



Message from the Chairman of the Board of Directors

For Asia and the Pacific, 2003 was a year of many challenges and uncertainties marked by geopolitical concerns, threats of terrorism, global economic and financial instability, and outbreaks of epidemic diseases such as the severe acute respiratory syndrome followed by the avian flu in early 2004. In our ongoing efforts to be an effective and dynamic development partner for our developing member countries (DMCs), we at ADB have initiated many changes and reforms in our organization and in our operations to address these challenges and to better position ourselves to respond to future challenges. All of these initiatives emphasize greater development effectiveness by focusing operations on the achievement of impacts and outcomes.

The extensive reorganization and the introduction of new business processes in January 2002 marked the beginning of a series of organizational changes and reforms. In 2003, we conducted a review of the reorganization and business processes, and initial findings and recommendations of the review have already been implemented. In 2004, an independent assessment of the reorganization will be conducted by a panel of external experts and will also include consultations with key stakeholders in our DMCs. Other steps ADB took in 2003 toward greater organizational effectiveness include the appointment of a fourth Vice-President to oversee knowledge management and sustainable development, and the creation of a new Managing Director General position to facilitate the coordination of the work of senior management.

To reinforce accountability, particularly to address in a fair and proper manner the concerns of persons affected by ADB-assisted projects, a new accountability mechanism was established in May 2003. The new mechanism consists of a consultation phase and a compliance review phase, and the offices for the Special Project Facilitator and the Compliance Review Panel are now operational. A comprehensive review and revision of all sections of the Operations Manual were completed in October, and copies have been disseminated to ADB Management and staff as well as to the public on ADB's web site to promote greater and clearer accountability. ADB is now preparing a unified public communications policy that will help increase transparency in all aspects of its activities and will hence improve outreach to all stakeholders and development partners. In addition, ADB has initiated a review of the implementation of our governance and anticorruption policies. In 2003, ADB also adopted the policy, "Enhancing ADB's Role in Combating Money Laundering and the Financing of Terrorism."

In December 2003, the Board of Directors approved a set of recommendations to enhance the independence and effectiveness of the Operations Evaluation Department (OED). Effective January 2004, OED reports directly to the Board of Directors. This important

organizational change not only brings ADB into harmony with practices in other international institutions, but it also enhances the external credibility of ADB's evaluation procedures and results.

To address the human resource dimension of development effectiveness, ADB is preparing a new Human Resource Strategy with three strategic objectives: to enhance organizational capacity, to establish an effective performance management system, and to strengthen leadership and accountability for performance. One of the priorities is to implement the Gender Action Plan II as part of our diversity framework and to mainstream gender issues in ADB's internal initiatives as well as in the regional development agenda. The Board of Directors on the recommendation of the President has recently appointed ADB's first female Vice-President.

All of these initiatives have helped ADB maximize its institutional effectiveness. As a result, ADB is now a more accountable, more efficient, and more transparent institution that is better positioned than ever to respond to the needs of its DMCs.

For ADB to provide the necessary assistance to its DMCs, it must optimize the management of its financial resources. This requires making the most efficient use of existing resources as well as securing adequate levels of additional funds, particularly in the Asian Development Fund (ADF) which offers concessional loan terms to poorer DMCs. To strengthen ADB's strategic planning and efficient allocation of existing resources, the performance-based allocation system of the ADF was reviewed. Discussions with donors also started in 2003 concerning the replenishment of the ADF. Significant milestones have been achieved including ADF IX donors' meetings in Copenhagen and Tokyo in the last quarter of the year and in Lisbon in early 2004. Additionally, the review of the management and effectiveness of technical assistance operations resulted in important improvements in the management of those limited resources.

The most important initiative of 2003 was a comprehensive review of ADB's Poverty Reduction Strategy, the outcome of which is so crucial to refining our operations to achieve our overarching goal of poverty reduction. Based on empirical evidence across countries which demonstrates that robust and sustained pro-poor economic growth is the single most important factor in attaining rapid poverty reduction, initial findings of the review emphasized the importance of infrastructure development and private sector participation. The review also reinforced the importance of the nonincome dimensions of poverty, especially the need to focus on thematic and crosscutting issues like environment and gender, many of which are included in the Millennium Development Goals (MDGs). We have sharpened our focus on the attainment of the MDGs by aligning ADB's country strategies and programs with them; in fact, achieving the MDGs has become a framework for measuring development progress in the region.

Significant efforts were also made in 2003 to formulate an agenda and action plan for moving toward managing for results that will allow us to better gauge development effectiveness. We created in 2004 a Results Management Unit that will lead the implementation of the action plan at the country, institutional, and partnership levels. Furthermore, ADB is currently piloting results-based country strategies and programs in selected DMCs.

Recognizing that knowledge is of critical importance in development and that ADB's enhanced role in knowledge generation and sharing is a prerequisite for achieving our overarching goal of poverty reduction, ADB is committed to becoming a primary source of development knowledge in Asia and the Pacific. To guide ADB's transition to a knowledge-based organization, the preparation of the Knowledge Management Framework started in 2003.

We all know that peace is a prerequisite for development, but we also know that poverty reduction and development are essential for attaining peace. As a regional development bank, we at ADB are aware of the role we should and can play in promoting development and reducing poverty in Asia and the Pacific. ADB will continue to work hard in cooperation with our member countries as well as with our development partners and stakeholders to realize an Asia and Pacific region free of poverty where all people can enjoy economic prosperity and lasting peace.

ASIAN DEVELOPMENT BANK
Manila

12 April 2004

Chairman of the Board of Governors
Asian Development Bank

Dear Mr. Chairman,

In accordance with Article 39 of the Articles of Agreement of the Asian Development Bank and Section 13 of its By-Laws, I submit to the Board of Governors *Annual Report 2003*, including a separate report on the activities of the Special Funds, which has been prepared under the direction of the Board of Directors. The *Annual Report* also includes the financial statements prescribed in Section 15 of the By-Laws.

Sincerely,

Tadao Chino

TADAO CHINO
President and Chairman
Board of Directors