

Board of Directors

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

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

General operations

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

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

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

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

Policy issues

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

The Boards and Their Functions

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

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

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

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

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

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

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

Approved Papers

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

Working Papers

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

Operational policy development

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

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

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

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

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

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

Institutional development

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

Board committees

Audit Committee

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

Postevaluation Reports Discussed by the Audit Committee in 1998

Project Performance Audit Reports

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

Technical Assistance Performance Audit Reports

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

Impact Evaluation Studies

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

Special Studies

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

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

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

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

Budget Review Committee

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

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

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

The Committee noted the Bank's continuous efforts to support sustainable economic development in its DMCs and acknowledged the Bank's efforts to make prudent use of its resources and exercise budgetary discipline. It reviewed the efforts made to spring-clean the Bank's loan portfolios, and recommended that this be an ongoing process to generate savings from both OCR and ADF loans. The Committee cautioned against overprogramming,

and urged the Bank to set realistic performance-based lending levels consistent with available resources. It also stressed the need for greater prioritization of the Bank's technical assistance activities. The Committee noted that the Bank had developed a strategy for enhancing staff productivity, and had acted on poor staff performance through involuntary separation of 25 professional staff. At the same time, the Committee welcomed Management's proposal to augment the Bank's operational capacity by creating 15 new professional staff positions and redeploying 14 professional staff positions to its operations departments. The Committee noted that certain professional staff benefits would be rationalized effective 1 January 1999, and looked forward to a comprehensive review of the professional staff compensation package. It recommended that the Bank initiate a risk analysis of its staff retirement plan.

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

Inspection Committee

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

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

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

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



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

Directors' visits

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

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

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

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

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

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