coordination, Regional Cooperation, Governance, Finance and Trade Division.  
 Note: This organizational chart was as of 1 September 2006.  
 Source: Asian Development Bank.



## **ADB Through the Decades**

### *ADB's Fourth Decade (1997–2006)*

The 1997 Asian financial crisis hit the region and became a defining moment for Asia and the Asian Development Bank (ADB). As ADB participated in coordinated crisis responses, Asian policy-makers used this opportunity to reassess their economic policies in a fundamental way.

This volume presents how ADB met the challenges during the fourth decade of designing strategies to respond to rapid changes in the region following the Asian financial crisis, and responding to the changes in international development thinking. Several important policies and strategies were approved, including ADB's Poverty Reduction Strategy as well as ADB's first Long-Term Strategic Framework to 2015. ADB embarked on two major reorganizations (in 2002 and 2006) and committed to an internal reform agenda to be a more responsive, relevant, and results-oriented organization. ADB also took a proactive role in postconflict reconstruction in Afghanistan, Sri Lanka, Tajikistan, and Timor-Leste. ADB also needed to respond to a series of external shocks such as the severe acute respiratory syndrome epidemic in 2003, the Asian tsunami in 2004, and the Pakistan earthquake in 2005.

### **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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