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**2002 IN REVIEW
BOARD OF DIRECTORS' REPORT**

Developing Asia grew faster than expected in 2002, despite global security and economic uncertainties and increasing concern about the possibility of deflation. The Asia and Pacific region's developing member countries (DMCs) posted an overall economic growth of 5.7%. While development progress for most countries followed a fairly even path, some witnessed special challenges in 2002. Timor-Leste (formerly East Timor)—the world's newest country—took its first steps. Afghanistan set about turning mounds of brick and roofless buildings into schools and hospitals. Sri Lanka began a peace process to end decades of civil unrest. Nepal saw strife worsen. Terrorism struck Indonesia, and the continuing threat of terrorist strikes and talk of war gave little cause for optimism.

Yet, it was also a year when the international community endorsed a shared vision for protecting the region's most vulnerable.

For the Asian Development Bank (ADB), 2002 was a year when existing partnerships were strengthened and new ones forged, when the value of partnerships at every level—between developed and developing countries, between multilateral development institutions and developing countries, between regions, between public and private sectors—was stressed. ADB joined the international community in endorsing the Millennium Development Goals (MDGs) (see *Box on the MDGs on page 36*). ADB participated in the United Nations International Conference on Financing for Development, at which a consensus was reached to build a new global alliance for financing development and an agreement was signed to better measure, monitor, and manage development results. Recognizing the need for a broad coalition of development partners to free the Asia and Pacific region of poverty, ADB sought to work more closely with other bilateral and multilateral development agencies. Agreements between ADB and the International Labour Organization (ILO), United Nations Development Programme (UNDP), World Bank, World Trade Organization (WTO), and others reflect this determination.

Reconstructing nations

Partnerships played an important role in nation rebuilding in 2002. Multilateral organizations joined nongovernment organizations (NGOs) in meeting the immediate humanitarian needs of Afghanistan as it faced the enormous task of reconstructing itself for the 21st century. In 2002, the Board of Directors approved ADB's first loan to the country in 23 years and opened an office (now a resident mission) in Kabul. Coordinated international efforts also proceeded in rebuilding another Asian country torn by civil strife, Timor-Leste, which joined ADB as an independent nation in 2002, and where ADB has set up a special office. Likewise, ADB and other development partners assisted Sri Lanka in 2002, helping the country rebuild its economy and work toward enduring peace. *For more on postconflict reconstruction and rehabilitation, see the Special Theme chapter and <http://www.adb.org/Afghanistan/>.*

Supporting regional cooperation

By acting jointly, countries can improve their development prospects and strengthen their ability to reduce poverty, increase private sector investment, promote peace and security, and achieve sustainable development. Together, they can mitigate the adverse effects of negative externalities and create an environment where common services and development programs can be shared.

As a regional institution, ADB has a clear comparative advantage in promoting regional cooperation in Asia and the Pacific, and has done so since opening its doors in 1966. In November 2002, ADB and the six DMC partners of the Greater Mekong Subregion (GMS) Program—Cambodia, People's Republic of China (PRC), Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam—celebrated an important milestone, which ADB had helped broker. The first GMS Summit, held in Phnom Penh, Cambodia, in November, commemorated the 10th anniversary of the GMS Program. *For more on the GMS Summit, see the Operational Priorities and Performance chapter and <http://www.adb.org/Documents/Events/Mekong/2002/summit.asp>.*

ADB also joined DMCs from other regional groups in furthering their shared development goals. ADB hosted the first ministerial meeting on economic cooperation in Central Asia for the Central Asia Regional Economic Cooperation program in March (see <http://www.adb.org/Documents/Events/2002/CAREC/>), and helped organize a meeting of country advisors for the South Asia Subregional Economic Cooperation initiative in October. *For more on regional cooperation, see page 49 and <http://www.adb.org/RegionalCooperation/>.*

Reorganizing internally

The new organizational structure, approved by the Board of Directors in 2001, came into effect on 1 January 2002. ADB's close working relationship with its development partners, combined with the new structure and new business processes implemented throughout the year, will help ADB deliver services more quickly and efficiently. ADB's services to its DMCs are organized under regional departments, one each for a defined geographic area (see the *Country Reports chapter on page 74*). This move strengthened the role of the operational Vice-Presidents in delivering ADB's strategic agenda and in overseeing compliance with strategies and policies.

Overall, the major structural changes were accomplished as scheduled. However, as with any change of this magnitude, adjustments were needed in this transitional year. The implementation of the reorganization will be evaluated in 2003. This will be followed in 2004 by an independent review that will assess the development impact of the reorganization's objectives—balancing country and sector considerations, improving quality and expertise, enhancing safeguard policy compliance, providing greater accountability, and placing greater emphasis on regional cooperation and knowledge management. *For more on the reorganization, see the Operational Priorities and Performance, Knowledge and Support*

Othman Jusoh



Ram Binod Bhattarai



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Cayetano W. Paderanga, Jr.



Paul W. Speltz



Lori A. Forman



Frank Black



Rolf Eckermann



Jusuf Anwar



Richard Stanley



The Secretary Bindu N. Lohani



Vice-President Myoung-Ho Shin



President Tadao Chino



P. G. Mankad



M. Saiful Islam



Activities, and Institutional Matters chapters, and http://www.adb.org/Documents/Others/Reorganization_2002/.

Adopting new policies and procedures

The Board of Directors reviewed and approved several policy, financial, and administrative papers in 2002 (see Box on page 4), including ADB's lending and borrowing limitations; establishing resident missions in Afghanistan, Papua New Guinea, and Tajikistan; Afghanistan's classification under ADB's graduation policy; and the country classification for Turkmenistan (see Box on the Classification of ADB's Developing Members on page 66). Three policies, approved in 2002, propose guidelines for ensuring ADB's liquidity, providing better access to education, and assessing the environment.

ADB Management and Board of Directors

Trygve Gjesdal



Julian H. Payne



Stephen Sedgwick



Miranda Rawlinson



Michele Miarri Fulcis



Pascal Grégoire



Jeung-Hyun Yoon



Vice-President John Lintjer



Vice-President Joseph Eichenberger



Ju Kujilin



Yang Shaolin



The main objective of ADB's liquidity policy, which the Board of Directors approved in June, is to ensure ADB's capacity to meet its cash requirements even in the event of a major disruption in its cash flow. The cash flow-driven liquidity requirements addressed in the policy include a new minimum level of liquidity, ceiling on discretionary liquidity, and funding for the core liquidity portfolio. *For more on ADB's liquidity policy, see the Management's Discussion and Analysis chapter.*

In approving the education policy in August, the Board of Directors furthered ADB's commitment to helping DMCS achieve universal primary education and gender equity in primary, secondary, and tertiary education. The policy promotes increased equity and access, improved educational quality, better resource mobilization, and greater use of innovative technologies, such as information and communication technology (ICT), in schools in the Asia and Pacific region. The policy also encourages strengthened partnerships with civil society, including NGOs and local communities. *For more on ADB's 2002 activities in the education sector, see the Operational Priorities and Performance chapter on pages 54 and 55. For more on the education policy, see <http://www.adb.org/Documents/Policies/Education>.*

Masaichiro Yamaniishi



Osamu Tsukahara



Policy, Financial, and Administrative Papers

- Accreditation of ADB as Observer at the United Nations General Assembly *5 February**
- Use of Price as a Criterion for Selection of Consultants *19 February*
- Financing Technical Assistance (2002–2004) *27 February*
- Capital Expenditure Proposal for the New Loan Accounting and Asset-Liability Management Systems *5 April*
- Review of the Asian Development Bank's Income Outlook and Allocation of 2001 Net Income *27 March*
- Borrowing Program for 2002/2003 *30 April*
- Review of the Asian Development Bank's Liquidity Policy *11 June*
- Review of Afghanistan's Classification Under ADB's Graduation Policy *28 June**
- Cooperation with the Government of the United Kingdom and Northern Ireland—Poverty Reduction Cooperation Fund *4 July**
- The Role of Vice-Presidents at the Asian Development Bank *2 August*
- Establishment of a Resident Mission in Papua New Guinea *15 August**
- Policy on Education *30 August*
- The Country Classification of Turkmenistan *8 October**
- Work Program and Budget Framework (2003–2005) *15 October*
- Establishment of a Resident Mission in Afghanistan *31 October**
- Environment Policy *8 November*
- Pricing Local Currency Loans in Private Sector Operations *4 November**
- Review of Cost-Sharing Limits for Project Financing as an Element of ADB's 1998 Graduation Policy *28 November*
- Establishment of a Resident Mission in Tajikistan *4 December*
- Borrowing Program for 2003 *11 December*
- ADB Institute—Work Program and Budget for 2003 *13 December*
- Budget of the Asian Development Bank for 2003 *13 December*

Working Papers

- Review of the Management and Effectiveness of Technical Assistance Operations of the Asian Development Bank *19 July*
- Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism *13 September*
- Framework for Pacific Subregional Offices *21 October*
- Review of the Asian Development Bank's Lending and Borrowing Limitations *22 October*

* Approved on a no-objection basis.

In November, the Board of Directors approved a new Environment Policy to help ADB meet the challenges of the region's rapidly increasing environmental degradation. Consultations with stakeholders, including a Board seminar, country workshops, and several rounds of interdepartmental review, were incorporated in the policy. The policy addresses the need for environmental assessment at the time of country programming, structured consultation in the conduct of environmental assessments, and monitoring and compliance with environmental requirements during project implementation. It underscores the need to view environmental assessment as an ongoing rather than a onetime event (see <http://www.adb.org/Environment/envpol/>).

Reviewing existing policies***Management and effectiveness of ADB's technical assistance operations***

Technical assistance is an important component of ADB's operations. It supports poverty reduction by financing project preparation and implementation, advising on policy reform, building capacity in DMCs, and helping promote regional cooperation. Unfortunately, resources for technical assistance are limited.

To meet the growing demand for technical assistance, and to ensure the most effective use of its resources, the Board of Directors reviews ADB's technical assistance operations periodically, with a view to improving technical assistance monitoring and coordination; long-term management, quality, and cost-effectiveness; and country ownership of the process and products. In 2002, the Board of Directors discussed a working paper, identifying several variables that influence the effectiveness of technical assistance. The paper proposed remedial actions and policy revisions for improving technical assistance management, including designing systematic and long-term approaches that are supported by in-depth diagnostic analysis, ensuring commitment and ownership of the recipient DMC, ensuring stakeholder participation in processing and implementing the assistance, paying attention to training requirements and change management expertise, and continued monitoring of the implementation of recommendations.

Another measure for strengthening technical assistance effectiveness is to disseminate as widely as possible the knowledge created for, and derived from, the technical assistance activities. ADB's technical assistance activities result in a range of knowledge services, including the formal knowledge products and services (KPS) that are programmed into the technical assistance and are targeted to specific clientele, and the less formal knowledge by-products and services. Both formal and informal products and services contribute to knowledge development; with wide dissemination, their effectiveness is maximized.

ADB's role as a provider of knowledge for development is in line with the Directors' review of the management and effectiveness of technical assistance, and in keeping with the objectives of the Medium-Term Strategy and the new business processes implemented in 2002. The

new Regional and Sustainable Development Department (RSDD) was established in the reorganization to maintain quality and technical excellence and help ensure that knowledge is horizontally integrated across ADB. A framework for knowledge management is being prepared.

Inspection Function

When ADB approved its Inspection Function in 1995 as a forum for project beneficiaries to file requests alleging ADB's noncompliance with its operational procedures and policies, the Board of Directors stipulated a review within 2 years from the approval of the members of the initial Roster of Experts. In 1999, the Board of Directors discussed a working paper on the review of the Inspection Function, in which varying views were expressed on whether ADB's private sector operations should be subject to the Inspection Function. Also, by 1999, only two requests for inspection had been filed, and both had been deemed ineligible; hence, with limited experience on the process, the review could draw few conclusions.

While the review continued, the first full inspection process relating to the Samut Prakarn Wastewater Management Project in Thailand was conducted from April 2001 to March 2002, and it became evident that the inspection process and procedures were lengthy and confusing. This first full inspection also raised concerns about the independence, credibility, transparency, and effectiveness of the Inspection Function.

In 2002, ADB conducted extensive external and internal consultations as part of the ongoing review. ADB solicited the views of its stakeholders—member governments, civil society (including NGOs), and private sector—through external and internal consultations. Information about the review, including a consultation work plan and timetable; external comments received by ADB; and documents, including an issues paper and two drafts of the working paper, were posted on ADB's web site <http://www.adb.org> and sent to its partners for review and comment. In addition, the outcome and report for each of the two rounds of public consultations, covering 10 member countries, were also posted on the web site. Internal consultations included regular meetings of the steering committee and working group (the two groups merged in September as the Inspection Function Review Committee), and discussions at informal Board briefings and at an informal Board retreat.

The consultations reinforced broad support for an independent accountability mechanism that addresses the alleged grievances of adversely affected people in ADB-assisted projects, and increased problem-solving and problem-prevention measures by ADB. The new mechanism was expected to complement and enhance ADB's objectives of poverty reduction, development effectiveness, and improved project quality. The inputs and recommendations from the external and internal consultations formed the basis for the Working Paper, for circulation and consideration by the Board of Directors in 2003. The

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Working Paper was posted on ADB's web site for public comments. For more information on the Inspection Function review, see <http://www.adb.org/inspection/review.asp>. For more on ADB's Policy on Confidentiality and Disclosure of Information, see <http://www.adb.org/Documents/Policies/Confidentiality/Disclosure/>.

Broadening development partnerships

Management and the Directors visited several DMCs in 2002, and met with senior government officials and high-level representatives from multilateral and bilateral organizations.

President's visits

ADB President Tadao Chino traveled widely in 2002, visiting projects, meeting ADB stakeholders, and participating in major international events.

In meetings with senior officials, representatives of the private sector and NGOs, as well as other development partners, the President noted the need for basic physical and social infrastructure to achieve higher levels of sustainable, pro-poor economic growth. He also noted the need to address corruption and improve the efficiency of administrative services.

Within the region, the President visited Afghanistan, Bangladesh, Cambodia, India, Lao People's Democratic Republic, Maldives, Sri Lanka, and Timor-Leste. During his visit

to Bangladesh, the President helped set the foundation stone for ADB's new resident mission building in Dhaka, and attended the Bangladesh Resident Mission's 20th anniversary celebration. In the Maldives and Sri Lanka, the President strengthened cooperation and signed poverty partnership agreements with both.

The President joined other multilateral development bank presidents at the UN International Conference on Financing for Development, held in March in Monterrey, Mexico. Among the themes addressed were mobilizing domestic financial resources and foreign direct investment; and issues related to international trade, official development assistance, debt relief, and trading systems. The President also led the ADB delegation at the World Summit on Sustainable Development (WSSD), held in August and September in Johannesburg, South Africa (see *Box on the World Summit on page 42*).

Board group visits

To increase DMC awareness of ADB's work and provide the Directors and Alternate Directors with an opportunity to view the development conditions of DMCs firsthand, several Directors and Alternates took part in group visits to Pakistan and Sri Lanka in February; Indonesia in June; and Kyrgyz Republic, Turkmenistan, and Uzbekistan in August.

In each DMC, the Directors and Alternates met the leader of the country, senior government officials, ADB governors, public and private sector representatives, and members of civil society, including NGOs.

In Pakistan, the Directors and Alternates visited the Khushali Bank, Punjab Community Water Supply and Sanitation Project, Ghazi Barotha Project, *barani*/forestry/urban development projects, and Court Room Delay Reduction Project. In Sri Lanka, they met with representatives of the 800,000 displaced people, and looked at road networks, tea plantations, and the South Asia Gateway Terminals Limited.

In Indonesia, topics addressed with senior government officials included fiscal, monetary, and other economic issues; decentralization; privatization; and social development. Partnerships were strengthened with representatives of the private sector and of other multilateral and bilateral agencies, including the Australian Agency for International Development, Japan International Cooperation Agency, United Nations Development Programme, United States Agency for International Development, and World Bank. Project and field visits included observing firsthand ADB projects on flood control storage and street children and destitute mother care centers, as well as education facilities to view the traditional *madrasah* school system.

In the Kyrgyz Republic, the Directors and Alternates visited ADB's microcredit and school projects in the Issyk-Kul Lake area, and the Bishkek-Osh Road Project. In Turkmenistan, they visited a potential project site aimed at improving the main road from Atamurat to Imamnazar on the northern Afghanistan border, and they were briefed on other projects of interest to the Turkmenistan people. In Uzbekistan, they were taken to Samarkand, where they visited an ADB project that supports the development of small- and medium-sized enterprises.

Agreements signed

ADB joined the international community in adopting a platform for better measuring, monitoring, and managing development results in March, and in adopting the Millennium Development Goals (MDGs) in April. ADB also

forged several agreements with development partners in 2002, such as ILO and WTO, to strengthen the region's knowledge base, training capacity, and ability to monitor development objectives (see *Box below*).

Undertaking its work

Meetings and approvals

The Board of Directors met formally on 57 occasions, and held 21 informal meetings in 2002, including briefings, discussion seminars, and presentations.

The Board approved a total of \$5.7 billion for 89 loans covering 71 projects, compared with loan amounts of \$5.3 billion for 76 loans covering 60 projects in 2001. This represented an increase in lending of nearly \$337 million. Of this, \$272 million was accounted for by loans from the Asian Development Fund (ADF), and \$65 million from ordinary capital resources (OCR).

The higher level of ADF lending resulted, for the most part, from a \$150 million loan to Afghanistan. The remaining increase was mainly in loans to Bangladesh and Sri Lanka. The increase in OCR lending resulted from higher lending to Indonesia, Pakistan, and Uzbekistan.

In keeping with its mission to reduce poverty, 41% or 38 projects in 2002 were categorized as poverty interventions. The largest share of loans went to the transport and communications sector.

The Board also approved directly, or through authority delegated to the President, a total of 324 technical assistance grants amounting to \$179.0 million, of which \$56.0 million came from OCR current income, \$46.7 million from the Technical Assistance Special Fund, \$36.4 million from the Japan Special Fund, \$9.6 million from the Asian Currency Crisis Support Facility, and the remaining \$30.3 million from other multilateral and bilateral sources. This represented a 23% increase over 2001 (255 grants worth \$145.5 million). *For more on loans and technical assistance, see the Operations chapter and the Statistical Annex.*

PARTNERSHIP POINT

International Labour Organization

ADB joined the International Labour Organization (ILO) in promoting ILO's Decent Work Agenda. Under the Memorandum of Understanding (MOU) signed with ILO in 2002, ADB encourages developing member countries (DMCs) to support employment-generating growth and observe international labor standards, including social protection and gender equity. Collaboration between ADB and ILO includes exchanging information, research, best practices, and technical assistance related to labor

market assessments and identifying social protection interventions.

In July 2002, ILO and ADB discussed mainstreaming ILO's core labor standards in ADB's country operations in 2003–2005, such as in the summary labor market assessments required in preparing new country strategies and programs (CSPs) and CSP updates. See http://www.adb.org/Documents/Events/2002/ICFTU_APRO/blenk_paper.pdf.

World Trade Organization

An MOU between ADB and the World Trade Organization (WTO),

signed in 2002, supports ADB's efforts to promote the economic and social development of DMCs through trade and integration. In its first major activity under the agreement, ADB approved a regional technical assistance to help DMCs better understand and implement the WTO trading system. A high-level meeting on the WTO trading system for negotiators and an intensive course on trade facilitation were completed in 2002 (see http://www.adb.org/Documents/Events/2002/WTO_Trading_System/).

In their informal meetings, the Directors examined a range of issues, including the Inspection Function review, the reorganization, and knowledge dissemination.

Membership

Portugal and Timor-Leste joined ADB in 2002, bringing the total membership to 61. *For a list of regional and non-regional members, see page xv.*

United Nations

ADB achieved Observer Status at the United Nations General Assembly in February 2002.

35TH ANNUAL MEETING OF THE BOARD OF GOVERNORS

The People's Republic of China (PRC) was host to over 3,000 participants, comprising government delegations, bankers, representatives from multilateral and bilateral institutions, civil society including nongovernment organizations, and media, at ADB's 35th Annual Meeting of the Board of Governors in Shanghai. Delegates attended thematic seminars and country presentations prior to the Governors' business sessions from 10 to 12 May.

The Governors reviewed ADB's 2001 activities and discussed the outlook for ADB's developing member countries. They endorsed the implementation of the Poverty Reduction Strategy, ADB's reorganization, and proposals to enhance ADB's country focus, as well as its continuing efforts to promote regional cooperation. Echoing the importance of regional cooperation, PRC President Jiang Zemin pledged his country's continued support of, and involvement in, cooperation initiatives.

The Governors agreed on the need for Asian economies to continue with structural reforms, capacity building, and improved governance if they are to attain sustainable growth. The challenge of environmental degradation and the importance of the private sector in development were also underscored.

For a list of ADB annual meeting locations, see Appendix 3.

SUPPORTING THE BOARD

The Office of the Secretary provides advice and counsel to the Board of Governors, Board of Directors, and Office of the President. Its other principal functions are to help organize the Annual Meeting; plan the calendar of the Board of Directors and organize and facilitate meetings of the Board and its Standing Committees; edit, classify, and circulate Board documents; administer the terms and conditions of engagement of Management and the Board; process applications for ADB membership; administer the Inspection Function; and provide protocol support and services.

Board committees

The Board of Directors had four standing committees and one working committee in 2002. *For membership, see Appendix 5.*

Audit Committee

The Committee continued to examine the adequacy of ADB's internal controls and its internal and external audits. Pursuing its main focus of the previous year, the Committee monitored in 2002 the implementation of the newly adopted international accounting standards (Financial Accounting Standards [FAS] 133) and their potential impact on ADB's financial management. In particular, the Committee examined ADB's practice of parallel reporting—with one report following the FAS 133 and another, prepared simultaneously, following the presentation of ADB's financial statements with reference both to pre-FAS 133 reporting practices and to the new current-value reporting practice (*see the Management's Discussion and Analysis chapter*). Given the difficulties experienced in 2002 in accounting and reporting globally, the Committee emphasized the importance of monitoring the reporting practices used. The Committee also noted the need for the multilateral development banks (MDBs) to cooperate closely among themselves, and the importance of engaging the professional partnership of the independent auditors in this complex issue.

A second major focus in 2002 was the further development of an integrated and independent institutional risk management capability in ADB, made possible by an initiative of Management, the independent auditors, and the Audit Committee. The Committee continued to monitor the implementation of new initiatives to improve internal and external controls, specifically but not exclusively through the Integrated Financial Management and Human Resource Management Information System (INTEGRA), the integrated computerized control system that became operational in 2002. The Committee also reviewed and endorsed the 2002 work program of the Office of the General Auditor (OGA), noting the successful completion of a peer review by the European Bank for Reconstruction and Development; reviewed and endorsed the annual report of the Anticorruption Unit of the OGA, citing the close coordination with other MDBs; and reviewed the Audit Recommendations Implementation Report, noting the high percentage of audits directly or indirectly related to the issue of risk management either in operations or in financial management.

Budget Review Committee

The Committee met in May to review the implementation of INTEGRA and future directions of the Information Systems and Technology Strategy for ADB. In November, it reviewed Management's 2002 work accomplishments, and 2003 budget proposal and work plans of departments and offices.

At the May meeting, the Committee was informed of the removal of the “operations” module from the original scope of INTEGRA and urged careful consideration of the lessons learned from this. The Committee also provided its views on the future directions of ICT in ADB.

During budget deliberations in November, the Committee requested information on the reorganization and its effectiveness. Concerned about the transitional impact on operations and on the budget, it suggested that a progress review clarify and refine the roles of regional departments and the Regional and Sustainable Development Department. The Committee was advised that new business processes had streamlined processing of new projects and project administration.

On ADB strategies and policies, the Committee expressed the view that all new policies should include an assessment of cost implications to allow for better measurement of resource requirements and ensure that new policy mandates are adequately funded and staffed.

The Committee noted a need for prioritizing the knowledge networks and thematic/sector committees (see *the Operational Priorities and Performance chapter*), for being selective in forming new committees, and for minimizing disruption of the operational departments. The Committee noted the importance of knowledge management for development effectiveness. It suggested that coordination with bilateral and multilateral development partners be improved to avoid duplication of work and to ensure more effective use of ADB’s limited technical assistance resources.

On the regional departments, the Committee recommended a review of the loan classification system to ensure that it accurately reflects poverty reduction impact, including that of infrastructure projects; increased cooperation with other MDBs; and the need to address the issue of work distribution between and within the regional departments. The Committee supported an expansion of ADB’s regional cooperation activities.

On the Resident Mission Policy, the Committee emphasized the need for a clearer relationship between the resident and regional missions and the operations coordination division, and fuller integration of the missions into their respective regional departments; more vigorous deployment of staff and budgetary resources to the missions; more interaction among missions in the same region; increased use of national officers/local experts; and strengthened external relations and outreach programs.

The Committee expressed reservation about the expansion of the Private Sector Operations Department (PSOD) into new areas, and suggested that PSOD’s 2003 work program be trimmed, considering resource constraints. It recommended that PSOD should concentrate on helping smaller DMCs, strengthening collaboration with the regional departments and DMC governments, and developing appropriate instruments for niche markets and sectors.

On portfolio management, the Committee noted that the regional departments, Central Operations Services Office (COSO), and Operations Evaluation Department

(OED) have distinct functional responsibilities for managing ADB’s portfolio. It noted COSO’s continued efforts to build DMC capacity in portfolio management by supporting procurement legislation and project accounting and financial management.

With more poverty and purpose-specific grant funds being managed by ADB, the Committee noted the need for a structured marketing strategy to attract funding agencies.

The Committee noted the increase in cofinancing in 2002 over the previous year (see *the Operations chapter*). It noted the accumulation of in-house expertise on guarantees through recent credit enhancement operations and staff training. It encouraged cooperation among the Office of Cofinancing Operations (OCO), PSOD, and other departments/offices and expected better results and performance in this area.

On budget management, the Committee noted that in 2003 the Budget, Personnel and Management Systems Department (BPMSD) aims to further the link between work program and resource allocation by updating the staff time coefficient for some products and services. It recommended exercising more selectivity in work programs, eliminating low-priority work, and optimizing the use of budgetary resources in meeting urgent and unplanned requirements.

The Committee recommended approval of the budget for 2003 (see *Appendix 10*).

Development Effectiveness Committee

The Committee, established in December 2000, is mandated to help the Board ensure that ADB’s country strategies and programs, through its lending and knowledge products and services, achieve their desired development objectives and use ADB resources efficiently and effectively.

The Committee continued its focus on ADB’s operations evaluation program and results, as it reviewed a balanced selection of OED reports (see *Box at right*); examined the annual programs for project and technical assistance completion reports coordinated by COSO; and discussed OED’s *Annual Review of Evaluation Activities in 2001* (see <http://www.adb.org/Documents/pers/annualrev2001.pdf>) and *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2001* (see http://www.adb.org/Documents/Reports/Portfolio_Performance/2001/2001_12.pdf).

In its report on loan and technical assistance portfolio performance in 2001, the Committee noted that the proportion of projects rated unsatisfactory had decreased; a more robust project performance monitoring system had been introduced; disbursement under project loans was proceeding well; and the use of technical assistance resources was being prioritized. However, it concluded that further efforts should address delays in loan effectiveness, contract awarding under project loans, submission of audited project accounts, and technical assistance implementation.

In its report on ADB’s evaluation activities in 2001, the Committee highlighted the importance of measurable objectives for assessing development effectiveness. It noted

Project/Program Performance Audit Reports

- Agriculture Sector Program (Kazakhstan)
- Fourth and Fifth Road Improvement Projects (Lao People's Democratic Republic)
- Integrated Irrigation Sector Project (Indonesia)
- Social Action Program (Sector) Project (Pakistan)
- Second Ports Project (India)

Technical Assistance Performance Audit Report

- Advisory Technical Assistance to Selected Development Finance Institutions in Pacific Developing Member Countries

Thematic Evaluation Studies

- Country Assistance Program Evaluation in Mongolia
- Impact Evaluation Study of Investment Fund Operations of the Asian Development Bank
- Special Evaluation Study on a Review of the Asian Development Fund I-V Operations
- Special Evaluation Study on Selected Economic and Sector Work

that, although evaluation improves development effectiveness, operations can be improved only if the evaluation findings and recommendations are translated into staff guidelines. The Committee thus agreed that evaluation should become a core business process of ADB.

Inspection Committee

In 2002, the Committee held 13 formal and several informal meetings. It considered six requests for inspection during the year.

At the beginning of 2002, two requests for inspection were pending—the Samut Prakarn Wastewater Management Project in Thailand and the Southern Transport Development Project in Sri Lanka. In February, the Committee received Management's response to the Inspection Panel's report on its inspection of the Samut Prakarn Project. As required under the Inspection Function, the Committee submitted its recommendation on the Panel's report and Management's response to the Board within 14 days. The Board of Directors considered the Committee's recommendations in March.

The Committee received four requests for inspection of the Southern Transport Development Project in Sri Lanka. The first was received in December 2001, and the other three in 2002. Each was submitted by a different group of requesters who would be affected by the project. The Committee decided that, *prima facie*, two of the requests

were neither clearly frivolous nor clearly ineligible, and requested Management to respond to them. After consulting with a member of the Roster of Experts, the Committee determined with respect to both requests that there was insufficient basis to warrant an inspection. The Board approved the Committee's recommendation. The Committee determined that the other two requests were ineligible under the Inspection Function and that a response from Management was not required.

In November, the Committee received a request for inspection of the Chashma Right Bank Irrigation Project in Pakistan. The Committee reviewed the request in December and decided that, *prima facie*, the request was neither clearly frivolous nor clearly ineligible, and requested Management to respond to it. *For more on the Inspection Function, see <http://www.adb.org/inspection/review.asp>.*

Working Group on the Annual Report

ADB's annual reports, including its special theme chapters, reflect broad consultations between the Working Group and staff members. The Annual Report Readers' Survey responses are also considered. The Working Group guides the structure and process. To facilitate the work of future Board working groups, the Working Group on *Annual Report 2002* recommended several changes in the process and timing of inputs for future annual reports and theme chapters.

In addition, they effected structural changes in *Annual Report 2002*:

- An expanded Operational and Financial Overview includes more data and provides a more complete summary of the year.
- The Operational Priorities and Performance chapter, organized according to ADB's operational themes and sectors, provides discussion of their role in meeting ADB's overall objective of reducing poverty.
- Presentation of DMCs by regional department in the Country Reports chapter highlights DMC partnerships.
- The Knowledge and Support Activities (which replaces the Strategic Planning and Support Activities) and the Institutional Matters chapters show how the reorganization has been institutionalized.
- The Glossary attempts to harmonize terminology across ADB.
- Cross references and links to specific pages on ADB's web site (*see <http://www.adb.org>*) are included throughout the report.
- Partnership Points, included in most chapters, reflect the many ways ADB and its development partners—governments and civil society including nongovernment organizations, multilateral and bilateral organizations, and the private sector—worked in 2002 to reduce poverty in the Asia and Pacific region.