

# The Board of Directors

**D**URING 1997, the Board of Directors confronted the challenge of responding quickly and yet effectively to the “contagion” that swept through many financial markets of Asia in the latter part of the year. The Bank, acting in concert with other development organizations, responded by offering both financial and technical assistance. The strategy of a rapid and innovative response to the financial turmoil underscored the Bank’s capacity as a broad-based development institution.

The Board, in addition to discharging its normal oversight role in respect to loan and technical assistance activities, continued to promote increased effectiveness, efficiency, and quality throughout the organization. These initiatives included the approval of new and revised policies and the revision of existing strategies.

## General operations

In 1997, the Board met formally on 48 occasions (including executive sessions) and approved total lending of \$9,414 million for 75 projects. This amount represents loans of \$7,794.4 million from ordinary capital resources (OCR) and \$1,619.6 million from the Asian Development Fund (ADF). Equity investments totaled \$74.3 million. Government-guaranteed loans were approved for 73 projects, with an average project size of approximately \$61 million over the total loan portfolio. (For purposes of comparability with prior years’ analyses, the average project size excludes from the calculation the Financial Sector Program loan and institutional strengthening technical assistance loan to the Republic of Korea totaling \$4.015 billion, as this amount represents 43 percent of total Bank lending for 1997.)

Twenty-four countries received Bank loans in 1997, including the Republic of Korea which returned as a borrower after ten years’ absence.

In addition to loans, the Board, either directly or through the delegated authority vested in the President by the Board, approved 298 technical assistance grants totaling \$162.5 million.

In addition to being fully in compliance with its policies, any loan, technical assistance, or equity investment extended by the Bank must also satisfy the Bank’s strategic objectives. The strategic objectives are defined by reference to the following forms of intervention: economic growth, poverty reduction, human development, gender equity, and environmental protection.

The Board, in addition to the formal meetings, held five seminars and informal discussions. As in previous years, the agenda on these occasions covered a range of diverse matters, including the yearly review of the Bank’s Three-Year Work Program and Budget Framework (1998-2000),

## The Boards and Their Functions

**T**HE BANK is governed by a **Board of Governors**, which, at the end of 1997, consisted of 56 members representing 40 regional and 16 nonregional. Under Article 28 of the Bank’s Charter, the Board of Governors is vested with all the powers of the Bank. In turn, the Governors delegate their authority to the Board of Directors, except for certain powers reserved to them under the Charter.

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

The resolutions approved by the Board of Governors during 1997 and its membership are shown in Appendixes 1 and 2, respectively.

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

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

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

## Postevaluation Reports Discussed by the Audit Committee in 1997

### Project Performance Audit Reports

- Agriculture Diversification Program (Fiji) (29 September 1988)
- Special Assistance Project (Mongolia) (29 October 1991)
- Multiproject Loan (Vanuatu) (5 December 1985)
- Third Development Financing (Pakistan) (17 December 1987)
- Health and Population Project (Indonesia) (17 October 1985)
- Flood Damage Restoration Project (Pakistan) (30 March 1989)
- Pabna Irrigation and Rural Development Project (Bangladesh) (12 December 1978)
- First and Second Manila Water Supply Rehabilitation Projects (Philippines) (27 October 1983 and 24 January 1989)
- Ports Development Project (Papua New Guinea) (2 July 1985)
- Agriculture Program Loan (Sri Lanka) (28 November 1989)

### Technical Assistance Performance Audit Reports

- Supporting Policy Analysis in the Ministry of Finance (People's Republic of China) (2 January 1992)
- Urban Transport Planning Project (Malaysia) (29 September 1993)

### Impact Evaluation and Reevaluation Studies

- Reevaluation of the Lower Citanduy Irrigation Project (Indonesia)
- Evaluation of Bank Assistance to Developing Member Countries for Benefit Monitoring and Evaluation
- Bank Operations in the Industrial Crops and Agro-Industry Sector in Indonesia
- Bank Assistance to the Industrial Crops and Agro-Industry Sector in Sri Lanka
- Reevaluation of the Songkhla and Phuket Ports Project

certain country operational strategies, and the Report of the Task Force on Improving Project Quality.

## Policy issues

During 1997, the Board considered and approved a number of major policy initiatives designed to improve the social and economic impacts of Bank interventions in its developing member countries (DMCs) or to enhance the internal effectiveness of the Bank in delivering its services. This approach of continuous review and improvement is consistent with the process of quality management, and forms part of the Bank's overall framework designed to ensure the continuing responsiveness of the organization to the needs of its DMCs.

**Operational policy development – technical assistance operations:** In 1997, the Board reviewed the Bank's technical assistance operations, noting that technical assistance plays an essential role in the Bank's efforts to achieve its development impact. The importance of technical assistance in Bank operations is highlighted in this year's special theme chapter, which addresses many of the points raised by the Board in their review.

**Internal policy development – review of the financial planning framework for the management of ADF resources:** In January 1997, the Bank and donors agreed in Tokyo to replenish the ADB's soft loan facility, the ADF, with \$6.3 billion. This replenishment will cover the four-year period from 1997 to 2000.

The resources mobilized for ADF VII will allow the Bank to continue to provide important financing for the priority investment needs in the poorer DMCs. As part of the negotiations, the Bank has agreed to review various policies, including its financial policy, the issue of graduation, and ADF lending terms during the ADF VII period.

The Bank's new financial planning framework will maximize efficiency in the use of resources other than donor contributions to the current replenishment to increase the ADF commitment authority.

**Review of the Bank's income and reserves policy:** The Board reviewed and approved the Income and Reserves Policy, which has as its major recommendations that the Bank adopt a long-term minimum policy objective for the interest coverage ratio, establish a planning goal of about 25 percent for the reserve:loan ratio, effect a medium-term plan to reduce the actual reserve:loan ratio, use the surplus account in the annual income planning process, give priority in the allocation of excess net income to the Technical Assistance Special Fund and then to the ADF, and maintain the Bank's current policy of funding liquidity with equity.

**Institutional development – Asian Development Bank Institute:** In December 1997, the ADB Institute was officially inaugurated in Tokyo. The Institute has been structured as a development "think tank" and a

high-level training center. It will carry out innovative development research and provide management training for top-level policymakers and officials of public and private development institutions from the Bank's DMCs. The Institute will examine critical issues affecting the development of the Asian and Pacific region and, through this process, create a knowledge and information database around and upon which future development strategies for DMCs can be identified and structured. The Institute will offer not only innovative approaches to development interventions but also practical advice on how such approaches can be implemented and, hence, the importance the institution attaches to applied research and training. The Institute will be fully financed by the Government of Japan.

**Institutional representation – resident missions:** The Board agreed to the opening of three resident missions, two in the Central Asian republics (Kazakhstan and Uzbekistan), and one in Sri Lanka. These missions will assist in project implementation and improving dialogue between the Bank and the countries concerned.

### Policy Papers Discussed by the Board in 1997

#### Approved papers

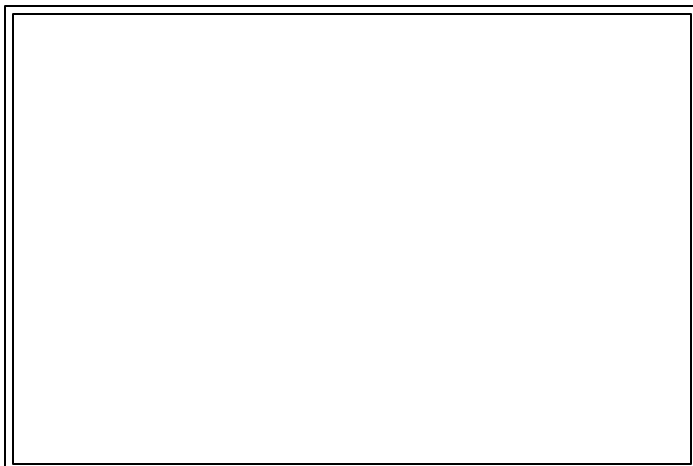
- Review of the Bank's Income Outlook and Allocation of the 1996 Net Income
- Policy on Confidentiality and Disclosure of Information Implementation Report for 1997
- Legality of OCR Net Income and Surplus Transfer to the Asian Development Fund
- Transfer of OCR Surplus to the Asian Development Fund
- Change in the Loan Ceiling for Loans Processed under the Bank's Emergency Rehabilitation
- Establishment of Bank Resident Missions in the Central Asian Republics
- Establishment of Bank Resident Mission in Sri Lanka
- Review of the Bank's Technical Assistance Operations
- Review of the Bank's Income and Reserve Policy
- The Bank's Policy on Fisheries

#### Working papers

- Policy on Involuntary Resettlement – First Annual Report
- Cooperation between ADB and Nongovernment Organizations
- The Bank's Policy on Indigenous Peoples

### Board committees

**Audit Committee:** In 1997, the Audit Committee of the Board met on 18 occasions. It reviewed ten project performance audit reports, two technical assistance audit reports, two reevaluation reports, and three impact evaluation studies (*see box*). In addition the Committee discussed special topics such as the role of the Audit Committee, provisioning for



*A road improvement project in the Lao PDR gives rural producers better access to markets and promotes cooperation among countries of the Greater Mekong Subregion.*

Afghanistan loans and for private sector operations, implementation of the recommendations of the Task Force on Improving Project Quality, the Bank's internal controls, a report on the audit of derivatives, the Bank's system for evaluating and rating project performance, benchmarking, and the Management Letter prepared by the Bank's outside auditors.

The Committee welcomed the Bank's new outside auditors, selected by competitive bidding in 1996. The Committee reviewed the 1996 Financial Statements with the Bank's outside auditors and discussed with them the scope of the outside audit of the 1997 accounts.

In its July 1997 Annual Report to the Board of Directors, the Committee noted the achievements made by staff in acting upon lessons learned from internal audits and postevaluations, and again emphasized that the Bank must strive for constant reassessment and improvement in its operations. In this context, it noted the importance of self-evaluation by the Bank, as well as evaluation by parties outside the Bank. The Committee emphasized the need for the Bank to develop relevant, clear, reliable, and measurable performance indicators to be incorporated in its projects at the design stage. It looked forward to the development and implementation of the project performance management system in 1998.

**Budget Committee:** The Budget Review Committee was convened from 10 to 21 November 1997 to review the Bank's operations during the year. Members discussed the work plans of various departments and offices, deliberated on substantive issues underlying Management's 1998 Budget proposal, and reached a consensus on its recommendations.

The Committee recommended further strengthening of the Bank's efforts to catalyze development assistance, while at the same time continuing to improve the quality of the Bank's integrated services to the DMCs.

The Committee noted the Bank's 1997 initiatives in its assistance to help resolve the currency turmoil affecting some DMCs, and recommended that the Bank build its in-house expertise to provide effective support to the highly technical and complex areas of establishing and maintaining sound and efficient financial and capital markets. It welcomed the creation of the Task Force charged with coordinating the Bank's response to the crisis and noted that additional budgetary resources had been allocated for processing planned program loans. This action by the Bank highlighted the need for flexibility in the use of budget provision to support urgent and priority programs not previously planned or envisaged and for responding to changing operational needs.

Finally, the Committee recommended that the Board approve the administrative budget for 1998, and authorized an expenditure of \$204.8 million, which, excluding the general contingency provision of 1 percent, reflected an increase of 3.7 percent over the 1997 revised estimate. This administrative budget would support \$6.1 billion lending, \$155 million

technical assistance, and \$3.7 billion cofinancing programs in 1998, with no growth in the authorized staff positions.

**Inspection Committee:** During 1997, the Inspection Committee received the first request for inspection, relating to the Korangi Wastewater Management Project in Pakistan, which was referred to the President for handling as an “initial complaint” under the Bank’s Inspection Procedures.

Detailed Inspection Procedures and general information on the Bank’s inspection policy are included in *ADB’s Inspection Policy: A Guidebook*. Similar information on the inspection policy is available on the Bank’s Internet Web site.

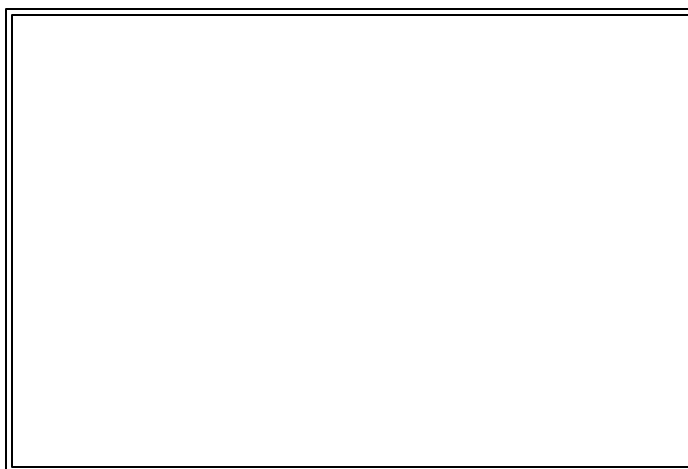
The Committees of the Board of Directors are shown in Appendix 4.

## Directors’ visits

The Board of Directors undertook two group visits in 1997: the first to the Lao People’s Democratic Republic (Lao PDR) and Thailand from 23 February to 8 March 1997; and the second to Indonesia from 31 August to 13 September 1997. During the course of each of the visits, Board members held wide-ranging policy discussions with government ministers, senior officials, business representatives and NGOs, and also saw firsthand ADB-sponsored projects. Directors’ visits serve two important purposes. First, dialogue with the country in question is enhanced. Second, by gaining a better understanding of the challenges facing DMCs, Board members can support more effectively and encourage Bank initiatives designed to address the development needs in the countries concerned.

In Thailand, Board members met with the Deputy Prime Minister and Minister of Finance, His Excellency Dr. Amnuay Viravan, as well as other senior officials of the Government of Thailand. In the Lao PDR, they met with the Minister of Finance, Hon. Xaysomphone Phomvihane, and other senior government officials.

During the Indonesia visit, the Board members had the honor of meeting the President, His Excellency Soeharto, Minister of Finance, Hon. Mar’ie Muhammad, and other senior government officials.



*Technical education (in this case in Indonesia, one of the countries visited by the Board) raises a country’s international competitiveness by improving productivity.*