

With the strong support of the Asian Development Bank (ADB), the Asia and Pacific region has continued its

progress toward achieving the Millennium Development Goals (MDGs) by 2015 (see page 36).

Overall poverty rates in the region have fallen, and growth has continued. Many of ADB's members have made investments in health and nutrition that have reduced maternal and child mortality rates and lowered the incidence of communicable diseases.

Yet challenges remain, and enormous efforts are still required. Women and girls do not always benefit equally with males from social services. Cross-border public health problems continue to take a toll on families and nations. Diseases such as HIV/AIDS, tuberculosis, and malaria are major causes and effects of poverty in the region as is the lack of access to safe water and to sanitation. Although employment is a principal means to escape from poverty, many of the poorest and most vulnerable people, including the elderly, female heads of households, and people with special challenges, are unable to work.

In 2003, global and regional uncertainties directly and indirectly influenced ADB's daily activities. The reconstruction of Afghanistan continued, the war in Iraq created uncertainty around the region, and the outbreak of the severe acute respiratory syndrome (SARS) had a heavy impact on the economies of many ADB members. Furthermore, growth prospects for industrial economies during the first half of the year were subdued.

While the goal of reducing poverty continued to guide its operations, ADB also responded quickly to the urgent needs of its developing member countries¹ (DMCs). Emergency lending in 2003 included loans to Afghanistan, Kyrgyz Republic, and Sri Lanka. ADB acted swiftly to assist the

2003 in Review

Board of Directors' Report



Board of Directors

First row (from left): Rolf Eckermann, Dante Canlas, President Tadao Chino, P. G. Mankad, Chaiyuth Sudthitanakorn; *Second row* (from left): Jusuf Anwar, Jeung-Hyun Yoon, Nicola Jenns, Paul Speltz, Osamu Tsukahara, Sein Tin; *Third row* (from left): M. Saiful Islam, Kuilin Ju, Emile Gauvreau, Masaichiro Yamanishi, Miranda Rawlinson, Tryggve Gjesdal, M. Akram Malik; *Fourth row* (from left): Stephen Sedgwick, Shaolin Yang, Pascal Gregoire, Batir Mirbabayev, Michele Miari Fulcis, Troy Wray, Richard Stanley.

Profile

The Asian Development Bank was established in 1966 through a multilateral agreement ratified by 31 members. Luxembourg and the Republic of Palau joined in 2003 bringing the total membership to 63, of which 45 are in Asia and the Pacific. ADB has its headquarters in the Philippines and offices worldwide including resident missions in Afghanistan, Bangladesh, Cambodia, People's Republic of China, India, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Pakistan, Papua New Guinea, Sri Lanka, Tajikistan, Uzbekistan, and Viet Nam. ADB also maintains a country office in the Philippines; a regional mission for the South Pacific in Vanuatu; a special office in Timor-Leste; and an extended mission in Gujarat, India. It has representative offices for Europe

in Frankfurt, Germany; for Japan in Tokyo; and for North America in Washington, DC, United States. It recently approved resident missions for Azerbaijan and Thailand; a subregional office for the Pacific in Suva, Fiji Islands; and a liaison and coordination office for the Pacific in Sydney, Australia.

ADB's vision is an Asia and Pacific region free of poverty with better living conditions and quality of life for all its inhabitants. The strategic agenda focuses on pro-poor, sustainable economic growth; inclusive social development; and governance for effective policies and institutions with crosscutting themes of environmental sustainability, gender and development, private sector development, and regional cooperation and integration for development. (*For more on ADB, see <http://www.adb.org>.*)

region in responding to the SARS outbreak by preparing emergency technical assistance as well as providing technical assistance to the People's Republic of China (PRC).

ADB also faced internal challenges and opportunities. ADB personnel continued to adapt to the new organizational structure and to new business processes; extensive reviews of both were completed with recommendations to further improve the efficiency of operations. A staff engagement survey pointed out specific issues and concerns that ADB began addressing in 2003 with the preparation of the new human resource strategy.

Recognizing these complex issues, the Board of Directors supported ADB Management and staff in their efforts to improve institutional effectiveness and internal governance and to demonstrate development impact.

Funding

The main instruments for providing help to ADB's DMCs are policy dialogue, loans, technical assistance,

grants, guarantees, and equity investments (*see page 7*). ADB offers a range of modalities and terms for loans aimed at improving performance.

About 70% of cumulative lending comes from ordinary capital resources (OCR) from three distinct sources: private placements and capital markets in the form of borrowing, paid-in capital provided by shareholders, and accumulated retained income (reserves) that provides a buffer for risks.

Loans are also provided from Special Funds. The Asian Development Fund (ADF) offers loans on concessional terms to members with low per capita gross national products and weak debt-repayment capacities. The ADF is financed by periodic, voluntary contributions from donors. A major constraint in 2003 was the level of available resources for concessional lending and technical assistance, a situation that might potentially jeopardize the institution's ability to deliver its program. Discussions were held with donors concerning

the replenishment of ADF resources. Significant milestones included the ADF VIII Midterm Review followed by the ADF IX donors' meetings in Copenhagen and Tokyo. As part of these meetings, ADB has agreed with donors to undertake a wide range of initiatives and reforms aimed at improving its efficiency and effectiveness in providing development assistance to DMCs. Other Special Funds are the Technical Assistance Special Fund, the Japan Special Fund, and the ADB Institute Special Fund.

ADB also manages and administers additional funds: the Japan Scholarship Program, the Japan Fund for Poverty Reduction, and the Japan Fund for Information and Communication Technology. It also channels grants provided by bilateral donors to support technical assistance and soft components of loans. In recent years, thematic trust funds focusing on gender and development, governance, poverty reduction, water, energy, and the environment were established to support technical assistance operations and selected components of loan projects.

Technical assistance funded through grants or loans helps maximize ADB's development impact. Most technical assistance grants are used for preparing projects and supporting advisory activities in areas such as law and policy reform, strengthening fiscal policies and procedures, good governance, capacity building, and natural resource management.

ADB has a triple-A credit rating² and actively mobilizes financial resources through its cofinancing operations tapping official, commercial, and export credit sources. Assistance to its DMCs creates an enabling environment for private sector development. ADB also directly finances private sector projects to assist commercial investors and lenders. (*For more on ADB financial management, see <http://www.adb.org/About/finnemgt.asp>.*)

Policies and Procedures

The Board of Directors approved several policy, financial, and administrative papers in 2003. One was "Enhancing ADB's Role in Combating Money Laundering and the Financing of Terrorism." Another was the review of the inspection function that resulted in the establishment of a new accountability mechanism that is now in place. It consists of two complementary functions: the consultation phase and the compliance review phase. For consultation, a special project facilitator was appointed. For compliance, the Board of Directors appointed a full-time chair and part-time members of a review panel and the Board Compliance Review Committee to replace the Board Inspection Committee. The new mechanism provides important structural and procedural means to address the concerns of project-affected people, to improve project quality, and to enhance development effectiveness. (*For more on ADB policies and procedures, see <http://www.adb.org/Development/policies.asp>.*)

Review of Existing Policies

A review of the Poverty Reduction Strategy was initiated in 2003 to refine ADB's institutional response to its overriding goal of poverty reduction. Reviews of policies on financial management included the "Review of ADB's Lending and Borrowing Limitations," the "Review of the Resource Position of ADB," and the "Review of ADB's Income and Policy Framework" (ongoing). The "Review of the Management and Effectiveness of Technical Assistance Operations" resulted in important improvements in the management of ADB's limited resources. "The Pilot Study for Delegation of Consultant Recruitment and Supervision under Technical Assistance to Executing Agencies" and reviews of the 1994 "Policy on Confidentiality and

Disclosure of Information" and the "Information Policy and Strategy" were initiated.

Changing Focus

Many of ADB's internal initiatives explicitly and implicitly focused on results with a greater emphasis on impact and outcome. Changes in senior management in 2003 reflected this change in focus. An additional Vice-President was appointed to oversee knowledge management and sustainable development activities, bringing the total number of vice-presidents to four. In addition to that, a new position of Managing Director General was created to coordinate the work of the vice-presidents.

A change in the reporting structure for the Operations Evaluation Department (OED) likewise reflected the shift. Noting that the credibility of evaluation depends on the quality and integrity of analysis, the degree of transparency, and the independence of the evaluation unit, ADB examined the reporting structure and accountability of its evaluation work. In 2004, OED will report directly to the Board of Directors through the Development Effectiveness Committee (*see <http://www.adb.org/OED/>*).

Also reflecting the emphasis on results, the functions and responsibilities for representative offices were transferred from the Strategy and Policy Department to the Office of the President. The change in reporting will allow representative offices to better operate under the general direction of the President for matters such as high-level, broad-range dialogues with external counterparts.

Broadening Development Partnerships

ADB continued to provide support for partnerships throughout the region. Indicative of its active engagement in regional and international issues was its support

for and participation in the following:

- (i) the High-Level Forum on Harmonization,
- (ii) the Third World Water Forum,
- (iii) the Brunei Darussalam-Indonesia-Malaysia-Philippines East Association of Southeast Asian Nations (ASEAN) Growth Area Leaders' Meeting,
- (iv) Asia-Pacific Economic Cooperation,
- (v) Asia-Europe Finance Ministers' Meeting,
- (vi) the Twelfth Ministerial Conference on Subregional Cooperation in the Greater Mekong Subregion, and
- (vii) the Second Ministerial Conference on Central Asian Economic Cooperation.

In addition, ADB signed cooperation agreements with the following institutions:

- (i) Southeast Asian Ministers of Education Organization to complement their knowledge base and to expand the network of institutions active in educational development;
- (ii) World Health Organization to fight SARS and other emerging diseases;
- (iii) United Nations Human Settlement Programme to build the capacity of Asian cities to secure and manage pro-poor investments and to help the region meet the MDG of "halving, by 2015, the proportion of people without safe drinking water and basic sanitation"; and
- (iv) Gender and Water Alliance to promote gender mainstreaming into DMC water sector activities.

ADB's resident missions played an essential role in enhancing the institution's country focus enabling staff to work more closely with all stakeholders to achieve results. ADB and its resident missions worked with nongovernment organizations (NGOs) and civil society to strengthen partnerships and interaction in all areas and to build capacity. In May 2003, ADB approved the ADB-Government-NGO Cooperation:

A Framework for Action, 2003–2005. The Framework put in an operational context the directives contained in ADB's Long-Term Strategic Framework 2001–2015 and Medium-Term Strategy 2001–2005, particularly promoting improved conditions for wider and more effective participation in decision making by civil society.

Governing Structure

The highest policy-making body is the Board of Governors which comprises one representative from each ADB member. The Governors meet annually and elect the 12 members of the Board of Directors who serve 2-year terms. Each Director appoints an Alternate. The President is elected by the Board of Governors for a 5-year term and serves as Chairperson of the Board. The President manages ADB assisted by four Vice-Presidents and a Managing Director General. (For a current list of Governors and Directors, see appendixes 2 and 3.)

The Board of Directors met formally on 48 occasions and held 24 informal meetings in 2003 including briefings, discussion seminars, and presentations. In their informal meetings, the Directors examined a range of issues, including the Poverty Reduction Strategy, disaster and emergency assistance, Afghanistan's development, cooperation with governments and NGOs, and human resource activities.

Board Committees

The Board of Directors had four standing committees and one working committee. (For membership, see Appendix 4.)

Audit Committee

In accordance with its mandate, the Committee reviewed the adequacy of ADB's internal controls, particularly for financial reporting, and of internal and external audits. Monitoring continued of ADB's decision to provide parallel reporting for derivative instruments before and after the introduction of Financial Accounting Standards (FAS 133) and related amendments in 2001. ADB's financial statements refer both to pre-FAS 133 reporting practice and to the new, current-value reporting practice. Parallel reporting and the need for close monitoring of accounting and reporting practices were Committee priorities. In this context, the importance of cooperation among the multilateral development banks (MDBs) and of the professional partnership of the outside auditors who provided experience and advice were emphasized.

The Committee also monitored the development of ADB's institutional risk management capability, again in close consultation with other MDBs. Using the Audit Recommendations Implementation Report and the report of the auditors, monitoring of the

effectiveness and efficiency of control systems, including access control procedures, continued. The Committee also reviewed and endorsed the following: (i) the 2003 work program of the Office of the Auditor General (OAG); (ii) the Audit Recommendations Implementation Report with a focus on highly critical items associated with risk management in both operations and financial management; and (iii) the annual report of the Anticorruption Unit of OAG with close attention to ADB's handling of debarment of firms and individuals to ensure sanctions against them were effective.

Budget Review Committee

The Committee recommended approval of ADB's proposed 2004 budgets for internal administrative expenses and annual capital expenditures. The proposed internal administrative budget is higher than in past years though without the additional initiatives it included, growth could have been kept below past averages. The increase in the provision for the Board of Directors was mainly due to the inclusion of the costs associated with the new accountability mechanism. The Board's budget may increase significantly in future years should it include the cost of the independent OED. (For a summary of the budget for 2004, see Appendix 8.)

The Committee supported continued delegation to resident missions and stressed the need for cost-effectiveness in their establishment and in managing their operating costs. The Committee also emphasized the importance of resident missions in portfolio management and the need to ensure that adequate resources are allocated to project administration both in resident missions and at headquarters.

The Committee raised several questions regarding the adequacy of staff resource allocations and was informed that staff and budget resources were extremely tight in part because work has become

Board and Management Retreat

The Board and Management met in October for a 2-day retreat on the theme "Development Effectiveness: Managing for Results." Discussions focused on ways of strengthening results-based management in ADB including how to measure, monitor, and manage for development results; how to handle accountability and human resource management aspects; and lessons to be learned from other development

institutions and partners. The retreat followed an earlier Management Committee meeting on the same topic at which the President called for a positive reorientation in ADB's management processes. Retreat inputs were used in finalizing a paper for the ADF IX donors meeting in Tokyo in December (see http://www.adb.org/Documents/Reports/ADF/IX/RBM_ADF_IX_Donors_Meeting_Tokyo.pdf).

increasingly complex in recent years as a result of multiple policy mandates and compliance requirements. It recommended developing in-house capability and institutional memory and that consultants be used prudently and judiciously. The Committee also queried the regional directors on how they proposed to motivate staff in a resource-constrained environment; they said that changes arising from a new human resource strategy and implementation of managing-for-results would improve staff morale.

A series of meetings was held in November to discuss the work programs of departments and offices of the ADB Institute (ADBI) and to review the budgets of ADB and ADBI. As part of the deliberations, the Committee met with the Dean of the Institute and the heads of departments and offices and their staff, resulting in better understanding and appreciation of the activities of ADB and ADBI. The Committee also reviewed the progress on implementing the recommendations it made during the 2003 budget deliberations.

The Committee recommended approval of the proposed ADBI 2004 budget. It noted the contributions and achievements of ADBI and welcomed the increase in resources allocated to capacity building and training and the enhanced internal coordination among ADBI, the Economics and Research Department, and the Regional Economic Monitoring Unit. The need for further institutionalized coordination among the three research bodies to avoid duplication was stressed.

The Committee noted the progress made to date on the reorganization of ADB but expressed concern on the operational support, quality assurance, and compliance roles of the Regional and Sustainable Development Department and suggested that necessary changes be implemented as early as possible.

To make its work more meaningful and effective, the

Committee proposed periodic meetings and also requested that the Budget, Personnel and Management Systems Department and the Office of the Secretary schedule the Committee's annual budget meeting before the budget document is circulated. Several changes to improve the format and presentation of the budget were suggested, and the need for more communication with the Board on budget matters was stressed.

The Committee also met to discuss the Information Systems and Technology Strategy II paper and raised numerous issues and concerns. These included assessment and incorporation of lessons learned from INTEGRA (an integrated web-enabled information system); more rigorous benefit analysis; improved accounting for project components; more detailed definition of project components; and inclusion of systems audits. These issues are being studied in detail by staff for incorporation in a revised paper.

Development Effectiveness Committee

The Committee reviewed a balanced selection of OED evaluation studies (*see box*) and presented its assessment to the Board of Directors in the annual report. The report also

presented overall conclusions and recommendations from discussions on (i) the status of actions taken by ADB on key committee recommendations made in 2002; (ii) the *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2002* (*see http://www.adb.org/Documents/Reports/Portfolio_Performance/2002/2002_12.pdf*); and (iii) the *Annual Review of Evaluation Activities in 2002* (*see http://www.adb.org/Documents/PERs/RPE_OTH_2003_12.pdf*). The Committee expressed its satisfaction that evaluation activities had generally been adequate and efficient but at the same time noted areas for improvement.

Loan portfolio performance indicators in 2002 had improved since 2001 for all but 5 of the 18 DMCs with at least 5 active loans and a portfolio of more than \$100 million. Areas that required further attention included the time taken for effectiveness of loans after approval, the need for extensions to loan closing dates, and the increasing proportion of loan cancellations. In its assessment of technical assistance portfolio performance, the Committee intended to closely monitor actions taken by ADB to improve management and effectiveness.

Reports Reviewed in 2003

Project/Program Performance Audit Reports

Agriculture Sector Program (Viet Nam)
Employment Generation Project (Mongolia)
Railway Recovery Program (Bangladesh)
Theun-Hinboun Hydropower Project (Lao People's Democratic Republic)

Technical Assistance Performance Audit Report

Selected Advisory Technical Assistance for Capital Market Development in Pakistan

Thematic Evaluation Studies

Country Assistance Program Evaluation in Bangladesh
Country Assistance Program Evaluation in the Philippines
Impact Evaluation Study: Impact of Rural Roads on Poverty Reduction
Special Evaluation Study of the Asian Development Fund (ADF) VI-VII Operations
Special Evaluation Study of Cost Recovery in the Power Sector

The Committee noted that the total number of evaluation reports in 2002 increased by almost 50% over the previous year, and that the scope of the program had also increased substantially. In addition to 31 individual project/program and 6 technical assistance performance audit reports, 9 thematic evaluation studies were carried out. In particular, three country program evaluations and a special evaluation study of ADF VI-VII operations were completed. The Committee also commended the first-time inclusion in OED's annual report of a chapter on long-term trends in evaluation results. This new analysis showed that the downward trend in the proportion of projects and programs rated successful was halted and reversed in 1989, and that subsequently a slow improvement in the social and agriculture sectors had been reinforced by higher success rates in economic infrastructure projects and with new borrowers.

The Committee recommended that future reports go beyond statistical reporting to identify lessons for development effectiveness.

Inspection Committee

In 2003, the Inspection Committee held six formal meetings, several informal meetings, and considered one request for inspection. In January, the Committee created a matrix for requests for inspection which provides a tracking system for monitoring the progress of ongoing requests and a depository of publicly available documents related to specific requests.

At the beginning of 2003, the Committee considered the request for inspection of the Chashma Right Bank Irrigation Project (Stage III) in Pakistan and forwarded it to Management for a response. As permitted by the Inspection Policy, the Committee decided to consult a member of the roster of experts in deciding

whether to recommend that an inspection be authorized.

In March, the Committee submitted its report to the Board; it recommended that the Board authorize an inspection of the Project with a deferred start to allow the process for grievance redress put in place by the Government in consultation with ADB to take place. However, the Committee reserved the right to bring forward the proposed timetable for commencement of the inspection should it become evident to the Committee that the grievance redress process was unlikely to be successful. As a basis for making such a determination, the Committee requested Management to prepare two reports on grievance redress activities—one in July 2003 and one in January 2004.

The Board approved the Committee's recommendation. The Committee received the midterm report on the grievance redress process from ADB Management in July. Comments and additional information were sought from the requesters. The Committee considered the material provided at its meeting in September and published it on the ADB web site in October (*see http://www.adb.org/Inspection/Projects/chashma_right.asp*). The inspection commenced in December 2003 with the selection of a Panel of four members from the roster of experts and the preparation of a consultation draft of the terms of reference for the Panel.

Working Group on the Annual Report for 2003

The Board Working Group set the general direction for 2003 working closely with Management and staff and taking into account the responses from the Annual Report Readers' Survey. This year's report clearly demonstrates how ADB is optimizing its institutional effectiveness and resources, how it is progressing toward achieving the MDGs, and how it is moving the poverty reduction agenda forward.

Selected Policy/Strategy Papers Discussed in 2003

- Review of the Asian Development Bank's Lending and Borrowing Limitations
6 February
- Review of the Inspection Function: Establishment of a New Accountability Mechanism *28 March and 29 May*
- Review of the Resource Position of the Asian Development Bank *31 March*
- Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism *1 April*
- Review of the Management and Effectiveness of Technical Assistance Operations of the Asian Development Bank *6 May*
- Thirty-Sixth Annual Meeting: Allocation of Net Income *8 May*
- Thirty-Sixth Annual Meeting: Resources of ADB *8 May*
- Review of the Asian Development Bank's Income Outlook and Allocation of 2002 Net Income *8 May*
- Delivering Better Services in the Pacific: Establishment of Pacific Offices *13 May*
- Asian Development Bank: Forest Policy *22 July*
- Review of the Summary Procedure for Loan Proposals *13 August*
- Work Program and Budget Framework *15 October*
- Review of the Asian Development Bank's Income Planning Framework *2 December*
- ADB Institute: Three-Year Rolling Work Program for 2003–2005 and Budget for 2004 *16 December*
- Budget of the Asian Development Bank for 2004 *16 December*
- Borrowing Program for 2004 *17 December*
- Enhancing the Independence and Effectiveness of the Operations Evaluation Department *17 December*

Financing Operations

Financial Resources

Authorized capital stock amounted to \$52 billion, and subscribed capital stood at \$52 billion. ADB raised long-term funds totaling about \$4.1 billion, of which \$1 billion was raised through a global public offering. Gross income amounted to \$1.7 billion, \$1.4 billion of which was generated from the loan portfolio, \$308.7 million from the investment portfolio, and \$48.5 million from other sources of which \$41 million came from equity investment operations (\$15 million from dividends, \$25 million from gains realized on the sale of equity investments, and \$600,000 representing the share in net income of the Asian Finance and Investment Corporation Ltd). ADB's Special Funds consisted of the Asian Development Fund with committed resources amounting to \$511.1 million, the Technical Assistance Special Fund of \$85.9 million, the Japan Special Fund totaling \$19.9 million, and the ADB Institute Special Fund of \$11.8 million.

Loans

Lending for both public and private sector operations in 2003 amounted to \$6.1 billion for 85 loans to 66 projects. This was ADB's highest lending since 1997. The average loan size in 2003 was \$72 million, compared with \$64 million in 2002. Twenty-three DMCs and one regional project received loans. A total of \$3.8 billion was disbursed. Of this, \$2.1 billion (55%) were for project loans. The rest was for program, sector, and private sector loans.

Of the total lending, loans with government guarantees were over \$5.9 billion for 62 projects comprising \$4.5 billion for 33 loans from ordinary capital resources (OCR) and \$1.4 billion for 47 loans from the concessional ADF. Thirteen were policy-based programs amounting to \$1.1 billion representing 19% of total public sector lending. Of program lending, \$912 million or 80% of the total came from OCR and \$228 million or 20% from the ADF. Policy-based programs support DMC efforts to improve policy, institutional, and investment environments and to help meet short-term adjustment costs. Lending to the private sector without government guarantees, using OCR, amounted to \$187 million.

Of the 62 public sector loans, 10 were for core poverty intervention projects and 29 were for poverty intervention projects. These 39 projects amounted to about \$3 billion or 51% of total public sector lending. Grants from the Japan Fund for Poverty Reduction totaling \$35.3 million were approved for nine projects. (For details, see Table 32 in the Statistical Annex.) Poverty partnership agreements were signed between ADB and PRC, Kazakhstan, Kiribati, Samoa, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu.

ADB Operations

	\$ Million		%
	2002 ^a	2003	
Lending	5,657.9	6,104.8	7.9
Public	5,547.9	5,917.8	6.7
OCR	3,897.8	4,538.7	16.4
ADF	1,650.2	1,379.2	(16.4)
Private			
OCR	110.0	187.0	70.0
Equity			
Investments	35.5	35.7	0.3
Technical			
Assistance	179.0	176.5	(1.4)
TOTAL^b	5,872.4	6,317.0	7.6

() Negative.

a Adjusted to reflect terminated loan and changes in loan amount.

b Total may not add due to rounding.

Classification of ADB's Developing Members

Per capita gross national product and debt repayment capacity are the criteria used to determine the classification of borrowing developing members¹ and eligibility to borrow from the Asian Development Fund (ADF). Group A (ADF only) countries include 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, Turkmenistan, and Uzbekistan.

In 2003, cost-sharing limits for project loans were 80% for Group A,⁴ 75% for B1, 70% for B2, and 65% for C. Government contributions to technical assistance should be at least 15% of total costs for Group A, 20% for B1 and B2, and 30% for C. The contribution will be subject to the limit of total technical assistance costs minus foreign exchange costs and costs of domestic consultants.

Criteria for graduation from regular ADB assistance have also been established. Hong Kong, China; Republic of Korea; Singapore; and Taipei, China have graduated from regular ADB assistance. (For details see <http://www.adb.org/documents/policies/graduation>.)

1 Timor-Leste has not been classified.

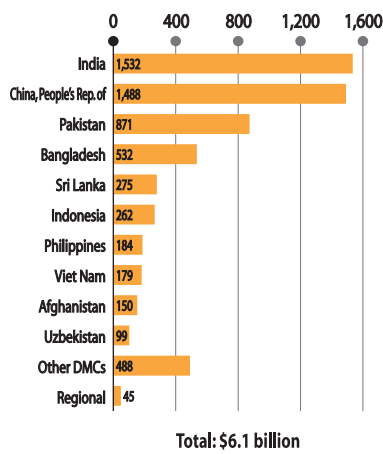
2 Limited eligibility for OCR will be applied only after the external debt situation improves.

3 On a watch list for graduation from the ADF.

4 As per the Board of Directors' paper, "Review of Afghanistan's Classification under ADB's Graduation Policy," 28 June 2002, the cost-sharing limit for loans and technical assistance operations for Afghanistan has been waived for 2002-2004.

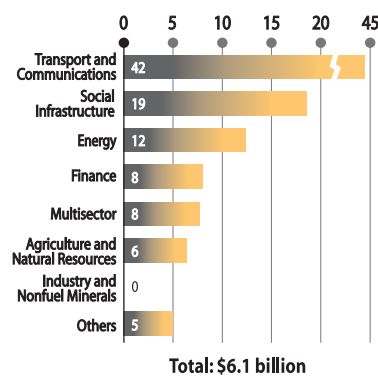
Top Borrowers, 2003

(\$ million)



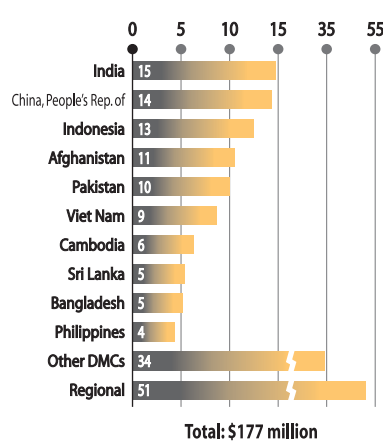
Loans by Sector, 2003

(percent)



Top Recipients of Technical Assistance, 2003

(\$ million)



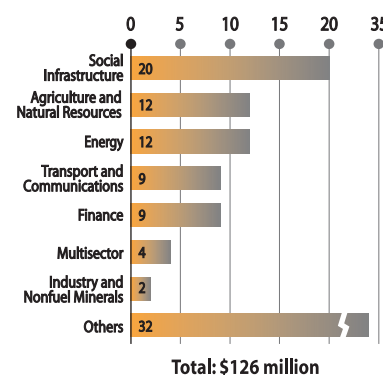
As in 2002, the largest DMC borrower in 2003 was India at \$1,532 million (25% of the total). Other top borrowers included PRC \$1,488 million (24%), Pakistan \$871 million (14%), Bangladesh \$532 million (9%), and Sri Lanka \$275 million (5%). The transport and communications sector received the largest share of loans at \$2,578 million (42%) followed by social infrastructure \$1,131 million (19%), energy \$757 million (12%), and finance \$483 million (8%). The “others” sector received 5% of total lending. This included projects not falling under the economic sector classification that ADB uses, such as central government administration, operation and regulation, customs operations, public sector reform programs, judicial and legislative operations, public finance management, fiscal reforms, environment projects, gender and governance, and tourism (see tables 1–5 in the *Statistical Annex*).

Technical Assistance

A total of 315 technical assistance grants amounting to \$176.5 million was approved in 2003. Of those, 74 were for project preparation; 165 was for advisory and operational purposes; and 76 were for regional activities such as conferences, research, studies, and training. Of the total amount for technical assistance, \$87 million were from

Technical Assistance by Sector, 2003

(percent)



Note: Excludes regional technical assistance grants.

the Technical Assistance Special Fund using current income from OCR; \$37 million were from the Japan Special Fund; and the remaining \$53 million came from other multilateral and bilateral sources. The largest recipient of country-specific technical assistance (excluding regional technical assistance) was India at \$14.7 million (12%), followed by the PRC \$14.3 million (11%), Indonesia \$12.5 million (10%), Afghanistan \$10.5 million (8%), and Pakistan \$10.0 million (8%).

Excluding regional technical assistance, the sector distribution was as follows: social infrastructure \$24.5 million (20%), agriculture and natural resources \$15.3 million (12%), energy \$15.1 million (12%), transport and communications \$11.4 million (9%), finance \$10.7 million (9%), multisector \$5.2 million (4%), and industry and nonfuel minerals about \$3 million (2%).

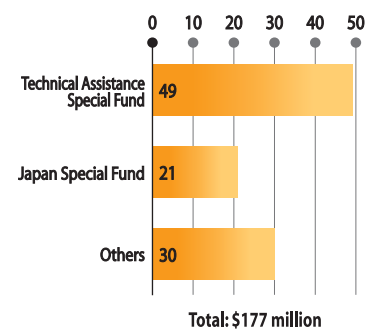
Other technical assistance received \$41 million or 32% of the total (see tables 21–25 in the *Statistical Annex*).

Grants

Total grants amounting to \$483.5 million were approved in 2003, consisting of grant cofinancing of loan components amounting to \$433.2 million from bilateral and multilateral sources, of which \$404 million were administered by ADB and \$29.2 million were on

Technical Assistance by Source, 2003

(percent)



parallel financing; \$35.3 million in projects financed by the Japan Fund for Poverty Reduction; and \$15 million from the Kuwait Fund for Arab Economic Development (see tables 6, 32 and 34 in the Statistical Annex).

Equity Investments

ADB approved a total of \$35.7 million in equity investments for regional investment funds and financial institutions (see tables 9–12 in the Statistical Annex).

Cofinancing and Guarantee Operations

To maximize development impact, ADB closely coordinated with other development partners on its assistance programs to all DMCs to incorporate cofinancing and coordination opportunities. ADB systematically intensified coordination with official loan and grant cofinanciers to identify opportunities that directly complemented ADB projects or produced other benefits. In commercial cofinancing, ADB actively supported commercially attractive private sector projects and programs by using appropriate credit enhancement products such as guarantees. ADB continued the dialogue with its DMCs to identify the best financing solutions for public and private sector projects and programs,

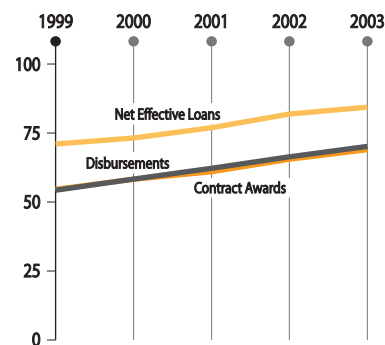
specifically the use of its credit enhancement products (see <http://www.adb.org/cofinancing/>).

ADB intensified efforts to promote commercial cofinancing and guarantee operations by developing initiatives such as trade finance and private sector investment funds like the ASEAN China Investment Fund and the Asia Clean Energy Fund. ADB also organized cofinancing seminars and training for its staff, DMC officials, and cofinancing partners; adopted an active role in structuring and mobilizing financial resources for public-private partnership initiatives; and strengthened partnerships with its cofinanciers and risk-sharing partners.

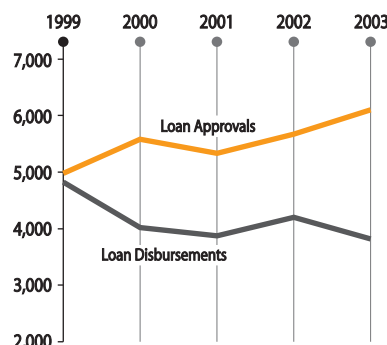
In total, cofinancing and guarantee operations mobilized about \$2.4 billion, which represented about 40% of ADB's total lending of \$6.1 billion. Twenty-eight projects in 14 DMCs including two regional projects involved cofinancing in 2003. The PRC received the largest amount (\$1,241 million), primarily from its domestic financial institutions, followed by Bangladesh with \$598 million and Thailand with \$170 million (see Table 6 in the Statistical Annex).

Since 1970, cofinancing and guarantee operations have mobilized a cumulative total of \$40.6 billion providing additional resources for 637 ADB-assisted loan projects and

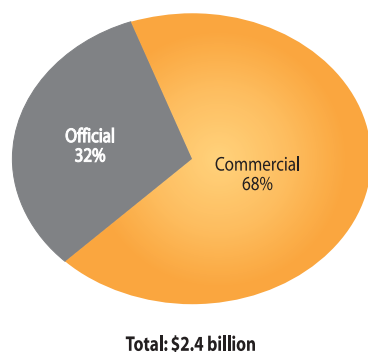
Contract Awards and Disbursements, 1999–2003
(cumulative, end of year)
(\$ billion)



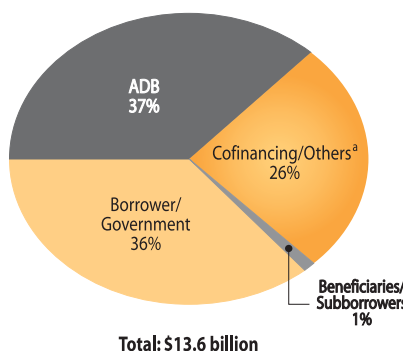
Loan Approvals and Disbursements, 1999–2003
(\$ million)



Cofinancing Arrangements, 2003

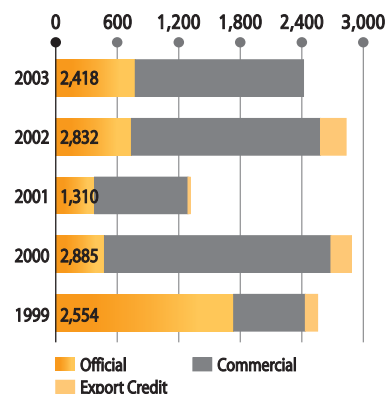


Total Cost of Loan Projects and Sources of Financing, 2003



^a Includes cofinancing from official and commercial sources, project sponsors, and participating local private companies and financial institutions.

Cofinancing Arrangements, 1999–2003
(\$ million)



programs. The cumulative total comprises \$22.9 billion from official sources and \$17.7 billion from commercial sources. The energy sector accounted for \$17.1 billion (42%) followed by transport and communications \$9.2 billion (23%), agriculture and natural resources \$4.2 billion (10%), social infrastructure \$4.0 billion (10%), and other sectors \$6.1 billion (15%).

Commercial Cofinancing and Guarantee Operations. These totaled \$1.6 billion for 12 projects, of which guarantee operations amounted to \$240 million. Additional commercial cofinancing was raised in the form of parallel cofinancing from domestic financial institutions mainly in the PRC (\$1.3 billion); from the complementary financing scheme (\$100 million); and from parallel loans from financial lenders (\$30 million).

Official Cofinancing. Cofinancing mobilized from ADB's bilateral development partners and multilateral financial institutions totaled \$775 million for 18 projects comprising \$433 million in grant funds and \$342 million in loans. Of the grant funds, about \$404 million were for the Second Primary Education Development Program in Bangladesh which was cofinanced under a sector-wide approach program (SWAP) with ADB taking the role of lead agency. Apart from

the \$150 million loan from the World Bank and tied grant funds from Australia and Japan, which were contributed to the Program on a parallel basis under the SWAP, ADB will administer untied grants of \$389 million from the European Community (\$100 million), Canada (\$20 million), the Netherlands (\$50 million), Norway (\$40 million), Sweden (\$29 million), and the United Kingdom (\$150 million).

Parallel loans were provided by Finland (\$5 million), France (\$105 million), Japan (\$20 million), the International Development Association (\$166 million), the Islamic Development Bank (\$9.5 million), the OPEC Fund for International Development (\$6 million), and the Nordic Development Fund (\$30.6 million) (see tables 6 and 34 in the Statistical Annex).

Resource Transfers

The net transfer of resources to ADB from its DMCs increased to \$5.3 billion in 2003, compared with \$1.4 billion in 2002. During the year, there was a net inflow of \$6.0 billion (\$2.1 billion in 2002) to ADB from OCR borrowers/investees, mainly from prepayments of \$5.9 billion (\$2.0 billion in 2002) of OCR pool-based loans. However, net transfers from ADB to ADF borrowers decreased from

\$717.8 million in 2002 to \$640.8 million in 2003. (For details, see tables 26 and 27 in the Statistical Annex.)

Loan disbursements in 2003 totaled \$3.8 billion comprising 95.8% of the target for the year. Of the total, OCR disbursements were \$2.7 billion or 70% and ADF disbursements were \$1.1 billion or 30%. (For details, see tables 7, 8, and 14 in the Statistical Annex.)

Loan service payments reached \$9.1 billion in 2003, compared with \$5.6 billion in 2002. The increase was mainly because of higher prepayments (\$5.9 billion in 2003, \$2.0 billion in 2002).

In 2003, the four largest net resource transfers from ADB were to Viet Nam, Sri Lanka, Cambodia, and Bangladesh (see tables 26 and 27 in the Statistical Annex).

Private Sector Operations

In 2003, ADB approved \$562.7 million of assistance in private sector operations, a 174% increase over the 2002 level of \$205.5 million. Assistance comprised loans of \$187.0 million, equity investments of \$35.7 million, guarantees of \$240.0 million, and a complementary financing scheme of \$100 million. Approved loan and equity investment will mobilize a total of \$2,320 million of funding,

Resource Transfers to Developing Member Countries (\$ million)

	2002	2003
OCR		
Loan Disbursements	3,067	2,688
Principal Repayments ^a	(3,334)	(7,137)
Payments of Interest/Charges	(1,814)	(1,488)
Net Equity Investment	(17)	(25)
Net	(2,098)	(5,962)
ADF		
Loan Disbursements	1,136	1,128
Principal Repayments	(262)	(312)
Payments of Interest/Charges	(156)	(175)
Net	718	641
TOTAL	(1,380)	(5,321)

() Represents resource inflow from developing member countries.

a Includes prepayments of \$5,883.8 million (\$1,977.1 million in 2002).

Private Sector Portfolio Distribution,^a 2003

	Investments Held		
	No. of Companies	\$ Million ^b	%
Infrastructure	20	744.8	52.3
Investment Funds and Financial Institutions	31	289.6	20.3
Others	25	249.2	17.5
	12	140.9	9.9
TOTAL	88^c	1,424.4	100.0

a At exchange rates as of 31 December 2003.

b Refers to total exposure (loans, equity investments, and guarantees).

c Excludes a small and medium enterprise guarantee facility to Pakistan as there was no availment at year-end 2003.

leveraging ADB's own funds by about 9.4 times. Private sector operations focused on responding to changing market conditions and on promoting sustainable economic growth in DMCs. Pioneering initiatives included (i) trade finance, (ii) small and medium enterprise (SME) development, (iii) resolution of nonperforming loans to assist commercial banks in resolving "drag" on their portfolios, (iv) local currency financing, (v) projects to finance the upgrading or expansion of existing infrastructure, and (vi) financial restructuring/refinancing for existing infrastructure projects to eliminate currency and tenor mismatch.

Since its first private sector investment in 1983, ADB has approved 160 projects for a total of \$3.5 billion, inclusive of equities, loans, guarantees, and complementary financing schemes. ADB's cumulative equity and loan approvals have catalyzed a total of \$21 billion in funding for private

sector projects, leveraging ADB's investments by a ratio of 7.8.

In 2003, the majority of the projects in the private sector portfolio were exposures to India (16.7%), Bangladesh (13.0%), PRC (11.0%), Viet Nam (10.5%), and Philippines (9.3%). Regional projects accounted for roughly 18.9% of total exposure.

Infrastructure projects were the largest at 52.3%, followed by investment funds at 20.3% and financial institutions at 17.5% with the balance accounted for by other sectors at 9.9%.

As of 31 December 2003, the overall private sector portfolio (equity investments, loans, and guarantees) was about \$1.4 billion. ADB disbursed a total of \$147 million while collecting roughly \$48.6 million in principal repayments and interest of \$21.5 million. To free up capital resources for new investments, ADB fully or partially divested equity shareholdings in 11 project companies, resulting in

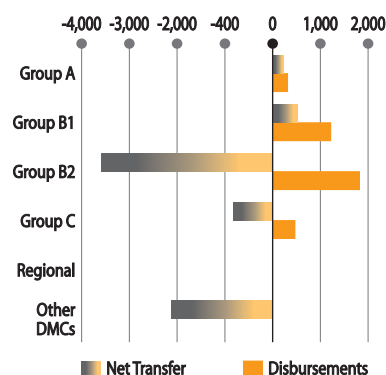
net returns of 143% over investment costs. Six loans totaling \$18.9 million were fully repaid during the year.

To manage risk effectively, ADB sets aside a general provision of 8% of the total outstanding healthy portfolio, excluding projects with specific provisions and mark-to-market investments. The general provision as of 31 December was estimated at \$41.9 million with a total specific provision of roughly \$111.1 million. The loss-reserve ratio as a percentage of the total outstanding direct portfolio was 19.9% at the end of 2003, compared with 18.9% in 2002.

ADB recorded revenues of \$40.3 million in capital gains and dividends during the year. Approximately \$25.4 million were capital gains from the 11 projects sold/redeemed fully or partially, while cash dividends received from various projects amounted to \$14.9 million compared with \$8.6 million in 2002.

Disbursements and Net Transfer of ADB Resources to DMCs, 2003

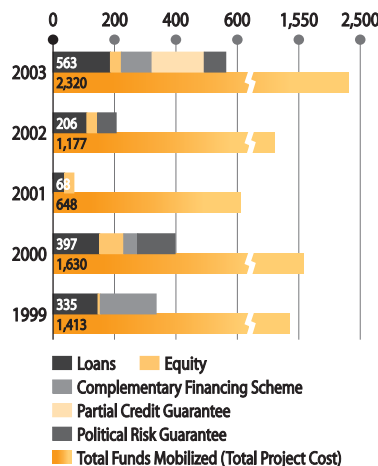
(\$ million)



See page 7 for classification of countries.

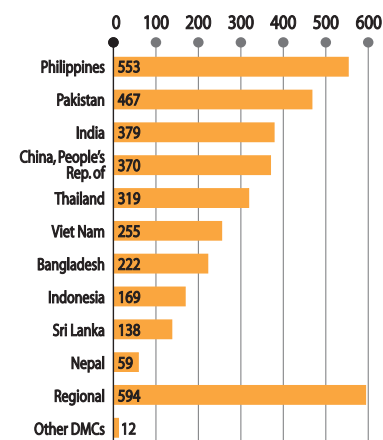
Private Sector Operations, 1999–2003

(\$ million)



Private Sector Operations Portfolio Distribution by Country, 1983–2003

(\$ million)



Total: \$3.5 billion

ENDNOTES

- 1 The term "country," as used in the context of ADB, refers to a member of ADB and does not imply any view on the part of ADB as to the member's sovereignty or independent status.
- 2 Triple-A credit rating is the highest rating given by credit rating agencies such as Moody's Investors Service and Standard & Poor's and is assigned to entities that offer exceptional financial security and have the smallest degree of risk.