

In 2001, the Asian Development Bank (ADB) took pioneering and well-balanced steps to address the needs of its developing member countries (DMCs). ADB established the Japan Fund for Information and Communication Technology to bridge the growing digital divide in the Asian and Pacific region. In its private sector operations, ADB approved its first two loan projects in the social sectors for education and health care. Also in 2001, ADB continued to emphasize good governance and transparency in portfolio management and project implementation.

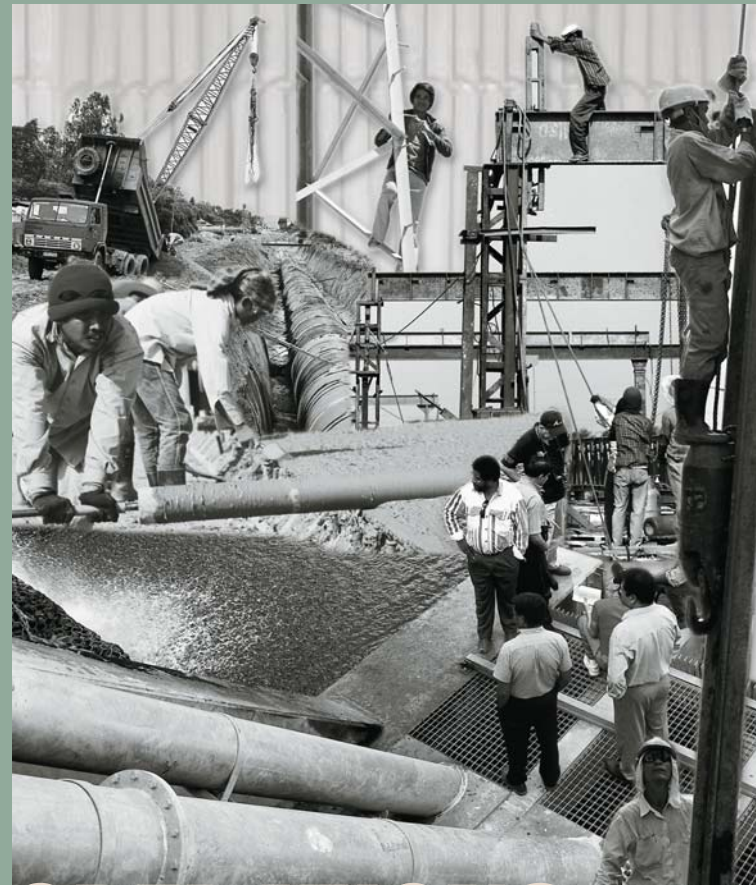
Lending

Lending for both public and private sector operations in 2001 amounted to \$5,339 million for 76 loans in 60 projects, compared with \$5,653 million for 88 loans in 74 projects in 2000. The average loan size in 2001 was \$70 million.

Of the total lending, loans with government guarantee were over \$5,301 million for 57 projects, comprising \$3,940 million for 26 loans from ordinary capital resources (OCR) and \$1,362 million for 46 loans from the concessional Asian Development Fund (ADF). Lending to the private sector without government guarantee amounted to \$37.5 million for four loans in three projects. The transport and communications sector received the largest share of loans, \$1,426 million or 26.7% of total lending in 2001, followed by multisector, others, energy, agriculture and natural resources, social infrastructure, and industry and nonfuel minerals. Environment and governance projects are included in the current classification "others." For details, see Tables 1–6 and 9–13 in the Statistical Annex. For more on lending, see <http://www.adb.org/Finance/>.

Technical assistance

In 2001, ADB approved 257 technical assistance grants totaling \$146.4 million. Project preparatory technical assistance accounted for 64 projects amounting to \$40.4 million, while advisory and operational technical assistance accounted for 142 projects amounting to \$76.1 million. The agriculture and natural resources sector received the largest share of project-specific technical assistance followed by social infrastructure and finance. The remaining 51 projects, valued at \$29.9 million, were for regional technical assistance. For details, see Tables 24–28 in the Statistical Annex. For more on technical assistance grants, see <http://www.adb.org/ta>.



OPERATIONS

“ADB continued to emphasize good governance and transparency in portfolio management and project implementation in 2001, and pursued timely submission of quality-driven audited project accounts and agency financial statements. . . . Portfolio performance at the country, sector, and project levels; and sound financial management procedures and practices in executing agencies were increasingly factored into ADB’s country programming and project processing work.”

ADB Operations

	\$ Million		%
	2000	2001	Change
Lending			
OCR	4,060.1 ^a	3,977.4	(2.0)
ADF	1,592.5	1,361.6	(14.5)
Total Lending	5,652.6	5,339.0	(5.5)
Equity Investments	78.2	30.4	(61.1)
Technical Assistance Grants ^b	172.0	146.4	(14.9)
TOTAL	5,902.8	5,515.8	(6.6)

a Adjusted to reflect terminated loans and reduced ADB loan amounts.

b Including regional activities.

Resource Transfers to Developing Member Countries (\$ million)

	2000	2001
OCR		
Loan Disbursements	2,884	2,850
Principal Repayments ^a	(1,835)	(1,196)
Payments of Interest/Charges	(1,818)	(1,843)
Net Equity Investment	(9)	(5)
Net	(778)	(194)
ADF	782	658
TOTAL	4	464

() Represents resource inflow from developing member countries.

a Includes prepayments of \$52.5 million (\$693.4 million in 2000).

Grants

In 2001, 16 projects received grants totaling \$93.8 million. Of this, eight projects received about \$24 million from the Japan Fund for Poverty Reduction, and eight projects that received ADB loans during the year also received grants totaling \$69.8 million from the governments of Australia, Denmark, The Netherlands, United Kingdom, and the Global Environment Facility. *For details, see Tables 35–36 in the Statistical Annex.*

Equity investments

In 2001, equity investments in private sector operations were made in three projects amounting to \$30.4 million. The investments were made in a housing bank, a regional fund in the Mekong region, and a country equity fund. *For details, see Table 10 in the Statistical Annex.*

Resource transfers

The net transfer of resources from ADB to its DMCs increased from \$3.7 million in 2000 to \$464.3 million in 2001. During the year, net transfers to ADF borrowers were \$658.4 million (\$782.1 million in 2000). Compared with net inflows of \$778.4 million in 2000, net inflows to ADB from OCR borrowers decreased to \$194.1 million. *For details, see Tables 29–30 in the Statistical Annex.*

Loan disbursements in 2001 totaled \$3.9 billion, comprising 90% of the year's target of \$4.3 billion. Of the total, OCR disbursements were \$2.8 billion or 74% and ADF disbursements were \$1.0 billion or 26%. *For 2000 and 2001 disbursements by lending modality, see Table 8 in the Statistical Annex.*

Loan service payments reached \$3.4 billion in 2001, compared with \$4.0 billion in 2000. The decrease was mainly because of lower prepayments (\$52.5 million in 2001, \$693.4 million in 2000).

In 2001, the four largest net resource transfers from ADB were to People's Republic of China (PRC), Viet Nam, Bangladesh, and Pakistan.

Cofinancing and guarantee operations

In 2001, cofinancing for loan projects mobilized from all sources amounted to \$1.4 billion, equivalent to about 26% of ADB's total lending of \$5.3 billion. *For details, see Table 7 in the Statistical Annex.* Although this level of cofinancing is significantly lower than the 2000 level of nearly \$3.0 billion, 2001 was the fifth consecutive year in which cofinancing was arranged for more than 40% of ADB projects. The decrease in the cofinancing amount is mainly because of the slippage or cancellation of several large projects with cofinancing possibilities from both market and official sources; and the global economic slowdown, which inevitably affected Asia's economy and reduced the demand for large physical infrastructure projects.

Twenty-five projects in 11 DMCs received cofinancing in 2001. The PRC received the largest amount, with about \$867.0 million cofinancing (primarily from its domestic financial institutions), followed by India with \$150.0 million, and Sri Lanka with \$102.0 million.

During 1970–2001, 580 ADB-assisted loan projects and programs received cofinancing in an aggregate amount of \$36.2 billion, consisting of \$21.7 billion from official sources, \$9.2 billion from commercial sources, and \$5.3 billion from export credit sources. The energy sector accounted for \$15.3 billion or 42%,

followed by transport and communications (\$8.2 billion or 23%), agriculture and natural resources (\$4.2 billion or 11%), social infrastructure (\$3.1 billion or 8%), finance (\$1.7 billion or 5%), and other sectors (\$3.7 billion or 11%).

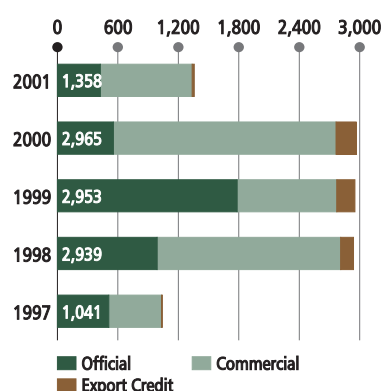
Official cofinancing: Cofinancing from official sources for ADB loan projects amounted to \$425.2 million in 2001, a decrease of about 24% from the \$557.9 million in 2000. Germany provided cofinancing of \$185.0 million for four projects, followed by France with \$45.4 million, and United Kingdom with \$38.0 million. The European Investment Bank provided cofinancing of \$50.0 million for the Guangxi Roads Development Project in the PRC. Other major multilateral cofinanciers were International Finance Corporation, Nordic Development Fund, and the OPEC Fund for International Development.

Grants from official donors were actively pursued in 2001. In addition to Japan's annual contributions to the Japan Special Fund (JSF), untied grants totaling \$86.5 million were contributed by Australia, Canada, Denmark, Finland, France, Italy, The Netherlands, New Zealand, United Kingdom, United States, and the Global Environment Facility.

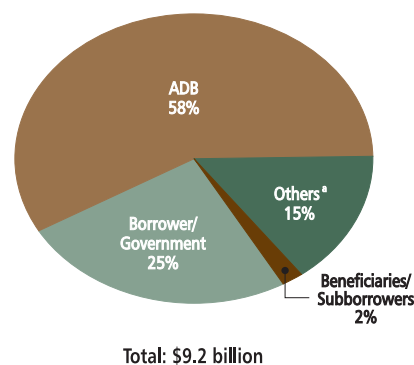
Under the JSF, funded by the Government of Japan, a total of \$53.8 million for 96 technical assistance projects was financed on an untied basis in 2001, accounting for 37% of all technical assistance approvals. *For details, see Tables 24 and 33 in the Statistical Annex and table on Japan Special Fund Technical Assistance by Sector, 2001 on page 125.*

Under the Asian Currency Crisis Support Facility (ACCSF), also funded by the Government of Japan, DMCs affected by the financial crisis continued to receive assistance. Sixteen technical assistance projects totaling \$16.1 million were approved in 2001. *For details, see Tables 24 and 34 in the Statistical Annex and tables on ACCSF by country and by sector on page 125.*

Cofinancing Arrangements, 1997–2001 (\$ million)



Total Cost of Loan Projects and Sources of Financing, 2001



^a Includes cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

Out of an initial contribution of 10 billion yen (about \$92.6 million) from the Government of Japan, the Japan Fund for Poverty Reduction (JFPR) financed a total of about \$24 million for eight projects in 2001. *For details, see Table 35 in the Statistical Annex.*

The Japan Fund for Information and Communication Technology, also funded by the Government of Japan with 1,273.3 billion yen (about \$10.7 million), was established in July 2001 to harness the potential of information and communication technology and bridge the growing digital divide in Asia and the Pacific.

Channel financing arrangements were approved with the governments of Canada, Denmark, The Netherlands, and United Kingdom in poverty reduction, governance, climate change, water, and renewable energy, for a total of \$47.4 million in untied grants.

Commercial and export credit cofinancing: Commercial cofinancing in 2001 amounted to \$912.6 million for eight projects, a decrease of more than 50% from the \$2.3 billion arranged in 2000. Of the 2001 total, \$822.6 million

was parallel cofinancing from domestic financial institutions in the PRC and Viet Nam. Export credit cofinancing in 2001 amounted to \$20.1 million for a power project in Bangladesh, in the form of supplier's credit, the source of which will be determined through international competitive bidding.

Guarantees: In 2001, a partial credit guarantee of \$90 million was approved to support commercial cofinancing for the Small and Medium Enterprise Sector Development Program Credit Assistance Project in Sri Lanka. To date, ADB has issued a total of 11 partial credit guarantees and 3 political risk guarantees in support of about \$1.5 billion in commercial cofinancing under syndicated loans and capital market instruments. *For more on cofinancing, see <http://www.adb.org/cofinancing>.*

Portfolio management

In 2001, under its Portfolio Management Action Plan, ADB introduced an automated project rating system to improve the consistency and timeliness, and reduce the subjectivity of ratings. An “at risk” approach was adopted in the rating system, combining an enhanced project rating system with an early warning device for flagging projects rated satisfactory or better but with potential problems. In addition, the project performance report was restructured and expanded to make it a more useful project monitoring tool.

The Project Administration Instructions were revised completely in 2001 to incorporate improvements in business processes and changes in delegation of authority. The revisions, which streamline project administration activities, are expected to be adopted in 2002.

ADB continued to emphasize good governance and transparency in portfolio management and project implementation in 2001, and pursued timely submission of quality-driven audited project accounts and agency financial statements. Better assessment and strengthened financial management of executing agencies at the early stage of project processing remained important features of ADB’s drive toward better governance and fiduciary safeguards and controls in project implementation. Portfolio performance at the country, sector, and project levels; and sound financial management procedures and practices in executing agencies were increasingly factored into ADB’s country programming and project processing work.

ADB also continued to collaborate with the Procurement Cooperation Group of Multilateral Development Banks (MDBs) and International Financial Institutions to develop master bidding documents and master documents for consultant recruitment. Based on the master documents, ADB prepared four related documents reflecting its procedures and policies for the procurement of goods. The working group also prepared the master document for prequalifying civil

works contractors, on which ADB will base a standard prequalification document in 2002. The working group also commenced work for preparing a similar master document for civil works contracts.

To improve its effectiveness, ADB reviewed its policies and procedures on selecting consulting firms. To expedite processing and improve transparency, ADB finalized a proposal to introduce the quality and cost-based system (QCBS). The QCBS focuses on quality as the primary selection criterion (80%), while considering to a degree (20%) the cost of the services.

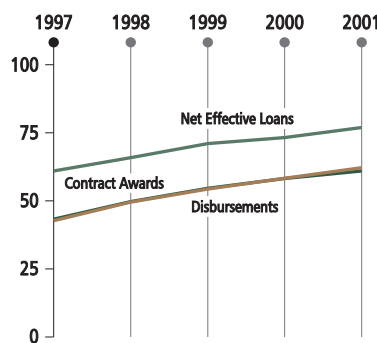
Project administration: A total of 76 new loans (72 public and 4 private sector) were approved in 2001. This brought the number of loans under administration to 552, comprising 501 loans in the public sector and 51 in the private sector. Of the public sector loans, 399 were rated satisfactory (including 6 highly satisfactory) in

terms of implementation progress and achievement of development objectives, while 79 loans were rated partly satisfactory and 23 loans unsatisfactory.

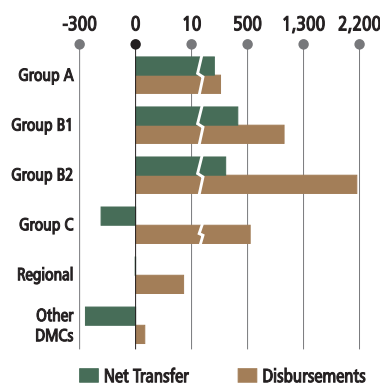
Altogether, 690 project administration missions, including private sector loan and multiproject reviews, were fielded to assess project progress and discuss problems; improve portfolio performance; and strengthen the linkages between country and sector performance, including joint project reviews with the World Bank and other MDBs. A total of 9,352 person-days (or an average of 21.4 person-days per project) were spent reviewing projects. Country portfolio review missions were undertaken in 16 DMCs to discuss with senior government officials implementation problems, timely submission of audited project accounts and audited agency financial statements, cross-sectoral issues, and remedial measures. Special portfolio restructuring for Indonesia was undertaken; \$101.8 million was identified for loan cancellation.

ADB’s regional and resident missions continued to play an important role in project implementation, in accordance with ADB’s policy on resident missions. Major

Contract Awards and Disbursements, 1997–2001 (cumulative, end of year)
(\$ billion)



Disbursements and Net Transfer of ADB Resources to DMCs, 2001 (\$ million)



See page 51 for classification of countries.

operational functions such as country programming, project processing, and portfolio management continued to be delegated to the missions. By end-2001, administration of a total of 32 loans for 27 projects had been delegated to the resident missions in Bangladesh, Cambodia, India, Pakistan, Sri Lanka, Uzbekistan, and Viet Nam; and the regional mission for the South Pacific in Vanuatu. *For more on the Resident Mission Policy, see http://www.adb.org/documents/policies/resident_mission.*

Eighty-three projects were completed during the year. Sixty-one project completion reports were circulated in 2001, bringing the total number of reports prepared as of end-2001 to 989. *For details, see Table 14 in the Statistical Annex.*

Contract awards: Contracts totaling \$2.6 billion (excluding contracts for technical assistance projects) were awarded in 2001 by executing agencies in DMCs for engaging consulting services and procuring goods, related services, and civil works. This represented a 24% decline from 2000, and 2001 contract awards fell short of projections for several large borrowers: Bangladesh, India, Indonesia, and Viet Nam. Consultancy contracts under loan projects totaled \$142.9 million and involved 344 consulting contracts (113 international and 231 domestic). *For details, see Tables 15–23 in the Statistical Annex.*

Loan disbursements: The 2001 loan disbursements of \$3.9 billion fell short of the \$4.3 billion projected for the year, and were slightly lower than the 2000 disbursements, mainly because of shortfalls in program loan disbursements. *For 2000 and 2001 disbursements by lending modality, see Table 8 in the Statistical Annex.*

Project implementation and administration seminars: ADB conducted a series of seminars in 2001 to help DMCs understand the changing environment in which projects are implemented. Eight seminars focused on improving project implementation and administration in the DMCs; a total of 315 DMC representatives participated in the 2-week sessions. Seven of the eight were in-country seminars held in PRC, Indonesia, Lao People's Democratic Republic (Lao PDR), Pakistan, Philippines, Sri Lanka, and Viet Nam. One was a regional seminar held at ADB headquarters. In addition, seven seminars on the use of consultants, attended by about 300 participants, were held in Bangladesh, Cambodia, PRC, India, Kazakhstan, Mongolia, and Uzbekistan. Also, seminars on developing domestic consulting services attended by about 250 participants were held in Cambodia, PRC, India, Indonesia, and Viet Nam.

Business opportunities seminars: Fourteen seminars on business opportunities were organized in 2001 in 10 countries: Austria; Belgium; Hong Kong,

China; Italy; Japan; Republic of Korea; Pakistan; Spain; Turkey; and United States. Participants were provided with an overview of business opportunities under ADB-financed loans and technical assistance, given advice on preparing bids and proposals in line with ADB guidelines, and informed of the procedures for evaluating bids and ranking consulting proposals. Overall, more than 519 participants joined the presentations, discussions, and one-on-one consultations. In addition, several seminars were held at ADB headquarters for visiting missions and delegations from various members.

Private sector operations portfolio

ADB's private sector portfolio has delivered developmental impacts, leveraged and catalyzed other sources of funding, created employment, and continued to promote governance and environmental protection. In 2001, the portfolio amounted to \$1.2 billion. This consisted of \$718.7 million in loans (62% of the portfolio) and \$449.2 million in equity investments (38%).

Since ADB's first private sector investment in 1983, cumulative approvals have totaled \$2.0 billion, financing 148 projects and mobilizing \$655.8 million of complementary financing loans. ADB's involvement also catalyzed \$15.5 billion in additional financing, leveraging ADB investments by a ratio of 7.7 times. At the end of 2001, cumulative disbursements rose by \$67.3 million and reached \$1.4 billion. Of the approvals, \$614 million or 31% has been repaid and divested. *For details, see Tables 9–13 in the Statistical Annex and table below.*

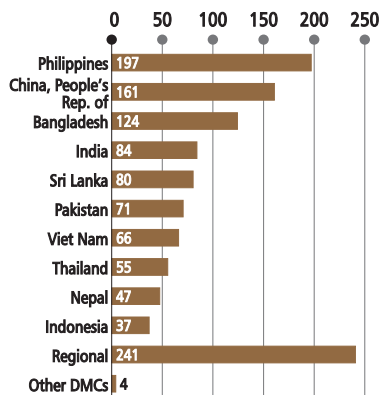
ADB's private sector operations continued to focus on infrastructure and capital markets. In 2001, two pioneering private sector projects were approved in social infrastructure—one in health care and another in education. Infrastructure projects in DMCs account for 46.3% (\$539.3 million) of the private sector portfolio. In

Private Sector Portfolio Distribution,^a 2001

	Investments Held		
	No. of Companies	\$ Million	%
Infrastructure	19	539.3	46.2
Investment Funds and Financial Institutions	64	452.1	38.7
Others	16	176.5	15.1
TOTAL	99	1,167.9	100.0

a At exchange rates as of 31 December 2001.

Private Sector Operations Portfolio Distribution by Country, 2001 (\$ million)



which develop and strengthen capital and financial markets and allow ADB to leverage on its own available staff and financial resources. Another 22.6% of the private sector portfolio or \$263.8 million was invested in country and sectoral funds and fund management companies, which provide equity and/or loans to infrastructure projects, small and medium enterprises, and financial institutions in DMCs.

The remaining 15.1% of the private sector portfolio, or \$176.5 million, was made in the mid-1980s when ADB supported several DMC governments that encouraged the private sector to invest in large agricultural and industrial ventures.

At the end of 2001, there were 99 projects under administration, net of repayments, cancellations, and divestments. Of the total number of projects, 18 are in regional financial entities and funds. Operationally, 71 companies were demonstrating strong financial performance, 4 were performing marginally, and 24 were underperforming. Risk management vigilance continued in 2001. This included an active effort to rehabilitate, restructure, or exit impaired assets.

Interest and other income earned on the private sector portfolio in 2000 and 2001 were at the same level at \$31.1 million. Dividend income rose from \$11.4 million (4.3% yield) in 2000 to \$13.2 million (4.9% yield) in 2001. On a cumulative basis, dividends to date amounted to \$80.1 million. In addition, cumulative net realized gains totaled \$69.4 million.

Provision for possible losses on impaired assets increased from \$140.1 million in 2000 to \$144.5 million in 2001. The loss reserve was 21.1% of the total outstanding portfolio at the end of 2001, compared with 20.6% in 2000. *For more on private sector operations, see <http://www.adb.org/PrivateSector>.*

capital markets, approvals for 2001 included a regional financial institution, two country-specific funds, and a housing bank.

At the end of 2001, 16.2% of the private sector portfolio or \$188.3 million was in pioneering financial institutions,

Capacity building: In 2001, ADB jointly organized a workshop with the International Finance Corporation and the Japan Bank for International Cooperation on environmental management for private sector fund managers and finance professionals.

Performance evaluation and development impact

The Operations Evaluation Department (OED) independently evaluates ADB's operations, including the performance of completed projects, programs, and technical assistance, and thematic studies in the form of impact, special, and country assistance program evaluations. The primary objectives of ADB's evaluation activities are to provide resource accountability, cite lessons learned for future operations, and identify follow-up actions for sustaining the benefits of activities supported by ADB. Operations evaluation activities were strengthened in 2001: the Operations Evaluation Office became a department with additional posts, under the oversight of the Board of Directors' Development Effectiveness Committee.

During the year, OED completed 37 evaluation reports; the main reports comprised 26 performance audit reports and 6 special evaluation reports.

Project/program performance audit reports

In 2001, 17 projects and 5 programs were assessed in 21 reports, using the four-category rating system of highly successful, successful, partly successful, and unsuccessful. Of the 22 evaluated projects/programs in 2001, 3 (14%) were rated highly successful and 9 (41%) successful. The remaining 10 (45%) projects/programs were rated partly successful. None was rated unsuccessful.

Of the five performance audit reports for programs, one was rated successful and four were rated partly successful. The evaluations demonstrated that reforms require longer periods, more policy dialogue, and sustained commitment from governments. The evaluations also underscored the need for detailed sector studies and use of participatory approaches in program design, and confirmed the importance of realistic assessment of and systematic capacity building for executing agencies.

Of the 17 projects, including 4 using the sector loan modality, 3 (18%) were considered highly successful, 8 (47%) successful, and 6 (35%) partly successful. Of the seven physical infrastructure projects, three were found to be highly successful. Of the social sector projects, four targeting underserved areas and lower-income communities were rated successful. Five other

agriculture and social sector projects and one multisector project were rated partly successful.

Two of the three projects evaluated in Group A DMCs (*see box on Classification of ADB's Developing Members*) were rated highly successful; two road projects in the Lao PDR improved a vital road section from the national capital to the northern provinces, strengthening national integration and generating substantial benefits to the economy. Of the 14 projects in Groups B1 and B2 DMCs, 6 were rated successful and the rest partly successful. Of the five projects in Group C countries, one was rated highly successful and three successful. The highly successful Second Erawan Gas Project in Thailand highlighted two factors critical to the success of a project: a high degree of ownership by the Government and the executing agency, and strong institutional capability of the implementing agencies.

Lessons from these evaluations are relevant to future ADB operations. For example, the Dhaka Urban Infrastructure Improvement Project in Bangladesh, rated partly successful, showed that community participation is a critical factor in ensuring proper operation and maintenance of project facilities, and the sustained delivery of services. The Heilongjiang Expressway Project in the PRC, which was rated successful, highlighted the need for a rigorous review of technical features at appraisal and during implementation to improve design, for example, for safety.

Technical assistance performance audit reports

Five performance audit reports of technical assistance clusters were prepared in 2001. Twenty-five technical assistance activities were evaluated; 2 were rated highly successful, 11 successful, 7 partly successful, and 5 unsuccessful.

In Cambodia, two technical assistance grants supported a detailed survey of transport needs and provided formal training to the Planning Department of the Ministry of Public Works and Transport. In Viet Nam, a technical assistance grant helped formulate a Road

Classification of ADB's Developing Members

A revised classification system for ADB's DMCs, approved by the Board of Directors in December 1998, took effect on 1 January 1999. Two criteria—per capita gross national product and debt repayment capacity—are used to determine the classification of borrowing developing members into Groups A, B1, B2, and C.¹ The system determines the degree of eligibility to borrow from the Asian Development Fund (ADF), applicable ceiling on ADB project financing, and minimum share of government contribution to technical assistance costs.

Group A (ADF only) includes Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Lao People's Democratic Republic, Maldives, Mongolia, Myanmar, Nepal, Samoa, Solomon Islands, Tajikistan, Tuvalu, and Vanuatu.

Group B1 (ADF with limited amounts of ordinary capital resources [OCR]) includes Azerbaijan, Bangladesh, Cook Islands,² Marshall Islands, Federated States of Micronesia, Pakistan, Sri Lanka, Tonga, and Viet Nam.

Group B2 (OCR with limited amounts of ADF) includes People's Republic of China, India, Indonesia,³ Nauru, and Papua New Guinea.

Group C (OCR only) includes Fiji Islands, Kazakhstan, Malaysia, Philippines, Thailand, and Uzbekistan.

In addition, the criteria for graduation from regular ADB assistance were established. Four members—Hong Kong, China; Republic of Korea; Singapore; and Taipei, China—have graduated from regular ADB assistance.

For details on ADB's graduation policy for DMCs, see <http://www.adb.org/documents/policies/graduation>.

¹ Turkmenistan has not been classified.

² Limited eligibility for OCR will be applied only after the external debt position improves.

³ On a watch list for graduation from the ADF.

Act. The evaluation highlighted two main issues: a heavy reliance on external funding for road maintenance; and the higher remuneration packages offered to project management units that attracted qualified personnel away from regular activities. One of the technical assistance in Cambodia was highly successful, and the other partly successful. The technical assistance in Viet Nam was rated partly successful.

OED evaluated two technical assistance projects in the social sectors of two DMCs. One helped generate social survey data for formulating social sector reforms in Viet Nam. The other introduced a cost resource allocation method for the budget allocation system for health in Sri Lanka. Three main lessons emerged: technical assistance focused on DMC priorities is more likely to succeed; the use of technical assistance outputs needs to be specified during design; and important findings should be widely disseminated. Both technical assistance were rated successful.

Six technical assistance grants designed to build evaluation capability in Nepal, Philippines, and Sri Lanka were evaluated. It was found that for evaluation

capacity to be built in DMCs, there must be a high degree of government ownership, backed up by high-level support and stable staffing; participation by all key stakeholders in project performance management systems; and creation of awareness among senior decision makers during preparation. Weaknesses were identified in implementation. The two technical assistance to strengthen postevaluation capacity in Nepal and the Philippines were rated partly successful; that for Sri Lanka was rated highly successful. Three technical assistance to strengthen each country's project performance management system were rated unsuccessful, partly successful, and successful.

Six advisory technical assistance in the PRC addressed the problems of growing urban population and urban management. The first two technical assistance approved in 1992–1993 were rated unsuccessful but the last four approved in 1995–1998 were rated successful. The trend has been toward successful outcomes in recent years as ADB gained more experience in the PRC and focused on areas in urban development where it had a comparative advantage, mainly water supply and sanitation. Two of the more recent technical assistance helped formulate and implement build-operate-transfer water supply projects, and had a significant impact in strengthening the relevant institutions. An urban policy workshop provided a venue for dialogue between government agencies, city administrations, and ADB. Many of the recommendations in the urban development plan for Hohhot were considered by the executing agency. Three lessons were learned. First, ADB needs to be more thorough in preparing technical assistance projects in the urban development sector. For example, data availability needs to be adequately assessed. Second, ADB needs to ensure that sufficient resources are allocated for meeting the requirements of the terms of reference, for the supervision of technical assistance implementation, and for translation services. Third, technical assistance that serve as demonstration or pilot projects

should include in their design mechanisms to disseminate the results and findings to a wider audience in the country.

Eight technical assistance, involving four Pacific DMCs, focused on institutional strengthening and capacity building for financial institutions. In the Marshall Islands, the institutions involved failed to sustain their small enterprise activities, and the Small Business Development Corporation in Papua New Guinea was closed soon after the technical assistance was completed. These technical assistance were rated unsuccessful. Technical assistance was provided for institutional strengthening of other banking institutions in the Marshall Islands and Papua New Guinea. It was found that implementation time was inadequate in the first case, and a corporate plan for the rural development bank was not implemented in the second. Both were rated partly successful. Technical assistance for

Program Lending: A Lending Modality for Policy Reform

Program lending has been the main instrument through which ADB has supported policy reforms in its developing member countries (DMCs). The modality was used extensively in responding to the 1997 Asian financial crisis. From 1987 until the end of 2001, 117 programs or program components of sector development programs were approved with a combined loan amount of \$16.1 billion, 22% of total ADB lending. Program lending now involves a diverse range of countries, including Pacific DMCs and newer members in Central Asia; program loans now support a broader range of activities, including social infrastructure and public sector reforms, in addition to the initial focus on the agriculture, financial, and industry sectors. The special evaluation study assessed the role of program lending in promoting policy reforms in the DMCs and identified generic measures that could enhance its effectiveness.

The programs met their immediate targets. Total disbursements for 58 completed programs were only 9% below the approved loan amount. Although ambitious—containing a large number of conditions within a tight time frame—nearly all program conditions for 40 programs with completion reports were met. However, tranche releases and program completion were delayed; disbursements planned over an average of 15 months from loan effectiveness were actually completed within an average of 24 and a maximum of 52 months. Most programs had been designed with two tranches; 72% of second tranche releases were delayed and 11% canceled altogether.

According to the performance reporting system and stakeholder consultations in seven countries, program impacts did not always achieve their potential. DMCs made significant progress in adopting more market-oriented policies; however, the recurrence of conditionalities between loans and sectors indicated that reforms could not always be sustained. In several cases, program conditions were enacted after program completion, indicating a problem of process and timing. In other cases, program lending provided

rehabilitating the Development Bank of Western Samoa, strengthening government financial institutions in Samoa, and preparing a strategic plan for the National Bank of Vanuatu provided two main lessons: government action to resolve known problems should precede technical assistance, and technical assistance should be designed with sufficient flexibility to permit midcourse adjustments. These technical assistance were rated successful.

Special evaluation studies

A special evaluation study examined the impact of ADB's crisis support interventions in Indonesia, which included five loans, totaling \$2.8 billion, to augment liquidity and budgetary resources; promote transparency in financial sector governance; provide social protection to the poor; and support important structural reforms related to the crisis. Nonlending support included

providing policy advisory technical assistance. The study found that, although slow, the overall impact of the crisis management interventions was evident in major economic indicators. Nonlending support prior to or with the crisis support loans was timely and useful, and helped restore investor confidence. Four main lessons were identified: crisis conditions require different approaches, procedures, and instruments from noncrisis operations; restoring investor confidence is the most important objective of crisis assistance; crisis assistance must be continuous and intensive both during the preapproval and postapproval phases; and nonlending support is an important part of crisis assistance.

A special evaluation study on gender and development used a project case study approach to examine factors influencing the incorporation of gender considerations in ADB-financed projects. Cultural and religious barriers, and indifference toward gender

objectives, are the most common obstacles to addressing gender effectively. Project design often fails to recognize relevant gender issues and effective targeting provisions; executing agencies often accord low priority to social and gender awareness training because they do not have the relevant authority. A sequence of steps to follow during project preparation and implementation is recommended: conduct an initial social assessment, collect and analyze relevant gender information, adopt a gender inclusive design, conduct timely policy dialogue, and monitor gender provisions. *For more on gender and development, see <http://www.adb.org/gender>.*

A special evaluation study, based on 50 activities in four countries, found that total economic and sector work absorbed around 5%–6% of staff time, \$3 million–\$5 million in staff consultant inputs, and \$30 million–\$50 million of technical assistance resources annually. The study found perceptions that present staff resources are inadequate for generating effective economic and sector work outcomes, governments' involvement in planning such work is limited, and stakeholders are concerned about the cost-effective-

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insufficient resources for capacity building during policy reform implementation. Greater assistance for capacity building is needed, especially in policy analysis and implementation coordination. Stakeholder consultation and commitment to the reforms, specialized skills in program implementation, and a change in the focus of economic and sector work from outputs to results, would also help in successful implementation.

Overall, program lending has had and will continue to have high relevance to the needs of DMCs, and has been moderately effective in supporting substantive legislative and policy changes. However, programs have not always been based on achievable rates of change; stakeholder participation in program formulation could be better; and analysis of the incentive structure for effecting changed behaviors could be strengthened.

The study recommended specific actions for increasing the efficacy, sustainability, and development impact of program lending:

- more options should be considered in program design, including multiple and floating tranches, providing a justification in each case;
- government authorship of the reform package needs to be complemented by participation of affected groups, and dissemination of information relating to proposed policy changes and the costs of not changing;
- counterpart funds should be used for building government capacity for designing and implementing programs; and
- further evaluation of programs, including selected reevaluation studies and evaluation of selected programs during implementation, should be done and guidelines for program evaluation updated.

This study has already been discussed by the Development Effectiveness Committee and at an informal Board seminar, and the Board of Directors continues to take an active interest in the objectives and design of this important lending modality. *For more details, see http://www.adb.org/documents/policies/program_lending.*

ness of such activities. A focus on results rather than inputs would improve the effectiveness of economic and sector work. Five steps for improving the management of this work were identified: define economic and sector work as a separate nonlending service in ADB's *Operations Manual*; establish a tracking system for monitoring resource use and results; introduce internal processes to enhance overall quality; develop a dissemination strategy; and establish a change agent within ADB to enhance economic and sector work.

A special evaluation study on the impact of ADF resources covered the first five ADF commitment periods, 1973–1991, and the Special Funds period (1969–1972) that preceded them. Total commitments were \$10.2 billion: Bangladesh, Nepal, Pakistan, and Sri Lanka accounted for 76% of the total. It was found that projects designed to enhance DMCs' productive capacity—such as energy, transport and communications, and irrigation—promoted economic growth and indirectly reduced poverty. Projects designed to reduce poverty directly, while making positive contributions, generally produced results below expectations. The following lessons have been considered in designing and implementing subsequent ADF-funded projects: thorough project preparation should consider local culture, and technical and financial aspects; beneficiary participation is essential for developing project ownership; ADB staff's capability to deal with stakeholders at the grassroots level must be enhanced; commitment to a sector or subsector must be long term; transparency and accountability in project management are essential; and the policy environment must support the project.

A special evaluation study on privatizing public sector enterprises assessed the global experience on privatization; analyzed ADB's support for privatization through loan and technical assistance projects since 1994; and evaluated the DMC experience by surveying active borrowers. The main findings include the

importance of sequencing reforms, and the need for a more integrated approach to implementing privatization. Economic stabilization and trade liberalization are essential for the success of privatization; many policy changes, for

example, deregulating the banking sector, legal and judicial changes, and capital market development, should precede any divestment; and complementary social welfare actions avoid delays and implementation constraints.

Harmonization of evaluation activities

An Evaluation Cooperation Group, established in 1996 among the MDBs, is pursuing greater harmonization of evaluation activities to reduce the costs on borrowing countries and allow clear comparisons between participating institutions. The group is examining the criteria used in evaluations, timing and procedures for evaluations, and governance issues relating to independence and disclosure. Draft sets of good practice standards have been developed in relation to evaluating public sector lending and private sector operations. OED is also involved in a joint evaluation in Viet Nam of the Comprehensive Development Framework Approach to Partnership. *For more on evaluating ADB projects, see <http://www.adb.org/evaluation>.*

The primary objectives of ADB's evaluation activities are to provide resource accountability, cite lessons learned for future operations, and identify follow-up actions for sustaining the benefits of activities supported by ADB.
