



Central and West Asia

Afghanistan, Armenia, Azerbaijan, Georgia,
Kazakhstan, Kyrgyz Republic, Pakistan,
Tajikistan, Turkmenistan, Uzbekistan

The Central and West Asia Department consolidated and expanded operations. Sixteen sovereign loan, eight nonsovereign loan, and twelve grant projects totaling \$3.0 billion were approved for nine countries (Afghanistan, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, and Uzbekistan). The total was twice the annual average of \$1.5 billion in 2002–2006.



About 66% of sovereign approvals (70% including nonsovereign approvals) involved ordinary capital resources (OCR), and the other 34% (30% including nonsovereign approvals) were Asian Development Fund (ADF) loans and grants. ADF grants totaled \$247.4 million (Table 13). Lending operations started in Armenia in the transport and water supply sectors. The transport, finance, and energy sectors have the biggest share of the program.

Pakistan continued to be the main client, with six sovereign loan projects and one non-sovereign loan project valued in total at \$2.0 billion. Lending to Pakistan targeted greater inclusiveness and access to financial services, policy reforms for capital market development, and improved government efficiency. Lending was also directed at providing \$400 million in long-term investment financing to clear bottlenecks in transport and to support energy, irrigation, and earthquake rehabilitation projects.

Two multitranche financing facilities (MFFs) for \$1.4 billion were approved: one for the Azerbaijan road network development and another for the Pakistan trade corridor highway program (Table 12). The second tranche of a Pakistan power transmission MFF was also approved. These projects represented ADB's continuing effort to adopt a programmatic approach to doing business.

HIGHLIGHTS

- Made major advances in regional cooperation on trade policy, transport, and energy, under the Central Asia Regional Economic Cooperation (CAREC) Program; CAREC participating countries approved a regional transport and trade facilitation strategy
- Invested more than \$1.1 billion in transport infrastructure, including regional road projects in Central Asia and the National Trade Corridor Highway in Pakistan
- Helped Central Asian governments prepare a framework agreement, binding the countries involved to share water resources on the Syr Darya River, and created the Chu Talas Joint River Commission for bilateral cooperation in transboundary water management, with the help of the governments of Kazakhstan and the Kyrgyz Republic
- Extended the first loans to Armenia for rural roads and water supply
- Strengthened accounting and auditing standards in Pakistan and supported provincial reforms under the resource management programs in Balochistan and Punjab
- Greatly improved portfolio quality, with the nonperforming portfolio restructured and 22 sovereign loans closed; increased contract awards by 17% and disbursements by 22%, and greatly reduced at-risk projects

Nonsovereign operations reached record levels in 2007, in line with the transition of the subregion to a market economy and efforts to develop the private sector. ADB's nonsovereign approvals in the region totaled \$642.8 million (Statistical Annex 10).

Georgia joined ADB, and an interim operational strategy was prepared for the country. For the Kyrgyz Republic, ADB and four other development partners—the Department for International Development of the United Kingdom, Swiss Cooperation, United Nations agencies, and the World Bank Group—drew up a joint country support strategy. Country partnership strategies were prepared for Afghanistan and Pakistan.

PORTFOLIO MANAGEMENT

ADB spent much time and resources managing its 129 ongoing loan projects in the region. A hugely important “spring cleaning” exercise in Pakistan resulted in the closing and cancellation of loans for slow-moving and problem projects. ADB stepped up work on contract awards and disbursements and kept a watchful eye on projects at risk. By year-end, it had exceeded the year's targets for contract awards (\$1.4 billion, or 113%) and

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TABLE 12 Central and West Asia: Assistance by Country, 2007
(\$ million)

Country	Loans				Credit Enhancements			Grants		
	OCR	ADF	Total ADB	Official Cofinancing ^a	Guarantees ^a	Syndications ^a	Equity Investment	Grant-Financed Projects ^b	Technical Assistance Grants ^c	Multitranche Financing Facility ^d
Afghanistan	–	–	–	–	–	–	–	188.8	4.5	–
Armenia	–	66.6	66.6	–	–	–	–	–	0.9	–
Azerbaijan	246.0	10.0	256.0	–	–	–	–	–	–	500.0
Georgia	25.0	–	25.0	–	–	–	–	–	0.1	–
Kazakhstan	100.0	–	100.0	–	225.0	–	–	–	0.7	–
Kyrgyz Republic	–	15.0	15.0	–	–	–	–	53.6	1.7	–
Pakistan	1,565.0	454.8	2,019.8	–	44.0	–	22.8	32.0	20.2	900.0
Tajikistan	–	71.7	71.7	3.5	–	–	–	22.8	3.3	–
Turkmenistan	–	–	–	–	–	–	–	–	0.2	–
Uzbekistan	96.0	30.0	126.0	–	–	–	–	–	1.4	–
Regional	20.0	–	20.0	–	–	–	–	–	–	–
Total	2,052.0	648.1	2,700.1	3.5	269.0	–	22.8	297.2	32.9	1,400.0

– = nil, ADF = Asian Development Fund, OCR = ordinary capital resources.

Note: (i) For reference to sovereign and nonsovereign approvals, see Statistical Annex 1 (Sovereign and Nonsovereign Loan Approvals by Country) and Statistical Annex 10 (Nonsovereign Approvals and Total Project Costs by Country). (ii) Loans and grants include those that are officially cofinanced by external sources, and fully or partially administered by ADB. (iii) Totals may not add up because of rounding.

a For reference, see Tables 6a and 6b (Direct Value-Added Cofinancing Arrangements).

b For reference, see Statistical Annex 2 (Grant-Financed Project Approvals by Country).

c For reference, see Statistical Annex 17 (Technical Assistance Grants). Excludes regional technical assistance grants.

d Multitranche financing facilities are facilities that will give rise to loans. Loans arising from the facilities are included under loans when approved by ADB.

TABLE 13 Central and West Asia: Grant-Financed Project Approvals by Country, 2007
(\$ million)

Country	ADF	PEF	Other Sources ^a	Total
Afghanistan				
Road Employment Project for Settlement and Integration of Returning Refugees and Displaced Persons (Supplementary) ^b	–	–	12.8	12.8
Road Network Development 1	176.0	–	–	176.0
Kyrgyz Republic				
Improving Livelihoods of Rural Women through Development of Handicrafts Industry	–	–	2.0	2.0
Southern Agriculture Area Development ^b	5.0	–	–	5.0
Vocational Education and Skills Development	10.0	–	–	10.0
Improving Access to Quality Basic Education for Children with Special Needs	–	–	1.0	1.0
Tax Administration Reform and Modernization	10.0	–	–	10.0
CAREC Regional Road Corridor Improvement (Kyrgyz Republic and Tajikistan) ^b	25.6	–	–	25.6
Pakistan				
Microfinance for the Poorest	–	–	2.0	2.0
Earthquake Emergency Assistance (Supplementary) ^b	–	30.0	–	30.0
Tajikistan				
Rural Development ^b	8.3	–	–	8.3
Sustainable Access for Isolated Rural Communities	–	–	2.0	2.0
CAREC Regional Road Corridor Improvement (Kyrgyz Republic and Tajikistan) ^b	12.5	–	–	12.5
Total	247.4	30.0	19.8	297.2

– = nil, ADF = Asian Development Fund, CAREC = Central Asia Regional Economic Cooperation, PEF = Pakistan Earthquake Fund.

a Officially cofinanced by external sources, and fully or partially administered by ADB.

b Grant component of a loan project.

TABLE 14 Central and West Asia: Portfolio Performance Indicators for Sovereign Lending, 2006–2007

Country	No. of Ongoing Loans (as of Dec 2007)	Contract Awards/Commitments		Disbursements		Loans at Risk	
		2007 (\$ million)	2006 (\$ million)	2007 (\$ million)	2006 (\$ million)	2007 (%)	2006 (%)
Afghanistan	11	121.9	44.4	95.6	67.2	–	9.1
Armenia	2	–	–	–	–	–	–
Azerbaijan	7	30.6	20.7	14.5	4.1	28.6	40.0
Kazakhstan	3	6.1	–	2.6	2.4	–	–
Kyrgyz Republic	10	41.7	36.9	29.8	42.8	–	10.0
Pakistan	66	1,117.5	1,048.4	990.5	790.2	6.1	12.5
Tajikistan	14	57.9	28.3	38.3	35.2	–	8.3
Uzbekistan	16	59.1	49.3	51.4	59.3	–	11.8
Total	129	1,434.8	1,227.9	1,222.7	1,001.4	4.7	12.2

– = nil.

Note: Totals may not add up because of rounding.

disbursements (\$1.2 billion, or 120%), and “projects at risk,” at 5%, were at an all-time low. ADB redoubled its efforts to close overdue technical assistance projects in close coordination with project consultants and the Controllers Department. Teams communicated constantly with consultants and firms, setting deadlines to conclude pending financial transactions.

Innovations were introduced to improve portfolio management. These included early warning systems (i.e., implementation issues anticipated, given past performance and the changing environment); a new policy of not extending loans or technical assistance automatically, especially to those with no chance of meeting

targets on time and within budget; a division workload audit to clarify accountabilities and responsibilities, maintain transparency, and plan the delegation of projects to resident missions; and a joint venture of headquarters and resident missions that builds on the synergy between sector expertise and local knowledge for effective loan supervision.

Innovations were introduced to improve portfolio management

TABLE 15 Central and West Asia: Sovereign and Nonsovereign Loan Approvals by Country, 2007
(\$ million)

Country	OCR	ADF	Total
SOVEREIGN			
Armenia			
Rural Road Sector	–	30.6	30.6
Water Supply and Sanitation Sector Project	–	36.0	36.0
Azerbaijan			
Road Network Development Program (Subproject 1)	190.0	10.0	200.0
Kyrgyz Republic			
Southern Agriculture Area Development	–	15.0	15.0
Pakistan			
Sindh Coastal Community Development	–	36.0	36.0
Earthquake-Displaced People Livelihood Restoration Program	–	400.0	400.0
Second Generation of Capital Market Reform Program	400.0	–	400.0
Capacity Building for Punjab Government Efficiency Improvement	–	8.8	8.8
Punjab Government Efficiency Improvement Program (Subprogram 1)	250.0	–	250.0
National Trade Corridor Highway Investment Program (Subproject 1)	545.0	10.0	555.0
Power Transmission Enhancement Investment Program (Subproject 2)	220.0	–	220.0
Tajikistan			
Rural Development Project	–	8.8	8.8
Khatlon Province Flood Risk Management Project	–	22.0	22.0
CAREC Regional Road Corridor Improvement Project	–	40.9	40.9
Uzbekistan			
Public Finance Management Reform	20.7	–	20.7
Rural Basic Education Project	–	30.0	30.0
CAREC Regional Road Project	75.3	–	75.3
Subtotal	1,701.0	648.1	2,349.1
NONSOVEREIGN			
Azerbaijan			
Debt Financing to Bank of Baku	6.0	–	6.0
Bank Respublika Open Joint Stock Company	10.0	–	10.0
International Bank of Azerbaijan	40.0	–	40.0
Georgia			
Joint Stock Commercial Bank of Georgia	25.0	–	25.0
Kazakhstan			
JSC Kazkommertsbank	50.0	–	50.0
JSC Bank CenterCredit	50.0	–	50.0
Pakistan			
KEESC Postprivatization Rehabilitation, Upgrade, and Expansion	150.0	–	150.0
Regional			
Micro- and Small Enterprise Financing Facility	20.0	–	20.0
Subtotal	351.0	–	351.0
Total	2,052.0	648.1	2,700.1

– = nil, ADF = Asian Development Fund, CAREC = Central Asia Regional Economic Cooperation, JSC = joint stock company, KEESC = Karachi Electric Supply Corporation, OCR = ordinary capital resources.

TABLE 16 Central and West Asia: Cumulative Lending and Disbursements by Country as of the end of 2007 (\$ million)^{a, b}

Country	Lending	Disbursements
Afghanistan	892.3	479.0
Armenia	66.6	–
Azerbaijan	370.0	67.1
Georgia	25.0	25.0
Kazakhstan	726.6	610.7
Kyrgyz Republic	603.5	525.0
Pakistan	18,590.8	12,311.2
Tajikistan	372.5	173.1
Uzbekistan	1,100.9	485.0
Regional	20.0	–
Total	22,768.3	14,676.2

– = nil.

Note: Totals may not add up because of rounding.

a Loan component of regional projects distributed to the countries.

b Includes nonsovereign (public and private sector) loans.

COUNTRY HIGHLIGHTS

Afghanistan

Partnership priorities. ADB and the Government agreed that assistance should continue to center on transport, energy, and agriculture. Such assistance would contribute to the Government's infrastructure development priorities and be fully consistent with the Afghanistan National Development Strategy. Several background assessments were undertaken to prepare for the drafting of the 2008–2011 country partnership strategy.

Impact of operations. ADB resumed operations in Afghanistan only in 2002. Rehabilitation of key sections of the national “ring road,” including connections to neighboring countries, continued to greatly improve domestic transport and facilitate trade and transit between Central Asian countries and the Gulf. Grant funding of \$176 million was provided for continued road development work. ADB invested in energy transmission and distribution networks to increase the supply of electricity to Kabul, and in provision of important links to regional energy producers. The rehabilitation of traditional irrigation works helped expand agricultural production and lay the foundation for improved agricultural management returns and better management of scarce water resources. ADB supported the commercialization of agriculture. Technical assistance contributed significantly to the institutional and capacity development of counterpart agencies, including improved budgeting and overall fiscal management by the Ministry of Finance.

FIGURE 1 Central and West Asia: ADB Lending by Country, 2006–2007 (Sovereign and Nonsovereign) (\$ million)

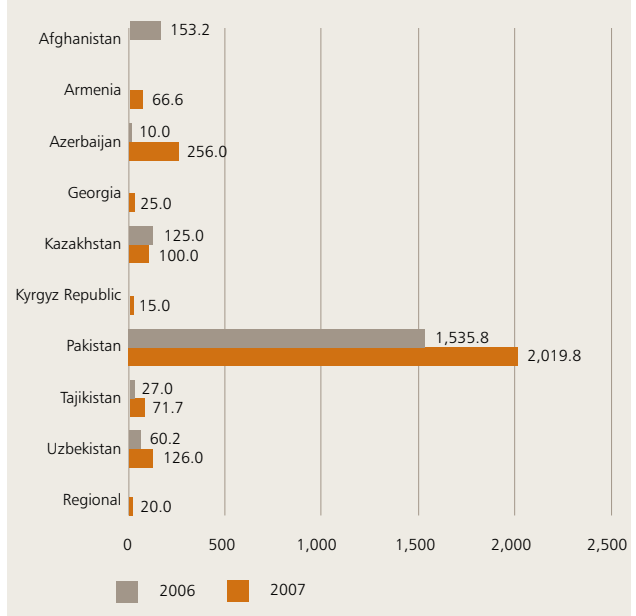
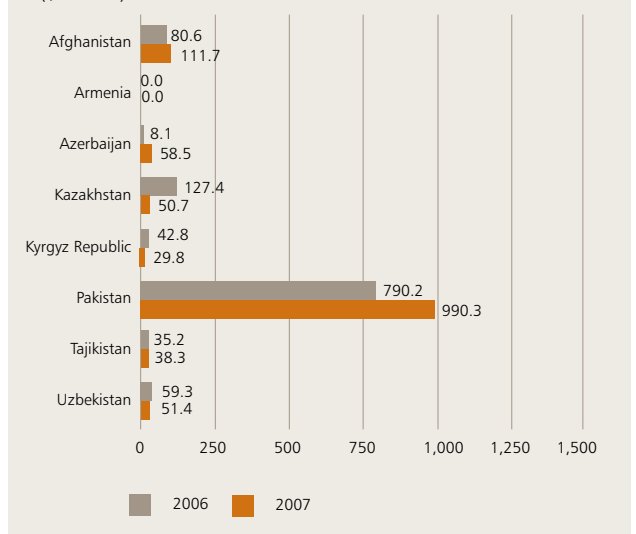


FIGURE 2 Central and West Asia: ADB Disbursements by Country, 2006–2007 (Sovereign and Nonsovereign) (\$ million)



Armenia

Partnership priorities. The strategic priorities are accelerated rural development, private sector participation, and enhanced regional cooperation.

Impact of operations. ADB's operations in Armenia are relatively new. The implementation of the Rural



Road works improved transport and trade in Afghanistan

Road Sector Loan Project and the Water Supply and Sanitation Sector Loan Project will start in 2008.

Azerbaijan

Partnership priorities. ADB significantly increased its private sector operations in the country.

ADB was active in transport sector development. A \$500 million multitranche financing facility for the road network development program marked a new milestone in ADB-Azerbaijan cooperation.

Impact of operations. The ongoing flood mitigation project greatly helped the Government manage recurring floods in the main flood-prone areas, which are inhabited mostly by the poor, providing protection to 5 major towns and 43 villages and supporting the livelihood of about 215,000 people.

Georgia

Partnership priorities. The interim operational strategy was prepared for presentation to the Board in the first quarter of 2008. Likely areas of ADB assistance are municipal infrastructure services, highway network development, energy infrastructure upgrading and development, and private sector development.

Kazakhstan

Partnership priorities. Assistance was extended to private sector development, environmentally sustainable development, and regional cooperation. Private sector operations, which started in 2006, continued to be the core of ADB strategy, complemented by public sector lending programs in rural water supply, irrigation, and transport.

Impact of operations. ADB loans supported water resource management, rural water supply and sanitation, road rehabilitation, and the banking sector.

ADB set up an anti-inflation monetary regime with the National Bank of Kazakhstan. ADB issued its first tenge (T) bonds in the amount of T6 billion (\$50 million), becoming the first supranational issuer of such bonds. The proceeds will be used to develop small and medium-sized enterprises. ADB also helped the Government improve rural living and health conditions through a \$34.6 million loan for basic water supply services and capacity building.

Kyrgyz Republic

Partnership priorities. Under their just-approved joint country support strategy, ADB and other development partners will support the country's development strategy (2007–2010) with \$100 million in ADB assistance to promote environmental sustainability, private sector development, and regional cooperation.

Impact of operations. Overall, ADB's sectoral and thematic focus was in line with the priorities set in the national poverty reduction strategy. ADB's portfolio performance was satisfactory, with a success rate of 95%. Regional road development was a major part of ADB activities, and improved domestic transport connectivity benefiting the country significantly. Most recently, the Almaty–Bishkek road was completed. Three Bishkek–Osh road projects were completed with ADB financing. Work under two ongoing projects will



Iodized salt is tested for a food project in the Kyrgyz Republic

More than Infrastructure



Asylbek Kalimbetov says driving is easier now

For the Kyrgyz Republic, a vibrant Central Asian country of 5 million, the road linking the capital city of Bishkek to the neighboring capital of Almaty in Kazakhstan is much more than infrastructure. Every day thousands of people and vehicles cross the Akzhol–Chu border to trade goods, do business, and visit friends. Since 1998, the volume of traffic on this road has increased by 25% even as exports from the Kyrgyz Republic to Kazakhstan have gone up 160%. The inclusion of this road in the Transport and Trade Facilitation Strategy endorsed at the 6th Central Asia Regional Economic Cooperation Ministerial Conference underlined its importance as a regional transport corridor.

Six days a week for the past 7 years, 47-year-old Asylbek Kalimbetov of Bishkek has worked as a taxi driver, driving clients to Almaty in his car. The recently completed Almaty–Bishkek Road Rehabilitation Project improved 245 km of road—and Asylbek’s livelihood. “Driving has definitely become easier,” he says. “Each trip used to take me 4 or 5 hours. Now it takes only 2 or 3. I can return home by nightfall.”

Asylbek is also saving on his car’s maintenance. The chassis or shock absorbers used to need repair every month or so; now he goes to the shop only twice a year. “I can’t complain about the road or the road workers,” Asylbek says. “The road authorities do a good job. When the road gets icy they spread sand over the dangerous sections to make them less slippery.” In his 7 years as a taxi driver, Asylbek has earned enough to buy a second car and a plot of land, and to send his children to school.

The people of the Lake Issyk-Kul region, a magnificent tourism destination in the heart of Central Asia, have also benefited. A million tourists now come, most of them from Kazakhstan. This is 50% more than the number of visitors in 2005. Jobs are plentiful, not just in the hospitality service sector. There have been major developments as well in accommodations, roads, camping sites, and banking. Tourism contributed 4.3% to the Kyrgyz Republic’s gross domestic product in 2006, up from 2.9 % in 2001. “There are more tourists from Kazakhstan because the Issyk-Kul hotels and resorts provide better services,” Esen Arykbaev, director of Goluboi Issyk-Kul health resort, points out. “And since the Almaty–Bishkek road was rebuilt, travel time has been reduced.”

Every day thousands of people and vehicles cross the Akzhol–Chu border to trade goods, do business, and visit friends

help connect Osh to Kashgar in the People’s Republic of China (PRC), and Dushanbe in Tajikistan.

Pakistan

Partnership priorities. ADB promoted sustained, inclusive, and private sector–led economic growth to create jobs and reduce poverty. Key priority areas were second-generation reforms to improve competitiveness, governance, and financial services; the development of the urban and the rural economies in support of inclusive growth and balanced development; reforms and investment in major infrastructure sectors; and implementation for development effectiveness and results.

ADB strengthened aid effectiveness by leading a capacity-building working group established by the Government and by supporting the harmonization and alignment of approaches to development assistance. A new country partnership strategy was being prepared for Board consideration in 2008 to further strengthen ADB’s long-standing development partnership with Pakistan.

Impact of operations. Disbursements were a record \$990.5 million and contract awards \$1.1 billion, with about 95% of the loans expected to either exceed or meet most of their development objectives. The Second Science Education Project, completed in June, improved access to secondary school science and mathematics



ADB is funding a flood risk management system in Khatlon, Tajikistan

facilities, especially for girls. A women's health project, completed in October, gave women and children better access to health workers, supported the vaccination of women of reproductive age, and improved physical and other facilities for maternal and child health.

The flood protection sector project was supported to improve policy and build capacity to plan, design, and implement flood protection works, and improve flood forecasting, warning, and preparedness systems. The Access to Justice Program, completed in August, engaged civil society in improving justice delivery, strengthening public oversight over the police, and establishing specialized and independent prosecution services.

Tajikistan

Partnership priorities. ADB assistance emphasized rural development and regional cooperation, as well as policy reforms in the agriculture, energy, transport, and social sectors.

Impact of operations. ADB was intensively involved in the road sector, with a transport portfolio consisting of three ongoing loans to rehabilitate the Dushanbe–Kyrgyz Border–PRC road corridor, the recently completed Dushanbe–Kurgan–Tyube–Dangara–Kulyab road rehabilitation project, and a number of technical assistance projects.

Two major loans for agriculture rehabilitation and irrigation rehabilitation projects helped improve irrigation efficiency, enterprise returns, and livelihood. ADB continued to do a significant amount of work on the cotton farm debt issue, including the preparation of the proposed Agri-Cotton Sector Restructuring Program.

Turkmenistan

Partnership priorities. In November, a seminar on ADB operational policies and procedures was held in Ashgabat to familiarize government officials with ADB's country strategy and modes of assistance, project processing and implementation, experience in infrastructure development, and contribution to regional cooperation. Consultations on the development priorities of the Government, and ADB's potential role and assistance in programs and projects, continued.

ADB kept up its support for energy sector development by organizing the first technical meeting on the proposed Turkmenistan–Afghanistan–Pakistan–India Gas Pipeline in Ashgabat in April. ADB also provided regional technical assistance for environmental protection and rural development.

Impact of operations. ADB has not had any lending operations in Turkmenistan.

Uzbekistan

Partnership priorities. The country strategy and program for 2006–2010 defines the four key areas of ADB's assistance: rural development, promotion of private sector development, regional cooperation in transport and trade, and improved social services with

ADB assistance emphasized rural development and regional cooperation

emphasis on early childhood development and basic education.

The ninth country portfolio review—jointly undertaken by ADB, the World Bank, and the Government—identified systemic portfolio performance issues and corrective measures to improve individual project implementation and broader portfolio performance.

Impact of operations. ADB was the largest funder of education in Uzbekistan. Investment of ordinary capital resources in education—about 19% of ADB’s total portfolio in the country—supported, among others, sector

reforms, rehabilitation of schools, curriculum development, introduction of modern information technology, provision of textbooks, and training of teachers.

Under the successfully completed Railway Modernization Project, 341 kilometers of double-track railway between Samarkand and Bukhara were rehabilitated, and modern track and telecommunications equipment was provided. This, together with ADB’s first railway project, led to the development of a fast-train service from Tashkent to Samarkand and from there to Bukhara, improving transport connectivity for both people and cargo.

Rising from the Rubble in Pakistan



A house is rebuilt after the earthquake

Mushtaq Ahmed was collecting firewood on the morning of 8 October 2005 when the earth began shaking around him. Within just a few minutes, the world he had known for years was shattered. “My wife perished in the rubble but then almost everybody in the village lost a dear one. For a moment, I thought it was the end of the world,” the 55-year-old recalls.

The earthquake that obliterated Mushtaq’s village of Lamnia in the lower western ridges of the Himalayas was one of the most debilitating natural disasters to ever strike Asia. More than 75,000 people perished and about 3.5 million were left homeless in mountainous terrain spanning 30,000 square kilometers.

Given the scale of the disaster—and with a brutal Himalayan winter fast approaching—the Government appealed for immediate help in a bid to avert even more loss of life.

Responding to the challenge, ADB pledged \$1 billion for reconstruction and rehabilitation. To date, ADB has committed about \$740.0 million in Asian Development Fund loans and grants, while leveraging another \$180 million in the form of bilateral grant funds for the ADB-funded Pakistan Earthquake Fund and through cofinancing.

“We mobilized support swiftly, assembling a dedicated team which has since been working with the Earthquake Reconstruction and Rehabilitation Authority and counterpart regional and provincial bodies to assess the extent of damage, identify priority areas, and to channel funds for the rehabilitation process,” says ADB country director Peter Fedon.

To rebuild more than half a million destroyed or badly damaged rural houses, more than 400,000 rural grant beneficiaries each received 150,000 Pakistan rupees (about \$2,400). “The decision to let people take charge and build their own houses has paid off,” Shaukat Shafi, senior ADB project implementation officer, says.

ADB has also set aside a total of \$163.5 million for rebuilding more than 1,000 kilometers of roads. To rehabilitate the power sector, about \$9 million worth of contracts for equipment and civil works have been awarded and most of the power and grid stations have now been rebuilt.

Rehabilitation work is also ongoing in education and health. ADB is investing \$110 million to rebuild 454 primary and middle schools. It will provide another \$33.2 million to rebuild hospitals and rural health centers.

Topping up these efforts, ADB is also supporting the restoration of government institutions such as the judiciary and the police, and others that provide special assistance to the earthquake victims.

“The decision to let people take charge and build their own houses has paid off”