



OPERATIONS OVERVIEW

For the second year running, ADB scaled up its assistance to its developing member countries. It also continued to increase its development effectiveness through internal reform initiatives and external efforts to harmonize strategies, programs, and procedures with other multilateral development banks and bilateral donors. ADB's operations reflected the priorities of its second medium-term strategy: catalyzing investment, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and preventing corruption.

CATALYZING INVESTMENT

Financing infrastructure development in the Asia and Pacific region poses a challenge that can only be met by involving the private sector. ADB provides funds, makes equity investments, and catalyzes financing from other sources to support infrastructure development.

ADB's nonsovereign operations supported the infrastructure, capital market, and banking sectors, among others. ADB approved 21 nonsovereign projects (projects without sovereign guarantee), totaling \$1.4 billion in assistance, an 81.9% increase over the \$777.9 million approved in 2005. The projects were in the form of traditional direct lending amounting to \$575.0 million, equity investments of \$260.5 million, a political risk guarantee of \$15.0 million, two partial credit guarantees amounting to \$109.8 million, and commercial cofinancing through B-loans totaling \$455.0 million.

For the first time, ADB supported private sector projects in the Central Asian republics of Azerbaijan and Kazakhstan. It also approved its first nonsovereign public sector loans: \$75 million to increase power generation capacity in India and \$75 million to transport gas from South Sumatra to West Java in Indonesia. For the India loan, ADB leveraged three times its own loan (\$75 million from ADB's own resources and \$225 million to be underwritten and syndicated from international commercial banks through the B-loan), showing ADB's commitment to crowd in private lenders. The loan will help fund two projects in Chhattisgarh and Bihar states,

which will add 4,480 megawatts of electricity to India's national grid in 2006–2009. The Bihar project mobilized an additional \$125 million from commercial banks as well as Kreditanstalt für Wiederaufbau (KfW) and the Islamic Development Bank.

ADB's private sector portfolio has improved significantly. As of the end of the year, the impaired portfolio had been reduced to 4% of the total private sector outstanding portfolio, compared with 9% in 2005. With a fully functioning independent risk management group rigorously screening nonsovereign projects at point of entry, the quality of the private sector portfolio is expected to improve further. Impaired projects are being monitored closely by a work-out team and continue to be sold or disposed of.

A \$400 million program loan to Pakistan will establish a comprehensive framework to address key policy, regulatory, and institutional constraints on private sector investment in the power, transport, and water sectors and eventually help mobilize private sector resources for them.

ADB focused on encouraging public–private partnerships and private investment through projects in railways (Cambodia, \$42.0 million); infrastructure reform (Indonesia, \$426.5 million); forest plantation development (Lao People's Democratic Republic, \$10.0 million); financial market regulation and intermediation (Philippines, \$200.0 million); and power sector development (Philippines, \$450.0 million), among others.

ADB focuses particularly on investments to support rural development

STRENGTHENING INCLUSIVENESS

The second medium-term strategy emphasizes strengthening inclusive patterns of growth and social development to enable disadvantaged groups to benefit equitably from the opportunities that development provides. The strategy focuses particularly on investments to support rural development—as the vast majority of the poor remain in rural areas—as well as investments in key social development interventions.

ADB invested substantially in projects that supported rural road construction (India, Papua New Guinea, People's Republic of China [PRC]); rural water supply systems (Sri Lanka); irrigation (Pakistan); rural finance (India); and rural electrification (PRC). About a quarter of approved loans cited inclusive social development as a theme. ADB strengthened inclusiveness through projects to develop education (Bangladesh, Indonesia, Lao People's Democratic Republic [Lao PDR], Mongolia, Nepal, and Viet Nam); improve the environment (India); reduce poverty (Viet Nam); and support sustainable livelihoods through livestock development (Lao PDR).



ADB invested substantially in rural finance projects in India



Safe water, sanitation, and responsible environmental management are all ADB priorities

REGIONAL COOPERATION AND INTEGRATION

In cooperation with governments in the region, ADB drew up its first regional cooperation strategy and program for South Asia (2006–2008). The ADB-supported South Asia Subregional Economic Cooperation Program took a major step in developing four investment projects for information and communications technology, tourism, transport, and trade. ADB also supported studies and cooperation activities of the South Asian Association for Regional Cooperation and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation in transport and energy.

The Central Asia Regional Economic Cooperation program took a major step forward in October 2006 when ministers endorsed its comprehensive action plan. The

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plan presents a detailed forward-looking framework for cooperation among the eight participating countries of the region and includes a pipeline of 42 projects in 2006–2008 with anticipated financing of more than \$2.3 billion from the program's six multilateral partners.

ADB endorsed a new regional cooperation strategy and program update and subsequently approved 2 loans and 11 technical assistance projects for the Greater Mekong Subregion (GMS). ADB supported studies and cooperation programs in transport, trade facilitation, energy, agriculture, and environmental management.

In East Asia, ADB is facilitating a number of cooperation initiatives between the PRC and Mongolia.

In the Pacific, ADB continued to help eight of its members establish the multi-country Pacific Aviation Safety Office. The project is financed through a public sector regional loan to an intergovernmental organization, supported by guarantees of its member countries.

In the Pacific, ADB recognizes that with the endorsement of the Pacific Plan by 16 Forum island countries in October 2005, the time is ripe to promote regional cooperation. The Pacific Plan is an evolving document which presents initiatives supporting the achievement of four strategic goals—economic growth, sustainable development, good governance, and security. ADB has directly supported implementation of the Pacific Plan in 2006 through approval of two regional technical assistance projects to strengthen regional cooperation among Pacific developing member countries, and governance and financial management in these countries.

In 2006, 42.3% of ADB's technical assistance—\$102.2 million—supported regional initiatives.

MANAGING THE ENVIRONMENT

To ensure compliance with its safeguard policies, ADB reviewed all projects before Board consideration. In a review of 81 projects and equity investments approved in 2006, ADB found that 55 projects required the preparation of environmental assessment reports and management system frameworks, 20 required the preparation of a plan or framework or specific actions for indigenous peoples, and 35 required resettlement plans and frameworks—to address potential adverse impacts on the environment and affected people. ADB issued revised operational procedures for each of the three safeguard policy areas, taking into account the new disclosure requirements of the recently approved public communications policy. ADB organized orientation and training for its own staff and developing

member country officials on safeguard requirements. It also enhanced knowledge capture and dissemination through regular updates of its websites on the environment, involuntary resettlement and indigenous peoples, and safeguards.

ADB continued to enhance legal frameworks and capacity development related to involuntary resettlement in Bangladesh, Cambodia, Nepal, and Sri Lanka. As a continuing commitment to global dialogue on indigenous peoples' issues, ADB participated in the Fifth Session of the United Nations Permanent Forum on Indigenous Issues, which highlighted the need to redefine the Millennium Development Goals to include indigenous peoples' concerns.

Of the 67 projects approved in 2006 (excluding equity investments), 17 (25%) had environmental sustainability as a theme—up from 10 (16%) in 2005. Total ADB assistance for the 17 projects amounted to \$1.6 billion (22% of total ADB funds), twice the \$794 million (14%) committed in 2005.

Nearly half of ADB funds (44%) approved aimed to improve urban environments by providing or rehabilitating water supply, sanitation, and waste management systems. More than 30% of ADB funds supported cleaner production processes and controlled industrial pollution. Other projects helped conserve natural resources.

Several approved technical assistance projects aimed to strengthen capacity, start policy reforms, make project implementation more effective, and help achieve the Millennium Development Goals, among others. For example, ADB will help the Government of the PRC establish the Clean Development Mechanism Fund by designing a governance structure and building its initial operational capacity. ADB is financing a study to help Bangladesh, Bhutan, India, and Nepal improve and develop policy and regulations for managing hazardous wastes.

ADB is working in partnership with other institutions. The Global Environment Facility provided \$9 million in cofinancing for a coastal resources management project in the Philippines and a commitment of \$20 million in grant support for the first phase of the ADB-led Central Asian Countries Initiative for Land Management.

The Asian Environmental Compliance and Enforcement Network, established by ADB and the United

States Agency for International Development on the premise that sustainable development depends on good governance, supported pilot activities, including regional training and consultation to develop national environmental compliance and enforcement indicators in the Philippines, Thailand, and Viet Nam. During the network's first annual forum held in Ha Noi, Viet Nam, participants discussed general principles for compliance and enforcement tailored to Asia, and lessons from country case studies.

The Clean Air Initiative for Asian Cities progressed well, with rapid expansion of country-level air quality analysis and investment planning. The Better Air Quality Conference held in Yogyakarta, Indonesia, highlighted the success of Asian countries, cities, and communities in reducing air pollution, and efforts needed to improve air quality.

The Poverty and Environment Program continued to accelerate learning on the link between environment and poverty, and effective approaches for poverty reduction. ADB's Poverty and Environment Net website—a repository of successful poverty and environment strategies, programs, and projects—has become a much sought-after knowledge management tool inside and outside the region.

IMPROVING GOVERNANCE AND PREVENTING CORRUPTION

ADB is committed to working with its client countries to improve governance and reduce vulnerability to corruption, which is key to reducing poverty.

Eighteen of 67 approved public and private sector loan projects and 85 technical assistance projects had improving governance as a theme. Assistance to strengthen governance in developing member countries totaled \$2.7 billion, including technical assistance to improve public auditing capacity in Pacific island member countries and to help develop the Afghanistan National Development Strategy (including support to develop a national anticorruption strategy); preparation of a governance reform and decentralization cluster program in Nepal; and a program cluster to support the Development Policy Support Program of Indonesia, which, among other things, will strengthen the public financial management and anticorruption framework and improve the delivery of public services.

ADB's five regional departments have begun to implement the second governance and anticorruption action plan. Preparations have begun to apply this action plan to five new country partnership strategies scheduled for completion in

Nearly half of technical assistance aimed to provide or rehabilitate water supply, sanitation, and waste management systems



Involving stakeholders strengthens their support for, and reduces challenges to, ADB-assisted activities

2007. Initial assessments of governance, institutional, and corruption risks have been completed for projects and programs with a high perceived exposure to governance issues. One such assessment, for example, was for a rural cooperative credit restructuring and development program in India.

ADB approved the revised *Guidelines on the Use of Consultants* and *Procurement Guidelines* in 2006. They are now substantially harmonized with those of the Inter-American Development Bank and the World Bank, and streamline ADB's procurement processes, enhance their transparency, and allow greater flexibility in procurement for experienced executing agencies. The guidelines include a provision for declaring misprocurement when agreed procedures are not followed, and contain harmonized definitions of corrupt, fraudulent, coercive, and collusive practices.

Ensuring adequate project implementation capacity is the responsibility of ADB's borrowers and requires a commitment to provide resources, develop skills, and put in place the necessary systems and procedures. ADB has introduced a number of measures for borrowers to assess

and improve their procurement capacity. These measures include executing agency capacity assessment, training to develop a project procurement plan, and improvement of executing agency staff's skills in project implementation through seminars and customized training programs. An important role of executing agency capacity assessment is to evaluate the project risks that may hinder the ability of an executing agency to carry out effective, efficient, and transparent procurement. Assessments will feed into plans to develop institutional capacity to mitigate such risks, and a procurement plan commensurate with the capacity of each executing agency. ADB introduced capacity assessment with executing agencies and procurement plans, and will expand activities in 2007.

ADB's NGO Center approved small grants amounting to \$150,000 to nonprofit, nongovernment groups in Mongolia, Pakistan, and the Philippines to pilot-test and demonstrate the relevance and impact of nongovernment mechanisms and approaches to improving transparency and accountability and fighting corruption.