

The success of ADB's operations is not gauged solely by its projects and programs, but rather on the outcomes achieved in terms of development effectiveness and sustainability. The ability to identify, measure, and report impact in a timely manner is fundamental to the process of reducing poverty.



## **OPERATIONAL PRIORITIES AND PERFORMANCE**

**W**hen the Asian Development Bank (ADB) rededicated itself to reducing poverty in the Asia and Pacific region, it adopted a strategy for reaching this objective. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy* provided

the direction for all new operations and activities (see [http://www.adb.org/Documents/Policies/Poverty\\_Reduction/](http://www.adb.org/Documents/Policies/Poverty_Reduction/)).

That was 3 years ago. Between then and end-2002, ADB adopted the framework for implementing the strategy in the medium and long term, and supported detailed poverty analyses and intensive stakeholder consultations to provide the database from which to target changes. Poverty reduction issues and targets were agreed upon and integrated into new country strategies and programs and project-level interventions. ADB reclassified its lending, strengthened its operations, and reorganized itself. As part of the reorganization, ADB created a new department—Regional and Sustainable Development Department (RSDD)—to maintain quality and technical excellence across ADB, and to ensure ADB's policies and guidelines are applied consistently in all its developing member countries (DMCs).

In 2002, the Poverty Reduction Strategy continued to guide ADB's work as detailed poverty analyses were completed and several poverty partnership agreements (PPAs) between DMC governments and ADB were signed (see boxes below and at right). Also in 2002, ADB joined the international community in adopting a framework for measuring development progress (see Box on page 36), assessed the implementation process outlined in the strategy, and reviewed the initial results. These developments, as well as ADB's priorities and implementation performance, are examined in this chapter.

#### POVERTY PARTNERSHIP AGREEMENTS

The poverty partnership agreement (PPA)—the mechanism by which ADB and its developing member countries (DMCs) measure and address poverty—describes a DMC's macroeconomic, structural, and social conditions, and outlines a long-term set of goals, policies, and programs for reducing poverty.

Ten DMCs—Cambodia, Cook Islands, Maldives, Marshall Islands, Federated States of Micronesia, Pakistan, Sri Lanka, Tajikistan, Tonga, and Viet Nam—signed PPAs with ADB in 2002. Each PPA concluded to date summarizes the respective government's main vision and strategy for poverty reduction, the role of ADB in assisting that process, the modalities that such assistance will take, and the medium- and long-term goals and targets for poverty reduction that ADB and the government will jointly monitor and assess. *For more on PPAs, see <http://www.adb.org/Poverty/pdf/partnership.pdf>.*

The commitment to review and update a PPA comes from DMCs, which take ownership of the process and program.

## Toward the Millennium Development Goals

As part of its 2000 Millennium Declaration, the United Nations (UN) proposed a set of Millennium Development Goals (MDGs), which in 2002 were endorsed by the

#### REVIEWING THE FIRST PPA

Mongolia was the first ADB developing member country (DMC) to formalize a partnership to reduce poverty. Since March 2000, ADB has conducted two reviews of how the agreement has been implemented. *For more on Mongolia's strategy, see <http://www.adb.org/Documents/CSPs/MON/2002/>.* The reviews helped in updating and refining ADB's strategy and operational program for Mongolia and provided data for the Government's poverty reduction strategy paper (PRSP), finalized in 2002.

The first review, conducted in April 2001, highlighted the coexistence of the income and nonincome aspects of poverty and emphasized the importance of providing essential services to the poor. It also recognized the need for country-adapted targets for achieving the Millennium Development Goals (MDGs). The review pointed out that the MDGs used 1990 as the base year, the year when Mongolia began its transition and when poverty was not considered a phenomenon. The review recommended adjusting the targets used for Mongolia to take this into account. ADB provided technical assistance to help the Government develop more realistic measures of progress against the MDGs. The Government followed recommendations to maintain and increase its commitment to basic physical and social infrastructure by targeting investments in social services and social protection programs.

#### Monitoring progress

The second review, conducted in March 2002, indicated that Mongolia had made progress in achieving the MDGs: infant and child mortality had been reduced, health care had improved, and school enrollment had increased.

The second review also highlighted the importance of economic growth and employment in reducing poverty. Consistent with the conclusions in the Government's draft PRSP and with concerns expressed at the Consultative Group meeting held in Mongolia in July 2002, the second review noted that although access of the poor to essential services had improved, income poverty had remained almost unchanged. The poverty incidence of 36% was almost the same level as in 1995. Concluding that social sector investment alone could not provide a long-term solution to the problem of unemployment-related poverty, the review emphasized the importance of private sector participation in economic growth and employment.

- Goal 1: Eradicate extreme poverty and hunger**  
*Target 1:* Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.  
*Target 2:* Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
- Goal 2: Achieve universal primary education**  
*Target 3:* Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
- Goal 3: Promote gender equality and empower women**  
*Target 4:* Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.
- Goal 4: Reduce child mortality**  
*Target 5:* Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.
- Goal 5: Improve maternal health**  
*Target 6:* Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.
- Goal 6: Combat HIV/AIDS, malaria, and other diseases**  
*Target 7:* Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.  
*Target 8:* Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.
- Goal 7: Ensure environmental sustainability**  
*Target 9:* Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.  
*Target 10:* Halve by 2015, the proportion of people without sustainable access to safe drinking water.  
*Target 11:* By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.
- Goal 8: Develop a global partnership for development**  
*Target 12:* Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system. Includes a commitment to good governance, development, and poverty reduction—both nationally and internationally.  
*Target 13:* Address the special needs of the least-developed countries (LDC)  
 Includes: tariff and quota-free access for LDC exports; enhanced program of debt relief for high-income poverty countries and cancellation of official bilateral debt; and more generous overseas development assistance for countries committed to poverty reduction.  
*Target 14:* Address the special needs of landlocked countries and small island developing states (through Barbados Programme and 22<sup>nd</sup> General Assembly provisions).  
*Target 15:* Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.  
*Target 16:* In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.  
*Target 17:* In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries.  
*Target 18:* In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Source: United Nations. 2001. *Reporting on the Millennium Development Goals at the Country Level: Guidance Note*. October.

international community—ADB included—as a framework for measuring development progress. The MDGs (see *Box above*) are aimed at 8 goals, 18 targets, and 48 indicators for eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria, and other diseases; ensuring environmental sustainability; and developing a global partnership for development. The MDGs emphasize a common and comprehensive development agenda, partnership among stakeholders, country ownership, and a focus on time-bound targets and quantifiable indicators.

Broadly endorsing the MDGs at the UN International Conference on Financing for Development in March 2002 in Monterrey, Mexico, ADB and other multilateral development banks (MDBs) also agreed on the need for better measuring, monitoring, and managing development results. In April 2002, ADB formally adopted the MDGs in its operations.

## ADB's policy framework for reducing poverty

The strategies and policies that guide ADB's efforts at reducing poverty in the Asia and Pacific region were in place in 2002. The Long-Term Strategic Framework (LTSF) 2001–2015 focuses on achieving sustainable economic growth, inclusive social development, and good governance, providing a 15-year plan for ADB's all-out assault on poverty. The LTSF presents several fundamental operating principles for reducing poverty: ensuring DMC ownership of their poverty reduction programs, enhancing strategic partnerships, and measuring development impact (see <http://www.adb.org/Documents/Policies/LTSF>). The Medium-Term Strategy (MTS) 2001–2005 guides ADB's activities in its DMCs. Designed to enhance the development impact of ADB assistance, the MTS advocates ADB's strong commitment to addressing the institutional and policy issues that support its priorities (see <http://www.adb.org/Documents/Policies/MTS/2001/>).

ADB's programming and planning processes reflect the MDGs. The MDGs, along with country-specific poverty indicators, have been reflected in national poverty strategies and have been incorporated into the PPAs and country strategies and programs (CSPs) and CSP updates. ADB is working with its development partners to achieve the MDGs, and is establishing mechanisms for monitoring progress. In 2002, ADB joined the UN ESCAP (Economic and Social Commission for Asia and the Pacific) in developing MDG indicators for Asia and the Pacific.

### **Measuring development effectiveness**

Both the LTSF and the MTS also highlighted the importance of measuring the impact of development, noting that the ability to identify, measure, and report impact in a timely manner is fundamental to the process of reducing poverty. Participation and accountability are promoted when development goals and benchmarks are articulated and when results are regularly monitored. In 2002, ADB continued to harmonize its relevant practices and procedures with those of other multilateral development banks (see <http://www.adb.org/Documents/News/2002/nr2002102.asp> and the *Institutional Matters* chapter). ADB also conducted two studies on implementing and monitoring the development impact of the Poverty Reduction Strategy (see *Box below*). And, ADB implemented a performance-based system for allocating its concessional resources.

The success of ADB's operations is not gauged solely by its projects and programs, but rather on the outcomes achieved in terms of development effectiveness and sustainability. To ensure that ADB's scarce resources effectively contribute to sustainable development and poverty reduction in its DMCs, ADB adopted in 2001, and began implementing in 2002, its performance-based allocation (PBA) policy for Asian Development Fund (ADF) resources.

The PBA system is premised on the understanding that efficient and equitable resource allocation requires an assessment of performance, needs, and absorptive capacity of the recipient DMC. Country performance is evaluated in terms of policy adoption and implementation, not merely outcomes. Needs are measured by per capita gross national product and population size.

The PBA system evaluates the effectiveness of the policies and institutional frameworks in place (divided into policies and framework on sustainable economic growth, socially inclusive development, and governance and public sector management), and the quality of portfolio performance.

Annual performance assessments were reflected in the allocations in the CSPs in 2002. However, performance criteria, indicators, and guidelines for performance assessment will continue to be refined and improved. *For more on the PBA system, see [http://www.adb.org/Documents/Policies/ADF/Performance\\_Based\\_Allocation/performance0900.asp](http://www.adb.org/Documents/Policies/ADF/Performance_Based_Allocation/performance0900.asp).*

### **Thematic priorities**

ADB worked in 2002 toward integrating into its operations several strategic areas and themes it had adopted in the LTSF: inclusive social development (including gender and development, social protection, participatory development, indigenous peoples, and involuntary resettlement); environmental sustainability; governance and capacity building; regional cooperation; and private sector development. Several other crosscutting themes, also featured in the MDGs, received attention: financial management, information and communication technology, and civil society, including nongovernment organizations (NGOs).

Ten thematic committees were formed in 2002 for developing best practices for project operations and formulating guidelines for staff. Each committee and its

#### MEASURING DEVELOPMENT IMPACT

Measuring development impact is fundamental to the process of reducing poverty. In 2002, ADB conducted two studies to assess how the development impact of the Poverty Reduction Strategy was being monitored.

In the first study, ADB examined the efficacy of its loan classification system in tracking whether the typology of loans approved in 2001 had addressed ADB's target of channeling at least 40% of lending resources to poverty interventions. Concluding that the system did not accurately reflect the range of support for poverty interventions, the study highlighted the need for

a more refined methodology for linking assessment to probable results, and provided the groundwork for further improving the monitoring system.

The second study reviewed how the Poverty Reduction Strategy had been implemented in developing member countries (DMCs) receiving Asian Development Fund assistance. Preliminary results indicate that although process-outputs are discernible, time and sustained effort are needed for greater development impacts. National poverty reduction strategies need to be integrated into the respective DMCs' broader macroeconomic framework

and development program. Poverty definitions, measurements, and monitoring systems are being included in target-driven development planning, but the institutions collecting and evaluating the data need to be strengthened if performance indicators are to be meaningful. Although links are evident among poverty reduction targets, the Millennium Development Goals, and ADB's assistance pipeline, these could be improved. Ongoing efforts are being directed at incorporating better baseline data with indicators that can monitor objectives. *For more on ADB's studies, see <http://www.adb.org>.*

- Poverty  
(<http://www.adb.org/about/poverty.asp>)
- Social Development, Gender, and Social Protection  
(<http://www.adb.org/about/social.asp>)
- Environment  
(<http://www.adb.org/about/environment.asp>)
- Governance and Capacity Building  
(<http://www.adb.org/about/governance.asp>)
- Private Sector Development  
(<http://www.adb.org/about/private.asp>)
- Financial Management  
(<http://www.adb.org/about/financial.asp>)
- Information and Communication Technology  
(<http://www.adb.org/about/information.asp>)
- Regional Cooperation  
(<http://www.adb.org/about/regional.asp>)
- Nongovernment Organizations and Civil Society  
(<http://www.adb.org/about/nongov.asp>)
- Economics  
(<http://www.adb.org/about/economics.asp>)

interdisciplinary network of staff are tasked to encourage professional development and ensure quality output; and consolidate, monitor, and report on the knowledge products and services in the thematic area. *The thematic committees and links to their web sites are shown in the box above.* Nine sector committees were also formed in 2002 (see discussion on page 52).

### Poverty

Poverty continues to plague the Asia and Pacific region, affecting close to 900 million people, or two thirds of the poor in the world. Although much more needs to be done to make the region free of poverty, several DMCs made significant progress in 2002 in reducing poverty and improving the lives of their citizens. Several South Asian DMCs—Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka—completed their poverty analyses in 2002; in the Pacific and Central Asia DMCs, the process is ongoing. Several DMCs also formulated national strategies for reducing poverty after conducting extensive country consultations involving representatives from government, civil society, private sector, and the development community. The consultation process ensured that the voices of the poor were heard, and participation encouraged ownership of the process.

Consultations played a role in helping the Government of Papua New Guinea (PNG) formulate its PPA. The Government's In-House Committee of the Department of National Planning and Rural Development, the Special Committee, and the Poverty Task Force held community-level consultations, workshops, and interviews in 18 communities. The process revealed common perceptions and identified community priorities for poverty reduction, and the participatory approach encouraged PNG ownership of the process and the outputs.

In the 2002 project pipelines, several developing member countries featured initiatives that will promote increased expenditure on the social sectors within the context of broader economic investment programs. Bangladesh invested in a new social protection program for disadvantaged women and children. India introduced participatory and pro-poor fiscal and administrative reforms to improve provincial-level governance in delivering basic services to the poor and marginalized in Kerala State. Nepal supported six new project proposals over 3 years to increase food security for the poor in the insurgency-challenged rural sector. Pakistan deepened governance reform through the Decentralization Support Program to build the capacity of provincial and local governments in delivering efficient, equitable, and accountable use of public resources to the poor. Sri Lanka helped poor refugees return to their home communities in the aftermath of civil conflict in the northern and eastern parts of the country.

Elsewhere in the region, the 2002 initiatives focused on aligning new loan and technical assistance project proposals to country-specific poverty reduction targets as articulated in the poverty partnership agreements (PPAs) (see page 35).

In the Mekong countries (Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam), new road infrastructure and agricultural development investments are designed to link poor communities in the border and remote areas to the mainstream economies.

In Southeast Asia, both Indonesia and the Philippines have PPAs that support site-specific poverty reduction initiatives by devolving resources to the local governments. In 2002, implementation of these strategies focused on strengthening the fiscal and institutional capacity of local governments to service loan resources for such projects.

Indonesia will strengthen the governance capacity of district governments, while a technical assistance project will develop a modality for onlending concessional and nonconcessional resources to regional governments. A second technical assistance project is setting up a monitoring and evaluation system for assessing the implementation performance of regional governments.

In the Philippines, technical assistance was approved for setting up a system for performance-based public resource allocation for local government poverty reduction programs and to test revenue-generating approaches that would allow local governments to sustain projects delivering social services.

In the People's Republic of China (PRC), ADB-sponsored workshops and training aimed to broaden the skills of government officials and villagers in participatory planning approaches. The PRC Government began testing a

participatory strategy involving the poor at the village level to define poverty as they perceive it, and thus combine nonincome poverty with income measures to hone the targeting strategy. Progress was evident in the PRC's efforts to reduce poverty. Although the number of poor was still large in absolute numbers, in relative terms, the proportion of the poor below the poverty threshold—whether the Government's poverty line or the international standard of \$1 a day earning per person was used—had declined in relative terms.

ADB worked closely with its DMCs in 2002 to better understand the causes of poverty and to set goals that can be achieved together (see *Box at left*). ADB also worked closely with its development partners, investing in human and physical capacities that will promote equitable growth, build the skills of people, and help governments function efficiently and prudently.

### **Social development, gender, and social protection**

Poverty can be reduced only when programs promote socially inclusive development. This means supporting the disadvantaged and vulnerable members of society by providing them with access to basic services such as education and health care, creating opportunities for their economic empowerment, and giving them a voice in decisions affecting their lives. In the Asia and Pacific region, supporting the poor and most vulnerable groups means removing gender disparities; improving the lives of indigenous peoples in remote communities; and providing social protection to marginalized and disadvantaged groups against illnesses, natural disasters, and civil conflicts.

Within the reorganized ADB, four networks—gender and development, social protection, participatory development, and involuntary resettlement—promote inclusive social development. The Social Development, Gender, and Social Protection Committee serves as an anchor to the networks.

**Gender and development:** ADB's commitment to the internationally endorsed MDGs underscored its objective of addressing gender issues and reducing the gender gap. The commitment also placed renewed emphasis on the need for ADB to promote gender equity if ADB is to realize its vision of a region free of poverty.

Several activities in 2002 bolstered ADB's efforts to promote gender equity, and others provided evidence of ADB's commitment (see *Box below*). An interim progress report on the implementation of the 1998 Gender and Development Policy, submitted to the Board of Directors in 2002, noted the progress achieved in addressing gender

#### ENHANCING GENDER AND DEVELOPMENT

The number of loans classified in the gender category doubled in 2002 to 12 loans, from six loans in 2001. The loans covered a range of sectors such as governance, infrastructure, health, education, water supply, and rural development.

ADB approved the second phase of a regional technical assistance—*Enhancing Gender and Development in DMCs*—in 2002, following the success of the first project. In the first project, locally recruited gender specialists were placed in six resident missions—Bangladesh, Indonesia, Nepal, Pakistan, Uzbekistan, and Viet Nam—to assist with gender capacity building of executing agencies and increase the portfolio of ADB activities that focused on gender. Under this new phase, three additional resident missions—Afghanistan, Cambodia, and Sri Lanka—will be allocated gender specialists (see <http://www.adb.org/gender/regional/gjsr001.asp>).

Also in 2002, ADB approved advisory technical assistance in support of national gender policies and strategies for Indonesia, Pakistan, and Viet Nam.

#### IMPROVING THE STATUS OF RURAL WOMEN

The face of poverty in Bangladesh is the face of rural women. It is in the rural areas where gender inequalities are most pronounced, where the head of the household is most often a woman who has limited access to the mainstream of rural economy, and where basic services are lacking and access to education, health, and economic activities is low.

ADB—committed to improving the status of women—is addressing the needs of these rural women in its Rural Infrastructure Improvement Project (see <http://www.adb.org/Documents/Profiles/LOAN/31304013.ASP>). Although not classified as a gender project per se,

the project objectives are to reduce rural poverty through sustainable economic growth, rural development, and improved infrastructure, which will benefit women.

The project addresses the need for increased participation of women in community-based activities and decision making. Nongovernment organizations will help mobilize local women for active participation in local governance. Women will also be trained in business management, infrastructure management and maintenance, and other income-generating activities. Linkages with microfinance institutions will be explored to enable shop owners to avail of capital.

Gender-specific interventions to empower women and increase their participation in development include the construction of separate toilets with water and sanitation facilities, women's private corners in the market for use in emergencies, and separate seating arrangements for women ward members in the Union Council complex. In addition, about 30% of the estimated 100,000 person-years created for unskilled laborers will be for women construction and road maintenance workers, which will lead to an added benefit—gender-based wage disparity in the construction industry will be reduced.

equity in ADB's portfolio of activities (see [http://www.adb.org/Documents/Reports/Gender/in317\\_02.pdf](http://www.adb.org/Documents/Reports/Gender/in317_02.pdf)). The reports also identified further improvements and actions, particularly the need to increase the number of loans directed toward gender equity objectives (see *Box on page 39*).

ADB's External Forum on Gender (EFG), established in 2001, held two sessions in 2002 and conducted two in-house seminars for staff on Gender and Postconflict Reconstruction and Gender, Macroeconomics, and Trade (see <http://www.adb.org/Gender/forum.asp>). The EFG consists of experts on gender and development and women's rights from several ADB members, representing various disciplines and perspectives. As an external group, the EFG provides ADB with opportunities to tap into current thinking on gender issues and to dialogue on emerging gender concerns in the region.

For more on gender and development, see <http://www.adb.org/Gender/>.

**Social protection:** A progress report on the implementation of the Social Protection Strategy (see <http://www.adb.org/SocialProtection/strat.asp>)—submitted to the Board of Directors in 2002—indicated that a significant number of ADB loans have been designed to address social protection concerns. Several loans have aimed to help eliminate labor standard violations, and have focused on improving living conditions of former bonded laborers, reducing child labor by retaining children in school, and promoting occupational health and safety in the workplace (see *Box below*).

In addition, ADB held several social protection workshops and training seminars in 2002. A regional

## INTEGRATING ANTITRAFFICKING CONCERNS

In 2002, ADB completed a year-long regional technical assistance study on Combating Trafficking of Women and Children in South Asia, involving Bangladesh, India, and Nepal (see [http://www.adb.org/Documents/Guidelines/Combating\\_Trafficking/](http://www.adb.org/Documents/Guidelines/Combating_Trafficking/)). The study identified the key entry points for ADB to integrate antitrafficking concerns into its poverty-reducing operations at the regional, country, and project levels, and recommended that ADB sharpen its operational focus on vulnerable women and children through social protection; sustainable livelihood development; and improved access to health, education, and legal assistance.

For example, ADB loans that are likely to accelerate movement of people, such as large-scale infrastructure construction projects, can include measures to prevent human trafficking and HIV/AIDS. Likewise, regional economic cooperation programs involving trade, tourism, and transport can address the potential impact on cross-border regional human mobility and trafficking. In Cambodia, the magnitude of trafficking women and children was included as one of the indicators to be monitored in its poverty partnership agreement.

workshop focused on the role of labor standards—particularly those related to child labor, occupational health and safety, and gender discrimination in the workplace—in broad-based development. The Regional Workshop on Disability and Development looked at rehabilitation strategies to maximize the functional capabilities of physically challenged persons, inclusion and empowerment strategies to facilitate their active participation in communities and economies, architectural and design strategies to remove and prevent physical barriers, supporting and engaging in constructive arrangements with physically challenged persons' organizations, and formulating strategies that provide cost-effective technologies to assist the physically challenged (see [http://www.adb.org/Documents/Events/2002/Disability\\_Development/](http://www.adb.org/Documents/Events/2002/Disability_Development/)).

ADB's policy framework on good governance, gender and development, and social protection, and its practice of encouraging public consultation and community participation provide the mandate and the instruments to engage more effectively in combating trafficking. ADB's partnerships with various organizations, including the International Organization for Migration, the International Labour Organization, and many bilateral agencies and nongovernment organizations, are also helping address key elements of the challenge (see *boxes on page 6 and at right*).

Also in 2002, ADB's social protection network was established and a social protection web site (see <http://www.adb.org/SocialProtection/>) was launched.

**Participatory development:** ADB saw progress in 2002 in its efforts to engage stakeholders in participatory decision-making processes, by enhancing the degree of horizontal communication, learning, and team-based problem solving. ADB emphasized participatory development in the reorganization and new business processes and in several workshops and functions involving staff members from the resident missions and headquarters. Staff members benefited from "just-in-time" training on projects being prepared by project and country teams (see *Glossary*). Awareness of the participatory process was enhanced with a special edition of ADB's newsmagazine, *ADB Review*, which featured case studies and essays on social capital and participation in governance (see [http://www.adb.org/Documents/Periodicals/ADB\\_Review/2002/vol34\\_2/](http://www.adb.org/Documents/Periodicals/ADB_Review/2002/vol34_2/)), and an essay on the various modalities of participation.

ADB completed its evaluation of the second regional technical assistance on Capacity Building and Participatory Activities in 2002, which showed the importance of employing participatory approaches not only during project planning but also throughout project implementation, monitoring, and evaluation.

**Indigenous peoples:** ADB continued to strengthen the implementation of its 1998 Policy on Indigenous Peoples (see [http://www.adb.org/Documents/Policies/Indigenous\\_Peoples/](http://www.adb.org/Documents/Policies/Indigenous_Peoples/)) by monitoring ADB's project compliance with this safeguard policy (see *page 43*). Twenty-seven of the 82 projects (33%) reviewed involved indigenous peoples, of which 3 projects required indigenous peoples development plans, 7 required indigenous

## PROMOTING NETWORKS

To promote internal and external networks and partnerships, and further strengthen staff capabilities, ADB held a seminar in 2002 on social protection for the poor in Asia and Latin America in collaboration with the Inter-American Development Bank (IADB) and the ADB Institute. The seminar brought together social protection experts and practitioners from IADB, International Food Policy Research Institute, International Labour Organization, International Social Security Association, United Nations Research Institute for Social Development, World Bank, and nongovernment organizations such as the Save the Children Fund and Self-Employed Women's Association (see <http://www.adb.org/Documents/Events/2002/SocialProtection/>).

Also in 2002, ADB hosted the second regional International Confederation of Free Trade Unions–Asian and Pacific Regional Organization (ICFTU–APRO), which focused on potential partnerships between labor unions and international financial institutions. Discussion at this event centered on efforts to combat poverty; promote employment; and involve stakeholders in policy design, monitoring, and implementation (see [http://www.adb.org/Documents/Events/2002/ICFTU\\_APRO/](http://www.adb.org/Documents/Events/2002/ICFTU_APRO/)).

## POVERTY FUND

The Poverty Reduction Cooperation Fund, established in July 2002 by the United Kingdom's Department for International Development, assists ADB's learning in reducing poverty in its developing member countries by supporting policy dialogue and strategy formulation on poverty reduction; developing new poverty-reducing programs and projects; monitoring and assessing the impact of poverty reduction efforts; supporting pilot poverty reduction project design; and promoting broad stakeholder consultation at all stages of project design and implementation.

peoples development frameworks, and 17 required specific actions. ADB also provided training for project implementers in DMCs to strengthen their capacity to address indigenous peoples issues.

In 2002, ADB participated in local and global discussions on safeguarding the interests of indigenous peoples and published several monographs and books dealing with issues related to indigenous peoples/ethnic minorities and poverty reduction (see [http://www.adb.org/Documents/Reports/Indigenous\\_Peoples/](http://www.adb.org/Documents/Reports/Indigenous_Peoples/)). ADB also took part in an international conference to review the European Union's Policy on Indigenous Peoples and in the International Policy Dialogue organized by the German Foundation for International Development. In Cambodia, ADB was involved in a discussion of the Government's draft general policy guidelines for development of highland peoples.

**Involuntary resettlement:** ADB reviewed the compliance (see page 43) of loans processed in 2002 with its 1995 Policy on Involuntary Resettlement (see [http://www.adb.org/Documents/Policies/Involuntary\\_Resettlement/](http://www.adb.org/Documents/Policies/Involuntary_Resettlement/)). The review encouraged early screening of projects to assess trade-offs, manage risks, and set standards for resettlement planning and implementation. Thirty-three of the 82 projects (40%) reviewed were found to have involuntary resettlement (IR) impacts that required resettlement plans, resettlement frameworks, or both. Of the 33 projects, 21 had significant IR impacts, 9 had insignificant impacts, and 3 projects required resettlement frameworks.

In 2002, ADB assisted DMCs in developing national resettlement policies and helped build the capacity of executing agencies in implementing social safeguards and resettlement management. ADB held a Regional Workshop on National Resettlement Policy Enhancement and Capacity Building in February 2002 to discuss national resettlement standards and issues on resettlement planning and implementations (see <http://www.adb.org/Documents/Events/2002/RETA5935/>). Government agencies, civil society including NGOs, funding agencies, and multilateral financial institutions from 11 countries attended the workshop. ADB also implemented country-specific technical assistance to enhance national resettlement policy standards in Lao People's Democratic Republic, Sri Lanka, and Viet Nam (see <http://www.adb.org/resettlement/activities.asp>) and expanded its web site on resettlement (see <http://www.adb.org/resettlement/>).

**Environment**

In 2002, ADB's Environment Policy (see <http://www.adb.org/Environment/envpol/>) was approved by the Board of Directors; ADB was given direct access to Global Environment Facility (GEF) resources (see *Box on GEF resources on page 44*); the environmental assessment guidelines were updated in line with the new Policy; and SPC requirements for the environment were institutionalized. Also, ADB continued to promote environmentally sustainable development by mainstreaming environment in poverty analyses, country programming, and lending and technical assistance operations.

Thirteen loans with major environmental objectives totaling about \$700 million were approved in 2002. Several loans aim to improve the natural resource base on which many of the poor depend for livelihood and sustenance. Other loans ensure that the poor will have better access to improved water sources and sanitary facilities, and clean air. Such amenities will help protect health, which the poor often consider to be their most precious asset. Other loans protect the poor from the risk of natural disasters, such as landslides and floods, which could adversely affect their health, livelihood, and shelter.

All loans approved in 2002 were reviewed for environmental impacts: 51 environmental assessment reports outlining safeguard measures for environment category A (projects with the potential to have significant adverse environmental impacts) and category B (projects with some adverse impacts) were reviewed by environment

The global commitment to sustainable development was strengthened by the World Summit on Sustainable Development (WSSD), held from 26 August to 4 September 2002 in Johannesburg, South Africa. More than 20,000 participants from 191 governments attended. ADB's delegation was led by President Tadao Chino.

The WSSD identified poverty reduction as the highest priority for sustainable development, and

recognized the need to tackle environment and natural resource degradation as prerequisites for reducing poverty. The Summit also reaffirmed political commitment to the Millennium Development Goals on poverty reduction, water supply, and health, and extended the targets to include sanitation. The WSSD provided a clear focus on the need for regional implementation, coordination, and delivery mechanisms; and placed

special emphasis on partnership initiatives with the private sector and civil society, including non-government organizations.

The themes addressed by the WSSD are contained in ADB's Medium-Term Strategy, and in ADB's country strategies and programs. It is expected that the outcome of the WSSD will be reflected in the national development planning priorities defined by ADB's developing member countries.

In 2002, several projects were designed with the dual objectives of environmental protection and poverty reduction.

In Bangladesh, a clean fuel project was approved to increase the sustainable use and supply of domestic natural gas resources in place of imported liquid fuels for the transport sector. The project will improve ambient air quality in Dhaka and reduce respiratory diseases, especially among the urban poor who are the most vulnerable.

An ADB/Global Environment Facility (GEF) project in the Tonle Sap basin in Cambodia will develop natural resource management coordination and planning, as well as community-based natural resource management and biodiversity conservation.

A project in the People's Republic of China (PRC) will improve the environment and promote economic growth in the rural areas

of Henan, Hubei, Jiangxi, and Shanxi provinces. Funds will be provided to small household farms to develop an integrated farm production system; expand livestock, vegetable, fruit, and other crop production systems; and establish on-farm biogas digesters and biomass gasification plants.

A project in Indonesia will enhance the national and local capacity to manage the country's coral reef resources and rehabilitate and effectively manage priority coral reef ecosystems, thereby raising income levels and improving the living standards of the poorer coastal communities. Another project in Indonesia will expand renewable energy use by about 82 megawatts. This will displace energy generated by fossil fuels (about 480 gigawatts annually) and limit the emission of greenhouse gases.

A project in the Lao People's Democratic Republic will help the Government develop the potential

of the Nam Ngum River basin, one of the country's most vital river basins, by adopting integrated water resource management in the Government's mainstream process. Investment activities in relatively degraded watersheds of the basin will provide sustainable livelihood opportunities for the poor.

Also in 2002, ADB funded projects that would protect the vulnerable poor from the onslaught of natural disasters. A project in Bangladesh will establish cost-effective and sustainable riverbank erosion mitigation measures for the Jamuna and Meghna rivers, as well as support institutions to protect the livelihood of 2 million people living in the vicinity of two flood protection and irrigation schemes. A project in the PRC will help reduce flood damage through integrated river basin management and is expected to improve flood protection in the PRC's third largest river basin, the Songhua River basin.

specialists deployed in the regional departments. In addition, to ensure that the safeguard measures designed for these projects complied with ADB's SPC requirements, environment specialists in the Environment and Social Safeguard Division reviewed project-specific SPC measures and provided additional recommendations. After loan approval, projects were monitored to ensure proper implementation of safeguard measures.

Technical assistance grants were provided for DMC capacity building and establishing improved environment policy and regulatory and institutional frameworks. These technical assistance grants, totaling nearly \$27.5 million, also covered a range of environmental objectives—from

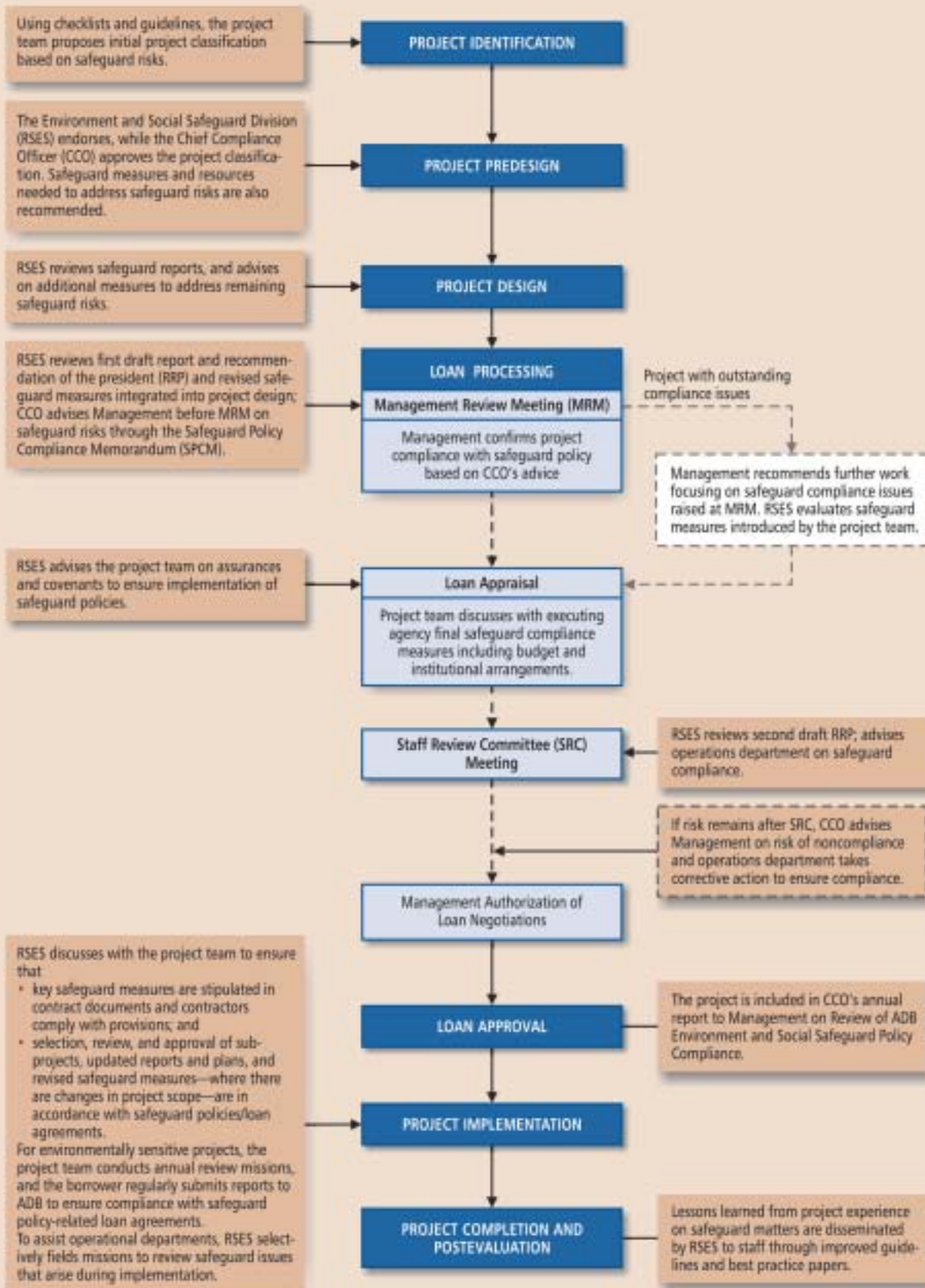
natural resource conservation to environmental quality management.

### ***Governance and capacity building***

ADB recognizes that good governance—one of the three pillars of its Poverty Reduction Strategy—continues to be a sensitive issue for many DMCs, and appreciates that governance issues must ultimately be addressed at the country level. Nevertheless, ADB made progress in 2002 in promoting and supporting good governance in the Asia and Pacific region.

Initially, ADB focused on economic and financial management, particularly on strengthening budgetary

### Safeguard Policy Compliance\*



\* The flowchart describes the activities done for SPC review and monitoring for a typical project.

In October 2002, the Council and Assembly of the Global Environment Facility (GEF) approved ADB's direct access to GEF project resources, which enables ADB to

- identify, prepare, appraise, and implement GEF projects on behalf of GEF;
- submit project proposals for financing to GEF rather than indirectly through an implementing agency; and
- receive project grants directly from the GEF trustee and be accountable for their use.

Recently replenished at a level of \$2.9 billion, the GEF provides grants and concessional resources for projects that address global environmental issues related to climate change, biodiversity, international waters, ozone depletion, land degradation, and persistent organic pollutants.

South Asia's coastal seas have some of the richest, most diverse marine and coastal habitats and species in Asia. These seas also provide an important resource for coastal communities, especially where a substantial proportion of the population is either vulnerable or living in poverty. Coastal zones and watersheds in the region are increasingly being converted for agricultural and urban development, which has led to elevated nutrient levels, sediment loads, and changes in coastal configurations. Many marine species are now threatened.

ADB, the World Conservation Union (IUCN), and the governments of India, Maldives, Pakistan, and Sri Lanka have taken initiatives to address these problems through an 18-month regional technical assistance project. The Coastal and Marine Resources and Poverty Reduction program in South Asia will promote regional cooperation to strengthen the management of environmentally sensitive coastal and marine resources through assistance in policy, regulation, institutions, methodologies, and information management. IUCN is implementing the project.

Participating countries are using integrated coastal zone management (ICZM) as a planning and development tool. By systematically categorizing issues and threats in each country, and developing a compendium of high-priority areas, ICZM plans are being targeted to coastal areas with a concentration of poorer communities. This work will lead to an analysis of institutional and policy barriers and constraints to effective ICZM, study of the interrelationships between poverty and the environment, and, ultimately, a South Asian Regional Strategic Plan of Action.

systems, enhancing public sector management, building capacity in key central ministries, and upgrading technical expertise for lawmaking. More recently, ADB's focus has been on improving governance in its DMCs by encouraging decentralization and devolution of administration to the regional, provincial, and village levels—a strategy that is consistent with ADB's commitment to adopt consultative processes and to help DMC governments be more responsive to civil society. Strengthening local government capacity frequently involves improving the balance between national accountability and local choice in services delivery; helping governments overcome the problems of fragmentation that exist in some big cities; building relationships between public administrations and the private sector; and increasing the representation of the poor in the forums where policies are developed.

Recent world events have increased the spotlight on improving corporate governance and regulatory frameworks in public and private entities. Key constraints to building good corporate governance in the private sector include establishing independent legal entities and selecting the appropriate agents to represent the government. Sound corporate governance and corporate regulatory frameworks are central to reforming public enterprise, but reforms are often resisted. Key constraints include the process of corporatizing and establishing the independent legal entity, and selecting the appropriate agent to represent the government. In many transitional economies, the solution has been to establish a semiautonomous agency and improve its management. The capability and performance of public enterprise boards must also be improved. ADB involves the private sector in drafting good governance laws; works closely with DMCs to establish consistent and predictable commercial laws and regulations; and improves the availability of information, including relevant laws, to ensure that companies are accountable to their shareholders.

ADB's Governance Action Plan (*see [http://www.adb.org/Documents/Policies/Good\\_Governance/](http://www.adb.org/Documents/Policies/Good_Governance/)*), approved in 2000, addresses these concerns.

- Enhancing the quality of governance: Country governance assessments (CGAs) are incorporated into the country strategies and programs (*see Glossary*) and are used to develop measurable objectives for inclusion in the poverty partnership agreements (*see Box on page 35*). ADB also measures governance activities in the performance-based allocation exercise (*see page 37*).
- Elevating good governance: ADB, the ADB Institute, and other regional partners are working to build DMC capacity in key governance areas, including public expenditure management; results-based management; and accounting, auditing, and procurement practices.
- Prioritizing anticorruption: Country-specific and regional technical assistance projects address corruption in general and, at the same time, tackle specific problems such as money laundering.

By pooling their intellectual resources and facilitating opportunities for exchanging information, ADB, the Organisation for Economic Co-operation and Development (OECD), and Asia and Pacific governments are helping build effective anticorruption mechanisms and lay the foundation for a sustained fight against corruption.

The initiative—an Anticorruption Action Plan for Asia and the Pacific—endorsed by 17 regional countries<sup>1</sup> in 2001, adopts an integrated approach to policy making while respecting country differences and without interfering in internal corruption cases.

Activities under the initiative initially focused on capacity and knowledge building, regional cooperation, and action framework development. Since 2001, the focus has been on implementing concrete regional and country-specific anticorruption reforms.

The endorsing countries, which make up the Initiative's Steering Group, met in the Philippines in

2002 to adopt a medium-term strategy and review projects and progress reports submitted by each country.

Four principles guide the initiative's policy work: cementing country ownership, fostering regional cooperation, involving citizens and the business sector, and enlarging the participating group of countries.

**Cementing country ownership:** The endorsing countries have the primary responsibility for addressing corruption. For each implementation cycle of 12–18 months, the countries prioritize a set of national anticorruption reforms.

**Fostering regional cooperation:** Regional steering group meetings provide the venue for the countries to share their self-assessments, discuss progress and lessons learned, and identify additional policy reforms and capacity-building needs. These lessons are disseminated to other countries and key stakeholders in print (see [http://www.adb.org/Documents/Conference/Combating\\_Corruption/](http://www.adb.org/Documents/Conference/Combating_Corruption/); or see the OECD web site at <http://www1.oecd.org/daf/ASIAcom/>), and at biannual regional anticorruption meetings.

**Involving the public:** Countries are encouraged to develop proactive strategies for promoting citizens' participation in anticorruption efforts. To encourage their support and input into national reforms, regional nongovernment organizations and business associations are members of the Steering Group and attend the regional anticorruption meetings.

**Enlarging the participating group of countries:** ADB, OECD, and the Steering Group encourage more regional countries to endorse the Action Plan.

<sup>1</sup> The 17 original members are Bangladesh, Cook Islands, Fiji Islands, India, Indonesia, Japan, Republic of Korea, Kyrgyz Republic, Malaysia, Mongolia, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Singapore, and Vanuatu. Cambodia and Kazakhstan have since endorsed the Action Plan.

In 2001–2002, a total of 25 loans (about 12 loans per year, or 16% of all public sector loans approved during the period) had governance as a primary or secondary thematic priority. During the same period, 65 technical assistance projects (about 32 per year, or 14% of all technical assistance approved during the period) had governance as a primary or secondary thematic priority.

- Supporting good governance partnerships: The Multilateral Development Banks Working Group on Anticorruption, Governance, and Capacity Building meets twice a year by videoconference to coordinate and harmonize work and share best practices. Links with bilateral development agencies are also being strengthened in the governance area (see Box above). The governments of Canada and Norway have signed agreements with ADB to contribute to the Governance Cooperation Fund. The United Kingdom's Department for International Development (DFID) and ADB are establishing a similar collaborative arrangement for mutually supportive objectives in the Pacific.
- Improving ADB's governance ability: The 2002 reorganization and new business processes are aimed at improving ADB's ability to support governance initiatives.

Organizational improvements, including the formation of the Governance Committee and Network, provide the internal mechanisms for sharing information about governance concepts, projects, and strategic oversight.

In addition, ADB monitors its Governance Action Plan and provides feedback to stakeholders. The external web site (see <http://www.adb.org/Anticorruption/other.asp>) has been expanded, and a database is being set up to facilitate rapid dissemination of nonpublished performance data, and to encourage quick follow-up and corrective action.

### Private sector development

DMCs received \$15.6 billion in official flows and \$89.4 billion in private flows in 2000. These figures underline the importance of the private sector in development and the resulting economic growth in Asia.

Support for private sector development is an integral component of ADB's Poverty Reduction Strategy, and private sector development as an engine of growth is a pillar of ADB's LTSF for poverty reduction. Mobilizing the resources required to achieve economic growth necessary for poverty reduction—including providing infrastructure, social services, and employment—needs the active participation of the private sector.

Continued budgetary pressures increasingly lead DMCs to look for private sector investments to stimulate growth and create jobs. Public involvement in the productive

sectors is often not the most effective use of scarce funds, particularly if done at the expense of the social sectors where these funds are truly needed. Private investment and management in properly regulated infrastructure and sustainable social services projects can relieve pressure on public budgets and enable the government to redirect more resources to social spending. Consequently, governments need to shift from playing the role of an owner/producer to becoming a facilitator/regulator to ensure markets work and protect the public interests.

ADB is committed to expanding and facilitating the role of the private sector in its DMCs. With its capacity for both public and private sector operations, ADB is uniquely positioned to effectively promote and foster private sector-led growth. ADB assistance, combined through the public and private sector windows to address private sector development, can deliver synergistic solutions to problems that impede private sector-led growth in DMCs.

ADB has developed two complementary strategies in support of private sector development: the Private Sector Development (PSD) Strategy, approved in March 2000, and the Private Sector Operations: Strategic Directions and Review (PSO Strategy), approved in September 2001 (see boxes at right).

The PSD Strategy represents a systematic and coherent framework within which ADB seeks to promote the private sector to support growth and reduce poverty. This framework provides broad strategic direction for both public and private sector operations in terms of major strategic thrusts and priority areas for private sector development. The PSO Strategy is an operational framework for providing direct financial assistance to the private sector in the context of the broader ADB strategy for private sector development.

The PSD Strategy guides ADB's private sector development activities across a region where the stage and status of private sector development differ widely among DMCs. The actions proposed in the Strategy have to be tailored at the country level to meet the diverse conditions and changing needs of individual DMCs and to maximize their contribution to growth and poverty reduction. In pursuing the goals of the PSD Strategy, ADB conducts private sector assessments to identify constraints to, and opportunities for, private sector development in each DMC and addresses these through strategically planned private sector development operations. The assessments and priority operations identified therein serve as inputs to ADB's country-specific strategies and programs, which are being formulated within the framework of the PSD Strategy. Through these programs, ADB assists DMCs in building and reinforcing the confidence of investors and commercial lenders.

ADB's operations in support of the PSD Strategy range from public to private sector operations and comprise trade and investment facilitation, including customs harmonization to foster cross-border trade; strengthening of the financial sector through financial sector reforms and capital market development programs; state-owned enterprise reforms, including governance and privatization programs; small- and

### *Private Sector Development Strategy*

Development of a strong and dynamic private sector is essential to long-term economic growth, a necessary condition for sustainable poverty reduction. ADB's Private Sector Development (PSD) Strategy (approved March 2000) aims at strengthening the role of the private sector in Asia and the Pacific by addressing the complex challenge of how ADB's public and private sector operations can better promote private sector-led growth. Such a combination requires public sector assistance to pay more systematic attention to private sector interests and concerns, and private sector assistance to promote development impacts in their activities.

The PSD Strategy has three mutually reinforcing strategic thrusts: creating enabling conditions, generating business opportunities, and catalyzing private investment.

**Creating enabling conditions:** The right policy environment is critical for the long-term viability of the private sector. One of ADB's strengths lies in conducting policy dialogue with governments on needed reforms. Under the PSD Strategy, the reform agenda seeks to achieve a stable macroeconomic environment; investment, trade, and price liberalization; reduced barriers to competition; well-functioning financial and capital markets; flexible labor and land markets; appropriate physical, social, and technological infrastructure; equitable tax systems; and legal and judicial systems that protect property rights, enforce contracts, and provide for dispute resolution.

**Generating business opportunities:** Under the PSD Strategy, ADB takes deliberate steps to ensure that, where appropriate in its public sector projects, business opportunities are generated for the private sector, particularly for the domestic private sector. ADB's public sector operations can be formulated to provide specific opportunities in which the private sector can participate. Such opportunities may include model private sector projects designed to include poverty reduction impacts.

**Catalyzing private investments:** ADB provides direct financial assistance to private sector projects. While ADB's participation is usually limited, it leverages a large amount of funds from commercial sources to finance these projects. As a multilateral development organization, ADB does not finance private sector projects based solely on their financial viability. Projects must also have clear development impacts and/or demonstration effects that go beyond the benefits captured in the financial rate of return.

The three strategic thrusts of the PSD Strategy are pursued in four priority operational areas: governance, financial intermediation, public-private partnerships, and regional cooperation.

### *Private Sector Operations: Strategic Directions and Review*

The third thrust of ADB's Private Sector Development (PSD) Strategy (see *Box at left*) is to catalyze private investments through direct financing, credit enhancements, and risk mitigation instruments. ADB performs this function through its Private Sector Operations Department. ADB approved the Private Sector Operations: Strategic Directions and Review (PSO Strategy) in September 2001 to enhance the impact of such operations.

ADB's strategic objective for private sector operations is to increase the flow of capital into and within its developing member countries (DMCs) and, more importantly, to broaden the flow into more countries and sectors. The PSO strategic framework demands a sharper focus on development impact, and emphasizes private sector participation in infrastructure and capital market development, gradual broadening of the country and sector reach, wider use of credit enhancement and other instruments, and strategic alliances with other development agencies.

In its PSO, ADB builds on its existing strengths in infrastructure and capital market development and seeks to assist private sector projects in these two areas in more DMCs. Priorities include infrastructure projects in the energy, water, telecommunications, and transport sectors. In capital markets, ADB emphasizes investments in key market institutions and investment funds that can serve as vehicles for mobilizing resources to finance small-scale infrastructure and small- and medium-sized enterprises. ADB also intends to gradually extend its reach to new sectors, such as education and health care. This is being done selectively on a pilot basis.

ADB provides direct funding assistance through loans and equity investments. In addition, it uses its political risk guarantee and partial credit guarantee instruments to enhance transactions, thus attracting foreign commercial lenders to projects in the DMCs or domestic banks and institutions to stretch the maturities of their local currency loans.

ADB has long enjoyed constructive partnerships with other international financial institutions and development agencies. Such strategic alliances are being intensified to facilitate the knowledge and risk sharing needed to make challenging projects bankable. Joint support by multiple agencies for a given project also gives a strong signal of confidence in the overall country environment and paves the way for further private capital.

Investment officers in the resident missions enhance ADB's private sector activities in-country and help facilitate processing of new projects. More importantly, in-country presence allows closer project administration and risk management, which are critical for sustained operations.

The ADB and Public-Private Infrastructure Advisory Facility (PPIAF) conference on infrastructure development—Private Solutions for the Poor: The Asian Perspective—in October 2002, facilitated discussions on methods for identifying, disseminating, and promoting best practices in pro-poor infrastructure projects; increasing private sector participation in financing, owning, constructing, operating, rehabilitating, maintaining, and managing pro-poor infrastructure activities; and strengthening pro-poor public-private infrastructure partnerships.

The conference was attended by over 160 senior developing member country (DMC) decision makers, including representatives from government ministries and agencies involved in formulating and implementing policy on infrastructure reform; representatives of civil society, including nongovernment organizations working with low-income households and communities to improve infrastructure services delivery; multinational and regional private sector providers and financiers of infrastructure services; and funding agency representatives. *For more on the conference, go to [http://www.adb.org/Documents/Events/2002/Infrastructure\\_Poor/](http://www.adb.org/Documents/Events/2002/Infrastructure_Poor/).* The conference supported ADB's efforts to develop the private sector, and strengthened ADB's cooperation with the PPIAF, which helps DMCs eliminate poverty and achieve sustainable development through private sector involvement in infrastructure.

medium-sized enterprise support; and public-private partnerships in infrastructure, particularly in the power, transport, water, and social sectors.

ADB operates under the principle that DMCs must exercise leadership and ownership of their own development agenda and priorities by demonstrating initiative, commitment, and accountability. Country ownership and leadership in the PSD process require capacity building, as well as continued dialogue and consultation between ADB and key stakeholders. ADB facilitates such exchanges through policy dialogue, workshops, conferences, and training. The highly successful conference on infrastructure development—Private Solutions for the Poor: The Asian Perspective, held at ADB headquarters in Manila in October 2002—is an example (see *Box above*). In addition, ADB's resident missions interact closely with governments, chambers of commerce, and the private sector to facilitate exchanges on PSD.

### **Financial management**

ADB strives to be an effective partner for its DMCs in responding to the challenges of achieving sustained and equitable development, improving the quality of life, and eradicating poverty (see *Box on page 48*).

Development interventions are more effective when implemented within administrative systems that have

An effective partnership between the public and private sectors can increase private sector participation. ADB seeks to harness the partnership between the public and private sectors to promote development, and minimize costs and enhance efficiency in meeting its strategic objectives, particularly in reducing poverty. More private sector investment can be expected in a country if the government creates an effective macroeconomic, regulatory, contractual and institutional environment.

ADB has a comparative advantage among development banks in creating public-private partnerships. It provides both public sector policy and private sector finance. It can discuss policy and regulatory issues with governments and, at the same time, catalyze resources for specific private sector projects.

ADB's Private Sector Development Strategy articulates the importance of public-private partnerships, allowing scrutiny of public sector activities to identify potential areas of private sector operations. ADB

assists governments in moving from owner-producer to facilitator-regulator of certain industries. It also provides help in various government initiatives—upgrading public sector accounting and reporting systems, encouraging corporatization, introducing structural sector reforms, establishing independent regulatory bodies, privatizing public sector bodies, designing concessions for developing new infrastructure, and establishing agencies that help promote small- and medium-sized enterprises.

good public sector management, fully accountable government institutions, and transparent policy-making and implementation procedures. Improving accountability and tracking audit trails will promote such transparency as well as ensure the proper use of funds, minimize corruption, and make a difference in delivering services to the poor. Strengthening public financial management of expenditure and revenue collection is one of the most vital concerns ADB can address to help its DMCs meet the challenges of improving their fiscal discipline, bringing resource allocations in line with development priorities, and creating an enabling environment for public financial managers.

To improve DMC understanding of financial management processes, ADB completed a regional technical assistance for the second phase of a diagnostic study of accounting and auditing practices in five DMCs. An international workshop was conducted and action plans were published and distributed to the respective DMCs for implementation (see [http://www.adb.org/Documents/Books/Diagnostic\\_Study\\_Accounting\\_Auditing/](http://www.adb.org/Documents/Books/Diagnostic_Study_Accounting_Auditing/)). Also, in 2002, ADB disseminated its new *Guidelines for the Financial Governance and Management of Investment Projects Financed by ADB* (see <http://www.adb.org/Documents/Guidelines/Financial/>) and conducted two in-house training workshops—one for financial analysts and the other for mission leaders.

Although ADB is not directly involved in the joint International Monetary Fund and World Bank Financial Sector Assessment Program (FSAP) and Reports on

As a member of the working group on harmonization of financial management practices among the multilateral development banks (MDBs), which was endorsed by the presidents of the MDBs in 2001, ADB joined the Inter-American Development Bank, European Bank for Reconstruction and Development, World Bank, and others in developing good practice papers on financial reporting. The three areas studied for possible harmonization were affordability, tariffs, and subsidies; financial management assessment, reporting, and auditing; and financial covenants and ratios. Based on the summary reports prepared in 2002 for each area, the MDBs are expected to determine the policy and procedural changes necessary to implement these recommendations. Also, in 2002 there was positive progress in the ongoing pilot-testing of the Viet Nam country harmonization activities involving ADB, World Bank, the Japan Bank for International Cooperation, and the Government.

ADB undertook several initiatives in 2002 to support improved financial management and governance arrangements both internally and externally.

In 2002, ADB carried out 34 technical assistance projects totaling nearly \$19.5 million, involving financial management activities. The significant outputs of these projects include the development of the accounting profession, training

in accounting and auditing, development of accounting regulations/procedures/policies, establishment of common accounting and auditing standards, and support for the implementation of anti-money laundering legislation. Nine technical assistance projects totaling \$2.8 million were for regional activities. The rest were country-focused on 11 developing member countries.

For example, a project in Cambodia will strengthen public financial management, and another in the People's Republic of China aimed to strengthen the government auditing system. In the Lao People's Democratic Republic, a project enhanced government accounting regulations and procedures; and in the Philippines, a project strengthened regulatory and market governance.

Observance and Codes, ADB's financial sector and corporate governance work in its DMCs provides input for the FSAP. In 2002, the FSAP for the Kyrgyz Republic benefited from the technical assistance program launched by ADB as part of the Financial Intermediation and Resource Mobilization loan, the ongoing Corporate Governance and Enterprise Restructuring loan, and technical assistance supporting these loans. ADB helped review several laws, including the central bank law, the commercial banking law, insolvency law, and joint stock company law. ADB's assessment of issues in banking regulation and supervision, problems with the nonbank sector, and the judicial system in debt and corporate resolution have all contributed to furthering the understanding in the Kyrgyz Republic of financial sector assessment.

### **Information and communication technology**

Information and communication technology (ICT) is a growing addition to ADB's lending and technical assistance portfolio. In June 2001, ADB adopted a strategic approach for promoting the use of ICT to bridge the digital divide—the gap between those with ready access to information and those without—for its DMCs. The strategy—*Toward E-Development in Asia and the Pacific: A Strategic Approach for Information and Communication Technology*—calls for greater access by DMCs to information and knowledge, allowing them to compete in global markets and move out of poverty (see <http://www.adb.org/Documents/Policies/ICT/>). ADB advocates applying ICT to improving human welfare, expanding economic growth, and extending good governance practices. All stakeholders—governments, private sector, civil society including nongovernment organizations, and international organizations—must work together to leverage their collective resources to ensure that the benefits of ICT improve the lives of the poor.

As ICT is a crosscutting field, its application in ADB's lending and technical assistance is wide-ranging. In 2002, ADB focused its ICT activities on creating an enabling environment in ICT infrastructure and the regulatory framework, building human capacity, and helping DMCs develop ICT applications and information content.

DMC interest in ICT is keen, as was highlighted in the seminar "Unlocking the ICT Potential in Asia and the Pacific," at ADB's 35<sup>th</sup> Annual Meeting in May 2002. The seminar examined the diverse and innovative ICT applications in the region, emphasizing those being used to improve education, health, public welfare, and employment opportunities, and to provide disaster-alert information. The seminar concluded that, for Asian countries to remain competitive, governments must provide a solid leadership and a strategic vision in developing national ICT plans and in establishing partnerships with the private sector.

### **Regional cooperation**

By acting jointly, countries can improve their development prospects and strengthen their ability to reduce poverty, increase private sector investment, promote peace and security, and achieve sustainable development. Joint action enables countries to mitigate the adverse effects of negative externalities, such as cross-border pollution and the spread of infectious diseases, and creates an environment where common services and development programs can be shared.

Mandated by its Charter to promote regional cooperation, ADB has supported regional economic cooperation activities in its DMCs since 1966 (see <http://www.adb.org/RegionalCooperation/>). The mandate was reaffirmed in the LTSF in 2001 and in the reorganization in 2002. As a regional institution, ADB has a clear comparative advantage in promoting regional cooperation, and is preparing a regional cooperation strategy to respond more effectively to this mandate.

ADB's support for regional cooperation revolves around three related dimensions: facilitating the economic development of participating countries through cooperation and integration; providing key regional public goods that address shared constraints and opportunities; and encouraging regional stability through processes associated with broader and deeper cooperation.

ADB supports several subregional cooperation initiatives: Greater Mekong Subregion (GMS) program (see *Box on page 50*); Central Asia Regional Economic

#### ACHIEVING E-DEVELOPMENT

Several information and communication technology (ICT) loans were approved in 2002. In the Maldives, the Information Technology Development Project provides a networking mechanism for government agencies delivering public services electronically, including public health services. Vehicle registration will be facilitated by community Internet kiosks in the capital, Malé, and in 20 atolls.

Reforms in the telecommunications sector provided the public with low-cost Internet access. In Viet

Nam, a program loan will reform the public administration sector by establishing the legal framework to support the computerization of the state administrative management system and by building a network of E-government services. The Government's capacity in ICT management, planning, and support will be strengthened.

Several technical assistance activities were approved in 2002. Technical assistance to the People's Republic of China is helping assess the viability of distance education

and ICT in the western region, which would greatly improve access to quality primary and secondary education. In the Greater Mekong Subregion, ICT was used to develop trade networks for small- and medium-sized enterprises, providing them with information on trade regulations and cross-border trade flows. In the Pacific DMCs and Timor-Leste, ADB conducted a comprehensive review of E-readiness—a country's capacity to take advantage of ICT networks.

Cooperation (CAREC); South Asia Subregional Economic Cooperation (SASEC) (see Box below); Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT); Brunei Darussalam, Indonesia, Malaysia, Philippines East ASEAN Growth Area (BIMP-EAGA) and cooperation among the Pacific DMCs. ADB also supports regional monetary and financial cooperation initiatives through its focal point, the Regional Economic Monitoring Unit (REMU) (see <http://www.adb.org/REMU/> and the Knowledge and Support Activities chapter).

ADB also supports cooperation initiatives in several thematic and sector areas. ADB's technical assistance

supports the East and Central Asia Regional Trade Facilitation and Customs Cooperation Program. ADB loans to the Kyrgyz Republic and Tajikistan aim to strengthen governance and transparency and develop an effective mechanism for regional cooperation among customs organizations in Central Asia, and the PRC and Mongolia. The Regional Power Transmission and Modernization Project aims to improve the present power trading relations and establish the foundations for a wholesale regional power market among Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan.

## THE GMS SUMMIT

"Our most important achievement has been the growing trust and confidence among our countries, which has provided a favorable environment for trade, investment, economic growth, and social well-being."

This joint declaration was made at the first-ever GMS Summit, held in Phnom Penh, Cambodia, in November 2002. The summit, which marked 10 years of successful regional cooperation (see <http://www.adb.org/GMS/>), was attended by leaders of the six Greater Mekong Subregion (GMS) countries—Cambodia, People's Republic of China, Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam.

Pledging to work more closely to reduce poverty and promote

greater subregional integration, the GMS leaders adopted a five-pronged strategy to realize their shared vision. The strategy aims to

- strengthen infrastructure linkages through a multisectoral approach;
- facilitate cross-border trade and investment;
- enhance private sector participation in development and improve its competitiveness;
- develop human resources and skills competencies; and
- protect the environment and promote sustainable use of shared natural resources.

The leaders agreed to flagship programs in 11 key areas to support the strategy: transportation/economic corridors, telecommunications

and energy interchanges, cross-border trade and investment, greater private sector participation in development, human resource development, joint initiatives for managing the subregion's shared environment and natural resources, and tourism development.

ADB President Tadao Chino expressed ADB's continued support and commitment to regional cooperation and the shared development aspirations of the GMS leaders. He also announced ADB's approval of technical assistance for developing the subregion's human resource potential (see [http://www.adb.org/Media/Articles/2002/733\\_Cambodia\\_Phnom\\_Penh\\_Scholarship\\_Program/](http://www.adb.org/Media/Articles/2002/733_Cambodia_Phnom_Penh_Scholarship_Program/)).

## SASEC INITIATIVES

A strong and dynamic private sector is crucial to long-term and rapid economic development. For many years, ADB has provided support to private sector initiatives in South Asia, a subregion that has the economic potential to become an important high-growth area. The South Asia Subregional Economic Cooperation (SASEC) initiative (see <http://www.adb.org/SASEC/>)—comprised of Bangladesh, Bhutan, India, and Nepal—is home to the highest concentration of the world's poor. Cross-border trade and investment promotion can be instrumental in promoting employment and increasing incomes, and private sector initiatives can play a significant role in driving trade and investment.

The importance of the private sector to SASEC was highlighted in 2002 at the Second Meeting of the SASEC Trade, Investment, and Private Sector Cooperation Working Group (TIPWG) and at the First Annual Meeting of the South Asia Business Forum (SABF). Considered a milestone in developing subregional business-to-business cooperation, the annual meeting provided the venue for the secretaries of commerce of the four countries to express their support for the establishment of the SABF, and to urge the SABF to develop measures that would accelerate the growth of trade and investment in the region.

Other SABF activities in 2002 included establishing business facilitation cells in the four countries; and launching the SABF web site.

At the request of the participating countries, ADB approved in December 2002 a small-scale regional technical assistance to undertake a comprehensive study of trade facilitation in the subregion. The study is expected to identify measures to encourage intra-regional trade and identify and remove nontrade barriers. Sector studies will support private sector cooperation in human resource development, information and communication technology, tourism, audiovisual industry, and agribusiness.

In addition to the TIPWG, ADB has also supported SASEC cooperation initiatives in several sectors, including energy, transport, tourism, and environment.

In 2002, ADB supported education reform in countries in transition (Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan) to exchange experiences among education policymakers in curriculum development, teacher education, textbook production, budgeting, management decentralization, and public-private partnerships. ADB is promoting effective water management policies and practices in the Asia and Pacific region. Activities at the regional, subregional, and country levels, including a pilot demonstration of innovative approaches in the water sector, include a public awareness campaign, development of a water information system, comparative analysis of water sector reforms in the region, regional water partnerships, and participation at regional events.

ADB also promotes regional research and knowledge sharing. In 2002, ADB supported regional research in developing energy indicators, assessing issues of trafficking women and children in South Asia, and promoting transport control and air quality standards. Conferences, forums, workshops, publications, and a new regional cooperation web site were also supported (see <http://www.adb.org/RegionalCooperation/>). In 2002, ADB hosted the regional cooperation session at the Bo'ao Forum, which promotes high-level dialogue among the region's government and business leaders and focuses on trade, investment, and regional cooperation in the Asia and Pacific region (see [http://www.adb.org/Documents/Conference/Moving\\_Regional\\_Cooperation\\_Forward/proceedings.pdf](http://www.adb.org/Documents/Conference/Moving_Regional_Cooperation_Forward/proceedings.pdf)). A cosponsored workshop on citizen participation and fiscal decentralization, and a conference on Regional Public Goods and Regional Development Assistance looked at regional public goods as a development tool and at the interrelationship between participation and financial administration.

## **Nongovernment organizations and civil society**

ADB's policy on NGO cooperation (see [http://www.adb.org/Documents/Policies/Cooperation\\_with\\_NGOs/](http://www.adb.org/Documents/Policies/Cooperation_with_NGOs/)) seeks to integrate NGO and civil society experience, knowledge, and expertise into its operations so that development services are more effective, sustainable, and of higher quality. ADB's dedication to poverty reduction as its overarching objective requires increasingly more attention to the benefits that can be gained by strengthening ADB-Government-NGO cooperation.

Cooperation between ADB and NGOs continued to expand. In 2002, a total of 42 projects, or 52% of all approved projects, involved some level of NGO collaboration, with most focusing on the agriculture and natural resource sector. The majority of NGOs partnering with ADB are local and community-based groups, who help improve project quality by identifying the specific needs of their communities, and encouraging greater participation of intended project beneficiaries. In addition to project consultations, NGOs also continued to be involved in project implementation, monitoring, and other activities.

ADB's NGO Center (see <http://www.adb.org/NGOs/ngocenter.asp>) gave further impetus to ADB-Government-NGO collaboration through a 2002 regional technical assistance project, entitled Technical Assistance for a Framework for ADB-Government-NGO Cooperation (see Box below). The project was cofinanced by the governments of Australia and the United Kingdom.

In 2002, NGOs were involved in consultations on ADB's new environment and water policies, as well as in the review of ADB's Inspection Function. In addition, some 80 participants attended the NGO Open Forum at ADB's 35<sup>th</sup> Annual Meeting in Shanghai, PRC.

### ADB-GOVERNMENT-NGO COOPERATION

The objective was to bring people together where they could find common ground and shared goals. The result was the development of a guide for enhanced cooperation: ADB-Government-NGO (nongovernment organizations) Cooperation: A Framework for Action 2003–2005.

ADB's NGO Center began the consultation process by widely disseminating an "Issues Note" that addressed key elements of the current tripartite relationship, and served as the background document for country workshops in Bangladesh, Cambodia, India, Indonesia, Kazakhstan, Mongolia, Nepal, Pakistan, Philippines, and Thailand, and for subregional workshops held in Sydney (for Australia

and the Pacific), Almaty (for East and Central Asia), Phnom Penh (for the Mekong), and Kathmandu (for South Asia). Nearly 500 government, NGO, and private sector representatives attended the workshops. A Manila workshop solicited input from ADB staff.

The country and subregional workshops were organized and facilitated by local NGOs or consulting firms, with the country-level workshops largely conducted in local languages. Workshop participants proposed activities to increase tripartite cooperation. These suggestions and activities were debated in plenary sessions.

The proceedings of each workshop were posted on ADB's NGO web site. Synthesis documents were

produced so that each workshop built on the recommendations of earlier workshops.

From the syntheses and other background materials, the NGO Center prepared a preliminary or "zero draft" framework document. In mid-November, selected participants from the earlier workshops met in small groups in Manila to draft or refine sections of the framework. To provide maximum public feedback, the document was posted on ADB's web site at the same time it was circulated to ADB's Board of Directors and staff.

The Framework reflects the shared vision and understanding of government and NGO stakeholders.

## Economics

Two knowledge departments of ADB—the Economics and Research Department (ERD) and the Regional Economic Monitoring Unit (REMU)—in collaboration with the regional departments, continued in 2002 to provide the analyses and understanding of economic issues necessary for developing quality projects and programs. *For more information on the products of ERD and REMU, see the Knowledge and Support Activities chapter.*

To further support ADB's economics work, the Economics Committee and Network formed in early 2002 addressed issues relating to interdepartmental coordination in developing economics knowledge products, provision of economics services and collaboration, and maintenance of ADB-wide consistency in economic products and services.

In 2002, the Committee mainly provided independent assessment of, and feedback on, interregional knowledge products from ADB's knowledge departments; checked for overlap and duplication of products; facilitated collaboration among regions addressing similar functions; and promoted consistent analytical approaches. The Committee evaluated the macroeconomic reporting being done against expected macroeconomic reporting needs. The role of the Committee is to be expanded to provide oversight of the ADB-wide 3-year rolling plan for economics knowledge products, ensuring consistency between the plan and economics knowledge product development, and to identify issues for interdepartmental discussion. Although most of the 2002 seminars on economics issues were arranged by ERD, the Economics Network also hosted seminars, including the Doha Development Round (see <http://www.adb.org/Economics/pdf/doha/>).

## Sector priorities

The nine sector committees (see Box above right) formed in 2002 have the same mandate as their thematic counterparts. Each sector committee and its interdisciplinary network encourage professional development and quality output. The committees aim to ensure that projects are relevant to ADB policies, and that country strategies and programs are designed to a high standard, have appropriate institutional arrangements, and address sustainability and risks. The committees provide inputs and advice at the project concept, design, and feasibility study stages.

### **Agriculture, natural resources, and rural development**

Ensuring environmental sustainability and better natural resource management continued to challenge resource managers in 2002. Accelerated growth has contributed to the degradation of the region's natural resources. Forest depletion has increased the vulnerability of soil erosion that, in turn, has affected catchment areas. Overfishing threatens fish stock regeneration. Drier regions face the threat of reduced water availability and competition for scarce water resources as urban and industrial demand continues to rise. Protectionism re-emerged with the

## SECTOR COMMITTEES

- Agriculture, Natural Resources, and Rural Development (<http://www.adb.org/about/agriculture.asp>)
- Water (<http://www.adb.org/about/water.asp>)
- Education (<http://www.adb.org/about/education.asp>)
- Health, Nutrition, Population, and Early Childhood Development (<http://www.adb.org/about/health.asp>)
- Urban Development, Municipal Services, and Housing (<http://www.adb.org/about/urban.asp>)
- Energy (<http://www.adb.org/about/energy.asp>)
- Transport (<http://www.adb.org/about/transport.asp>)
- Finance, Industry, and Trade (<http://www.adb.org/about/finance.asp>)
- Rural and Microfinance (<http://www.adb.org/about/rural.asp>)

adoption of the Farm Bill in the United States, and farm subsidies among OECD countries.

ADB addressed these issues in 2002 with assistance focused on agricultural productivity, natural resource management, and rural development. Loans and technical assistance addressed poverty reduction; improved food security and diversification; aimed at alleviating natural resource depletion, particularly in the forest and fisheries subsectors; provided better access to basic public goods and services; assisted governments in formulating policies and undertaking policy reforms; enhanced economic growth in the rural areas by investing in social services, rural infrastructure, and rural support services; and strengthened institutions for better resource management.

ADB joined the Asia Forest Partnership (AFP), an initiative of the governments of Indonesia and Japan that promotes sustainable forest management in Asia by addressing good governance and forest law enforcement, developing capacity for effective forest law enforcement, countering illegal logging, preventing and fighting forest fires, and rehabilitating and reforesting degraded lands. The AFP was launched during the World Summit on Sustainable Development in Johannesburg (see Box on the World Summit on page 42).

ADB's Agriculture, Natural Resources, and Development Committee was formed in 2002. Also in 2002, ADB prepared a strategic framework for agriculture and rural development and drafted an update of the 1995 forestry policy. More than 500 stakeholders participated in the review of the old policy, providing valuable input for new policy development (see [http://www.adb.org/Projects/ForestPolicy/abt\\_flow.pdf](http://www.adb.org/Projects/ForestPolicy/abt_flow.pdf)).

### **Water**

One in three Asians does not have safe drinking water and one in two Asians lacks access to adequate sanitation facilities. Water for food security remains a problem in

SUSTAINING AGRICULTURE

In 2002, ADB provided wide-ranging assistance to the agriculture, natural resources, and rural development sector, including mobilizing resources for forestry and poverty reduction; tackling Asia's brown cloud; addressing land degradation particularly in fragile environments; promoting sustainable development in mountain ecosystems; reversing coral reef degradation; and promoting regional cooperation.

Agricultural research to enhance productivity continued to be a high priority. In 2002, ADB approved the seventh regional technical assistance on agriculture and natural resource research to develop and disseminate technologies for environmentally sustainable farming systems. The technical assistance proposes to improve nutrition; develop more efficient livestock systems; manage agriculture and natural resources through improved watershed management; and reduce poverty through an advisory network, policy research, and capacity strengthening.

In 2002, ADB approved 17 loans in the agriculture, natural resources, and rural development sector totaling \$492.9 million, and 24 technical assistance grants amounting to \$15.8 million.

some countries, especially for the poor. Water resources are severely threatened by decades of unsustainable use and pollution. Flood damage is increasing dramatically.

The importance of this crosscutting sector in ADB's operations is evident. More than a quarter of ADB's ongoing projects have a significant water component aimed at increasing awareness of water resource issues; improving water resource management, including flood and environmental management in river basins; increasing access to safe water supplies and basic sanitation; or improving irrigation services.

In 2002, ADB organized several regional consultations in preparation for the 3<sup>rd</sup> World Water Forum in Japan in 2003. Case studies and lessons learned in the areas of water in relation to poverty, cities, small island countries, shared resource management in Central Asia, and flood management, were compiled to incorporate lessons into ADB's operations for further catalyzing investments in the region. ADB also hosted the second World Panel on Water Infrastructure Financing in 2002, jointly with the World Water Council, Global Water Partnership, and other organizations.

WATER FOR ALL

In 2002, ADB assistance in the water sector was directed toward improved water services, integrated water resource management, and better water governance—areas considered central to ADB's poverty reduction mandate.

Twelve new loans were approved totaling \$667.5 million, consisting of four projects in water supply and sanitation; five in water resource management; and one project each in wastewater management, irrigation, and hydropower. Water sector loans represented about 12% of total ADB lending. Twenty new water sector technical assistance grants were approved for about \$23 million, representing 13% of all ADB technical assistance approvals.

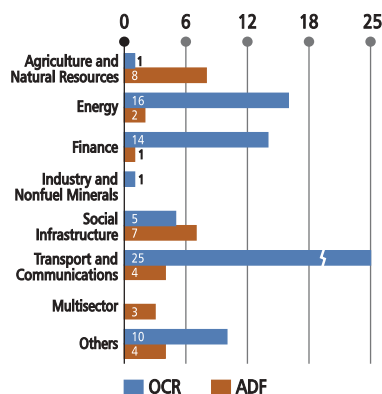
ADB activities in 2002 included the organization of an ADB Water Week in December, to stimulate knowledge development in the water sector and promote dialogue with development partners for addressing the water sector challenges in the Asia and Pacific region. Water Week themes included promoting national water policies and sector reforms; fostering integrated management of water resources in river basins; encouraging stakeholder

participation; developing partnerships; improving water services in irrigation and drainage; improving water supply and sanitation services with private sector participation; and promoting regional cooperation.

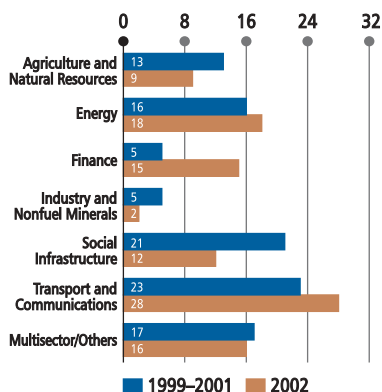
Water Week (see [http://www.adb.org/documents/events/2002/water\\_week/](http://www.adb.org/documents/events/2002/water_week/)) also featured the first presentation of ADB's Water Prize (see [http://www.adb.org/Documents/Periodicals/ADB\\_Review/2003/vol35\\_1/women\\_water.asp](http://www.adb.org/Documents/Periodicals/ADB_Review/2003/vol35_1/women_water.asp)) in recognition of sound practices by a project agency in implementing ADB's water policy. On the recommendation of the Water Sector Committee, ADB President Tadao Chino awarded prizes to the executing agency and a community-based organization in the Punjab Rural Water Supply and Sanitation Sector Project in Pakistan.

ADB's Water Sector Committee and Network catalyzed the implementation of the water policy "Water for All" in the region (see <http://www.adb.org/water/>) with the support of the Cooperation Fund for the Water Sector. This multidonor fund, to which the Government of the Netherlands made the first contribution, promotes effective water management policies and practices. To better advise regional departments, the Water Sector Committee prioritized the

Sector Distribution of Loan Approvals from OCR and ADF, 2002 (percent)



Sector Distribution of Loan Approvals: 1999–2001 (average) and 2002—By Value (percent)



preparation of water sector road maps. The road maps are based on sector assessments with additional inputs coming from the results of an impact evaluation study of water supply and sanitation projects.

## Education

ADB approved a new Policy on Education in 2002, aimed at providing all children and adults in the Asia and Pacific region with equitable access to an education that will empower them to break out of the poverty cycle and participate effectively in national development (see <http://www.adb.org/Documents/Policies/Education/>). ADB's 1988 education policy had emphasized the importance of investing in primary and secondary education in the context of broader human and social development. The new policy underpins ADB's support for the MDGs, which

include enrolling all children in primary school, promoting gender equality, and empowering women. The policy focuses on increasing equity and access, improving quality, strengthening management and partnerships, mobilizing resources, and applying innovative technologies, especially in information and communication technology.

In literacy and nonformal education, innovative and responsive programs, particularly in collaboration with NGOs, are receiving more support. Early childhood development programs are being expanded, particularly those that are low-cost and community-based. Basic education includes ensuring equitable access and resource allocation, improving quality, and strengthening community development. Secondary education investments emphasize cost sharing, private sector provision, and special programs to increase access by the poor and women. Higher education projects enhance the role

### BUILDING CAPACITY

ADB's resources are increasingly being used to support capacity building, enhance efficiency, analyze policy, and improve quality. Two books published by ADB in 2002 support these objectives.

To ensure that its lending to education reflects the needs of the region and its own strategic priorities, ADB financed a major study of education trends, issues, and policies in the region. The output of these efforts—*Education and National Development in Asia*—examines the trends and potential problems in education in the region, in the context of the rapid social, demographic, economic, and educational changes taking place. The

main book in the series analyzes the relationship between education and economic and social development and examines policies and strategies that might be used to address the challenges facing education.

An environmental law resource for students, government officials, and others throughout the region is also helping build capacity in the region. Published in 2002, the two-volume *Capacity Building for Environmental Law in the Asian and Pacific Region: Approaches and Resources* addresses environmental problems and examines laws to support sustainable development. Produced primarily from materials from the region first used in two

training courses for 63 regional law professors from 15 regional countries, the two volumes cull regional expertise in environmental law, particularly from universities, governments, the private sector, and nongovernment organizations. The book was produced through a partnership of ADB, International Union for the Conservation of Nature, Asia-Pacific Centre for Environmental Law at the National University of Singapore, United Nations Environment Programme, and others in response to the need for better training materials in environmental and developmental law, identified at the 1992 Earth Summit.

### PROVIDING QUALITY EDUCATION

Children in Mongolia's poorer rural and urban communities, including physically challenged children, will have improved access to quality preschool and basic education because of an ADB loan approved in 2002. Mongolia's Second Education Development Project will also strengthen educational services. Access will be improved for children in Nepal, particularly girls and disadvantaged children. Nepal's Secondary Education Support Project will also improve the quality of public (including lower) secondary education.

Access is also a focus of Pakistan's Decentralized Elementary Education Project, which aims to

increase admissions to a pro-poor decentralized public elementary school system.

System-wide policy initiatives in personnel deployment, system rationalization, and pro-poor budget reallocations will be supported by Uzbekistan's Education Sector Development Program.

Other activities in 2002 in the education sector included a comprehensive needs assessment in Afghanistan, preparation of a draft education sector development plan for primary education in Bangladesh, and a performance review in Cambodia, which found that primary school enrollment of the poor had increased. A network

of model *madrasahs* at primary and junior secondary levels was established in six provinces in Indonesia, where enrollment of girls increased considerably. The midterm review of a basic education (girls) project in the Lao People's Democratic Republic also showed increased enrollment of ethnic girls, by 20% in project areas. The first comprehensive education sector report, which will lay the foundation for a basic education project in Tajikistan, was produced.

In 2002, ADB approved 6 loans totaling \$284.4 million and provided 15 technical assistance grants amounting to \$7.0 million for the education sector.

of the private sector and strengthen government capacity to monitor standards and support NGO-led skills training on income-generating activities for poor women.

In 2002, ADB's Education Committee shared project experiences on the management of education reforms and decentralization with the regional departments.

### **Health, nutrition, population, and early childhood development**

Most of the premature and preventable deaths of children and women of reproductive age occur in Asia, due to a combination of poor resistance to communicable diseases, undernutrition, early marriage, and short spacing between births. The poor frequently do not have access to health and family planning services, adequate quantities of safe and nutritious food, and child care that

ensures early stimulation and readiness to learn in school (*see Box below*).

The magnitude of the problem and the importance of partnerships in addressing health, nutrition, population, and early childhood development were reinforced in 2002 by the focus of the MDGs on improving health and alleviating hunger. Donors, governments, and civil societies pledged to reverse by 2015 the prevalence of major communicable diseases (HIV/AIDS, tuberculosis, and malaria) that kill poor women and children. The UN General Assembly Special Session on HIV/AIDS Prevention and Control provided further incentive to act as development partners.

ADB also emphasizes regional solutions to nutrition problems, and health partnerships to upgrade the quality of fortified food products and raise the nutrition content of staple rice seeds (*see Box below*). A new poverty reduction

#### HEALTH SERVICES IN CAMBODIA

The feasibility and effectiveness of having nongovernment organizations (NGOs) deliver health services, as an alternative to the Government providing such services, was studied under an ADB-financed project by the Cambodia Government's Ministry of Health. The research conducted in 2001 and 2002 tested two models: contracting out, where contractors had complete responsibility for services delivery, and contracting in, where the contractors worked within the government system (*see [http://www.adb.org/Documents/Periodicals/ADB\\_Review/2001/vol33\\_2/cam.asp](http://www.adb.org/Documents/Periodicals/ADB_Review/2001/vol33_2/cam.asp)*).

An independent evaluation, including repeat household and

health facility surveys, showed that coverage of health services in contracted districts resulted in significant improvements in a short time. Contracted districts consistently outperformed the control districts with respect to the predefined coverage indicators. The contract-out model outperformed the contract-in model.

Contracted districts experienced an impressive increase in the use of reproductive health services, child health services, and curative health services. NGO-contracted services were generally more effective in reaching the poor, both in absolute and relative terms. Also, there was a significant decline in the per capita private out-of-pocket

expenditure in the contracted districts, especially for the poor.

The Cambodia case study suggests that it is feasible and beneficial for government to contract NGOs to provide health services. Contractors delivered interventions to reduce infant, child, and maternal mortality to more people more quickly than had conventional government service delivery mechanisms. The pilot study suggests, moreover, that efficiency gains in providing health services do not come at the expense of equity. Rather, improved efficiency appears to have also led to better access to health services by the poor, easing the burden of health care expenditures.

#### NUTRITIONAL SECURITY

Plant breeding offers the opportunity to create an international public good that has public health significance and will provide comprehensive benefits to producers and consumers.

Based on encouraging prospects for enriching rice germ plasm with trace minerals, ADB approved a project and organized a donor consortium to support biofortification, which is research for breeding iron- and zinc-dense rice as a low-cost, sustainable approach to reducing iron-deficiency anemia and zinc deficiencies in Asia.

The broad objectives of ADB's Rice Breeding to Reduce Anemia in Asia project are to develop high-yield,

high-profit, iron-dense rice germ plasm adapted to growing environments in Bangladesh, Indonesia, Philippines, and Viet Nam; demonstrate bioavailability of the extra iron in poor adult women and young children; support economic research to demonstrate feasibility and cost-effectiveness of the plant-breeding strategy; and organize the institutions and financing necessary for generating a flow of nutrient-improved rice technologies to Asian farmers.

The project targets the poor and will reduce poverty in several ways. Women and children from the poorest households suffer most from inadequate dietary quality. Treating anemia in women and

children in poor households through enriched cereal diets will lower the risk of maternal mortality during pregnancy and childbirth, increase their capacity to perform chores, and improve the cognitive abilities and health of children.

Encouraged by ADB's project, the Consultative Group on International Agricultural Research (CGIAR) approved the Biofortification Challenge Program for its centers. The collaborating institutions in ADB's and CGIAR's projects are International Food Policy Research Institute; International Rice Research Institute; the University of Adelaide, Australia; and the national agricultural research systems of the four countries.

grant from the Department for International Development of the United Kingdom broadens support for rice and wheat biofortification in seven national agricultural research systems in Asia to increase the micronutrient content of rice and wheat germ plasm. ADB is sponsoring the first efficacy trials in Asia for women of reproductive age and for children under 3, testing the impact of biofortified rice on iron-deficiency anemia in those vulnerable groups.

ADB is also discussing proposed interagency agreements with the International Atomic Energy Agency to develop DMCs' capacity to monitor nutrition and health in the home and environment, and with the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria to strengthen the commitment to the MDGs.

ADB's Health Committee provides guidance to the regional departments in addressing health, nutrition, population, and early childhood development as interdependent issues in country programs that could be integrated into projects. In 2002, the Health Committee launched the six-volume *ADB Nutrition and Development Series*; assessed the impact of the health policy on ADB and DMC operations; and attended regional and global health, nutrition, and agriculture strategy meetings.

In 2002, two health loans were approved totaling \$40 million.

### **Urban development, municipal services, and housing**

Most of the world's urban growth is occurring in Asia. The region's urban population grew from about 320 million people in 1965, to over 1 billion people in 2002 and is forecast to reach 2.2 billion people by 2020. Urban centers are also increasing in size and number. A review of the world's 25 largest cities shows that 13 are located in Asia, including 11 megacities, each with a population in excess of 10 million. In addition, hundreds of millions of people live in thousands of small, medium, and large towns and cities throughout the region.

Urban areas are important to national economies. They are the focal points for trade, commerce, industry, and government administration. Cities and towns are centers of excellence for education, health care, culture, technological innovation, entrepreneurship, social services, and governance. In addition, cities generate opportunities for jobs, employment, and livelihood.

Most Asian towns face significant problems, particularly high incidence of urban poverty; inadequate and dilapidated water supplies, sanitation, and drainage infrastructure; poor standards of public health and hygiene; degraded urban environment; slum housing; traffic congestion; ineffective land management; and inadequate development control. These problems have a disproportionate adverse impact on the lives of the urban poor, compounding their misery. ADB's vision for the urban sector is to promote safe, liveable, well-managed urban centers, free of poverty, that fulfill the promise of development. This vision is in line with the MDGs.

In 2002, ADB joined the Cities Alliance (see [http://www.adb.org/Documents/TARs/REG/r73\\_02.pdf](http://www.adb.org/Documents/TARs/REG/r73_02.pdf)), an

In 2002, ADB focused on improving urban services, providing basic urban infrastructure, improving the urban environment, developing housing finance mechanisms, and strengthening urban governance. Loans included the Urban Governance and Infrastructure Improvement Project for Bangladesh; the Mekong Tourism Development Project for Cambodia, Lao People's Democratic Republic, and Viet Nam; the project for Integrated Development of Basic Urban Services in Provincial Towns for Mongolia; the Urban and Environmental Improvement Project for Nepal; and the Housing Finance Project for Viet Nam.

Technical assistance totaling \$2.7 million for the urban sector was approved for Bangladesh, Indonesia, Maldives, and Viet Nam to prepare projects for secondary towns' flood protection, shelter, housing finance, and regional development. Advisory technical assistance amounting to \$3 million was approved for Bhutan, Cambodia, India, Mongolia, Philippines, and Samoa for preparing urban sector profiles, housing reform, integrated regional development planning, solid waste management, and urban sector management and strategy studies.

ADB approved four loans totaling \$140.1 million in 2002 and provided 10 technical assistance grants amounting to \$4.5 million for the urban development and housing sector.

international coalition of towns and cities, and their development partners in working with urban centers to strengthen their ability to prepare city development strategies and initiatives to create cities-without-slums.

### **Energy**

The energy sector continued to occupy a prominent position in ADB's lending and technical assistance operations in its DMCs. The nature of ADB's assistance for this sector has changed substantially over the years, with increasing emphasis on sector reform, restructuring, poverty reduction, climate change, and governance.

A seminar on electricity sector reforms in Asia at ADB's 35<sup>th</sup> Annual Meeting in 2002 identified challenges facing DMCs in ensuring access to stable and affordable electricity supplies. The participants—senior DMC government officials and private sector representatives—agreed that deregulation and privatization are essential elements of a power sector development strategy for the region. The private sector participants proposed that DMC governments divest themselves of their shareholdings in the industry and focus instead on regulatory functions.

The impact of energy and transport infrastructure on poverty reduction is being assessed by ADB, in collaboration with World Bank, Japan Bank for International Cooperation, and the Department for International Development of the United Kingdom. The study is aimed at establishing benchmarks, identifying lessons, and

## SUPPORTING PRIVATE SECTOR POWER PROJECTS IN VIET NAM

Viet Nam is rich in natural resources, including natural gas, yet its energy production is among the lowest in Asia. To meet expected growth in power demand and reduce dependence on seasonal hydro-power generation, Viet Nam must develop its natural gas reserves for power generation.

Gas reserves at the offshore Nam Con Son Basin will be tapped to fuel a least-cost power development plan. Five gas-fired combined-cycle power plants are planned for the Phu My Power Generation Complex, about 75 kilometers from Ho Chi Minh City in southern Viet Nam. ADB is providing financial support for two of these plants (Phu My 2.2 and Phu My 3) on a build-operate-transfer (BOT) basis.

The projects are expected to improve governance in the energy sector by promoting best practices and effective management of public-private partnerships. The projects will establish performance benchmarks and promote the sector's financial sustainability. Private sector participation in the

projects will also positively influence other sectors.

The Phu My projects represent an environment-friendly solution to the power supply problem in Viet Nam and will make competitively priced power available within a short period. They will feed the national power grid, as well as the industrial and residential areas of southern Viet Nam. Areas covered by the projects will increasingly attract investments that can spur economic growth and help reduce poverty. The projects will also contribute to government efforts to electrify 85% of Vietnamese households by 2005.

The Phu My 2.2 Power Project, a 715-megawatt plant, is ADB's first private sector power project in Viet Nam. It is also Viet Nam's first privately sponsored BOT power project awarded through internationally competitive bidding. The Project also marked the first use of ADB's guarantor-of-record political risk guarantee (PRG). The Project has been cited as the project finance deal of the

year 2002 by several international publications.

The Project will be developed and operated by Mekong Energy Company Limited, a joint venture among Electricité de France International, Sumitomo Corporation of Japan, and Tokyo Electric Power Company, Incorporated.

For the Phu My 2.2 Project, ADB provided a \$50 million loan without government guarantee and a \$25 million PRG. Through the PRG, ADB is catalyzing for Viet Nam up to \$25 million of long-term debt from commercial banks. As guarantor-of-record, ADB does not retain any portion of the risks covered.

The Phu My 3 Power Project—with a capacity of 716.8 megawatts—is being undertaken by the Phu My 3 BOT Power Company Ltd., jointly owned by BP Holdings BV, SembCorp Utilities Pte Ltd., and the consortium of Kyuden International Corporation and Nissho Iwai Corporation. ADB is providing a \$40 million loan and a \$35 million PRG (see box on page 65 in the *Operations chapter*).

## REFORMING THE ENERGY SECTOR

ADB assistance to the energy sector in 2002 focused on sector reform and restructuring, private sector initiatives, energy conservation, renewable energy development, environmental protection, and energy efficiency. Loans were approved for Indonesia and the Philippines to create the information and communication technology-based market facilities required for bulk electricity trading, following the enactment of laws for restructuring the power sector in these two countries. In Sri Lanka, a Power Sector Development Program aims to establish an independent regulatory and tariff-setting mechanism, and to encourage private sector participation by developing an enabling and transparent business environment.

Private sector initiatives were also encouraged in energy sector loans. With ADB's assistance, a strategic investor was selected for the newly established natural gas transportation company in Indonesia, which will facilitate the export of natural gas to Singapore.

Environment and poverty concerns are being addressed in a loan approved for Indonesia in 2002, which will enable the establishment of 12 renewable energy-based power plants in remote areas of the country.

Consistent with ADB's objective of promoting regional cooperation, the 2002 lending program included a regional project aimed at strengthening and improving power transmission facilities in the Central Asian republics.

Advisory technical assistance focused on developing an energy sector strategy, sector reform and restructuring, regulatory framework, energy conservation, renewable energy development, environmental protection, and energy efficiency in East and Central Asia and South Asia. Assistance to Bangladesh in 2002 included a project to substitute liquid fuel for the transport sector in Dhaka with domestic natural gas. ADB approved a technical assistance for a similar project in Indonesia. ADB has a key role in formulating a project aimed at exporting natural gas from Turkmenistan to Afghanistan and Pakistan and, possibly, India.

In 2002, ADB approved 13 loans, totaling \$1.0 billion and 21 technical assistance, totaling \$11.5 million for the energy sector.

formulating the infrastructure elements of national and regional poverty reduction strategies.

ADB continued in 2002 to ensure that its assistance to the energy sector is consistent with its objective of protecting the environment. A project ADB is administering—Promotion of Renewable Energy, Energy Efficiency, and Greenhouse Gas Abatement (PREGA)—is stimulating interest on ways to control greenhouse gas emissions other than carbon dioxide, such as methane and nitrous oxide, emissions from sanitary landfills, solid waste dump sites, wastewater treatment plants, rice paddy cultivation, coal mines, and livestock. The PREGA will generate a pipeline of renewable energy, energy efficiency, and greenhouse gas abatement investment projects for possible financing through commercial, multilateral, and bilateral sources, including specialized treaty-linked mechanisms such as the Global Environment Facility and clean development mechanism. The PREGA will also identify policy and institutional barriers to disseminating renewable energy, energy efficiency, and greenhouse gas abatement investment projects of technologies, and study and develop financing models.

### Transport

Mobility and accessibility are important factors contributing to and resulting from economic and social development. As domestic economies in most DMCs expand, the need for national transport infrastructure increases, which in turn increases the demand for assistance to the transport sector.

In 2002, ADB emphasized sustainable transport development by implementing sector reforms on improving

governance, establishing more efficient and effective sector agencies, introducing regulatory reforms for increased participation by the private sector, and improving sector financing and cost recovery. In the railway sector, support was provided to Indian Railways to implement institutional and policy reforms designed to strengthen the commercial orientation of railway, increase private sector participation in its activities, and finance strategic investments in high-density traffic corridors. In several countries—including Cambodia, India, Pakistan, and Sri Lanka—ADB supported the restructuring of sector institutions responsible for road sector management. ADB provided assistance to improve provincial roads that serve rural communities, study options to improve public transport operations, and prioritize future national road investment requirements.

In addition to country-specific assistance, ADB implemented regionally focused projects in 2002, which examined the serious environmental problem of deteriorating air quality. As vehicles are the primary cause of air pollution, a regional technical assistance examined how vehicle emissions could be reduced. Policy guidelines were prepared on fuels and alternative fuels, vehicle inspection and maintenance, the special problems associated with two- and three-wheeled vehicles, and improved transport planning and traffic management. ADB also initiated, with the World Bank group and others, the Clean Air Initiative for Asian Cities (*see <http://www.adb.org/Vehicle-Emissions/>*), designed to promote awareness and improve air quality through partnerships and shared experiences.

A second regional project is examining the linkage between transport and poverty; field investigations and analyses are ongoing.

## PROVIDING REGIONAL ROADS

Regional considerations featured prominently in ADB's transport operations in 2002. In Cambodia, support for road development will benefit the Greater Mekong Subregion and reduce poverty in remote rural areas of the country. While improvements in road asset management and effective road maintenance are key concerns, improving links with neighboring countries will facilitate subregional trade and tourism. ADB assistance to the Lao People's Democratic Republic (Lao PDR) also supported regional cooperation and national road development. Resources were provided to help improve the northern economic corridor and, together with financial assistance from the governments of the People's Republic of China (PRC) and Thailand, road travel will be possible from Yunnan Province in southwest PRC

to northeast Thailand. In addition to facilitating subregional trade, the corridor will enable the northern portion of the Lao PDR to participate in the region's growing market economy.

Rehabilitating and repairing the road network in Afghanistan was accorded priority by ADB as part of a postconflict multisector program. Grant assistance was also provided to restore effective institutions and establish transparent processes for sector operations. In Bangladesh, assistance was approved for improving feeder roads that would provide all-weather access to rural growth center markets. In Cambodia, large rural areas in the north will be made accessible upon completion of the primary road network around Tonle Sap. Assistance was also provided to Pakistan to support the reform of road sector institutions, and

rehabilitate and maintain provincial roads in Punjab Province.

In the Pacific, ADB aimed to develop ports in the Fiji Islands and improve outer island transport infrastructure in the Marshall Islands.

In India, a sector development program to the state of Madhya Pradesh supported road sector institutional reforms and rehabilitation of the state road network. A loan to the National Highway Authority of India also supported institutional development, as well as provided resources to extend the interurban expressway network. Following extensive policy dialogue, Sri Lanka initiated a program to reform the national and provincial road administration departments.

In 2002, ADB approved 13 loans for \$1.6 billion and provided 35 technical assistance grants amounting to \$15.8 million for the transport sector.

Transport contributes to poverty reduction by enabling the productive activities that create pro-poor economic growth, and by providing poor people, especially those living in rural areas, with access to economic opportunities and social services, and means of participating fully in society.

The extent of this contribution is affected by the overall economic, social, and governance setting in the country or region in question; and by the framework of transport sector policies, institutions, and governance arrangements.

Since the utility of transport requires the complementary roles of infrastructure and services, ADB assistance increasingly involves support for both infrastructure and services improvement to ensure the whole transport package works effectively.

In some countries, ADB is promoting the development of link roads alongside investment in primary roads, for ensuring that the poverty reduction gains from both efficiency and accessibility are realized. A further dimension is the need to incorporate mitigation of possible adverse impacts of transport, including road safety and social and environmental hazards.

Recent studies have tried to quantify the poverty reduction impact of transport, but without great success, because most of the contributions of transport to poverty reduction are indirect, often widely dispersed among the population, and take place through multiple rounds of effects.

In principle, general equilibrium econometric modeling may be a tool for sifting out these impacts. However, it is far from clear

whether such a complex relationship can be reliably modeled.

Another approach to improving our understanding of this subject is through micro- and meso-level studies to examine how past transport interventions contributed to poverty reduction at the community level. While this approach does not quantify the impacts outside of the selected communities, it may identify the mechanisms through which transport contributes, and the complementary and inhibiting factors; and may quantify impacts at the community level. Studies of this kind are being undertaken in the People's Republic of China, India, and Thailand as part of an ADB project that is assessing the impact of transport and energy infrastructure on poverty reduction. The results of this work are expected in the second half of 2003.

ADB also continued to find ways of improving road sector management. Work focused on improved road financing mechanisms and support for the highway development and management model planning tool, which was designed in conjunction with other funding agencies. Several DMCs now use this tool for highway planning and sector resource programming. With an increasing number of people killed and injured on the region's road networks, a regional study (see [http://www.adb.org/Documents/TARS/REG/tar\\_stu\\_36046.pdf](http://www.adb.org/Documents/TARS/REG/tar_stu_36046.pdf)) was formulated to address road safety issues in the Association of Southeast Asian Nations (ASEAN) region.

### **Finance, industry, and trade**

Financial sector issues continued to impact on the region's development in 2002. Many countries affected by the Asian financial crisis and transitional economies continued efforts to restructure their banking systems to achieve financial stability and ensure that new lending is based on sound commercial principles. Banking supervision is being improved in several DMCs in line with the Basel Core Principles to prevent future systemic crises. The Basel Capital Accord was discussed at a seminar in the 35<sup>th</sup> Annual Meeting in May 2002 (see [http://www.adb.org/AnnualMeeting/2002/Seminars/presentations/elmekkawy\\_presentation.pdf](http://www.adb.org/AnnualMeeting/2002/Seminars/presentations/elmekkawy_presentation.pdf)). The legal and institutional framework for debt recovery is being strengthened to deal with unresolved problems of nonperforming loans that impede new lending.

To reduce dependence on short-term bank financing for long-term investments and enhance allocation efficiency, several DMCs also sought to further develop

their capital markets. ADB supported efforts to strengthen the regulation and supervision of securities markets in accordance with international standards and practices. ADB also supported efforts to improve market infrastructure, introduce more stringent corporate governance requirements, establish a policy environment that ensures efficient allocation of domestic savings, and develop an institutional investor base. Financial governance regimes in several DMCs are being strengthened by introducing international accounting standards and more stringent financial disclosure requirements.

Also, in 2002, ADB increased its trade-related technical assistance to help its DMCs participate in the new trade round and address various difficulties arising from the implementation of the World Trade Organization (WTO) agreements. Several regional technical assistance projects focused on capacity building for WTO agreements, trade facilitation, trade promotion, and cooperation.

### **Rural and microfinance**

Asia's rural financial markets need to be improved to meet the challenges of the 21<sup>st</sup> century, according to an ADB-funded study published in 2000 (see [http://www.adb.org/Documents/Books/Rural\\_Asia/Rural\\_Financial\\_Markets/](http://www.adb.org/Documents/Books/Rural_Asia/Rural_Financial_Markets/)). Given this, and the fact that two thirds of the world's poor live in Asia and the Pacific and about 60% of the region's total population live in rural areas, ADB continued in 2002 to emphasize the development of rural financial services.

ADB's goal in the sector is to ensure that rural households have permanent access to a broad range of sustainable financial services. Recognizing the correlation

ADB addressed financial sector issues in several of its developing member countries (DMCs). The Financial Sector Program (Subprogram II) loan in Cambodia resulted in the adoption of a system and supported policy sector reform efforts in several transition economies for the early identification of problem banks, and improved surveillance and inspection procedures for banking supervision. Accounting and auditing standards and an enforcement system are also expected. In the Lao People's Democratic Republic (Lao PDR), policy dialogue, in conjunction with the Banking Sector Reform Program loan, led to the adoption of a performance-based operational and financial restructuring program for state-owned banks.

Amendments to the capital markets, pension, and insurance laws to strengthen supervision and regulation and provide for international best practices and standards are being promoted in Indonesia's 2002 Financial Governance and Social Security Reform Program (Phase 1). Pakistan's Financial (Nonbank) Markets and Governance Program seeks to strengthen investor confidence through improved governance, transparency, and investor protection.

ADB supported policy dialogue for a legal framework for antimoney

laundering in Indonesia, and assisted Fiji Islands, Indonesia, and Philippines in establishing financial intelligence units in line with the reporting and monitoring requirements under their respective antimoney laundering legislation.

In the People's Republic of China (PRC) and Thailand, ADB provided assistance to facilitate the transformation of pension systems from unfunded pay-as-you-go systems toward fully funded defined contribution systems. In Indonesia, social protection is being strengthened through measures that seek to improve governance, supervision, and regulation of pension funds and mandatory social insurance programs.

ADB is promoting the development of real sectors in Bangladesh, Indonesia, Pakistan, Samoa, and Viet Nam, through assistance for creating more conducive policy, legal, regulatory, and institutional frameworks for small- and medium-sized enterprises (SMEs). Productivity enhancements, greater market access, and skills improvements need to be in line with financial sector development to achieve real sector growth. Technical assistance to Indonesia, Philippines, and Samoa supported the provision of SME finance by developing sustainable credit enhancement and information mechanisms. ADB also

expanded its support for subregional project development facilities. In 2002, regional technical assistance was approved to promote SME growth in the subregion of Bangladesh, Bhutan, (northeast) India, and Nepal.

In the Greater Mekong Subregion (GMS), Cambodia, Lao PDR, Thailand, and Viet Nam agreed on the mechanisms needed to harmonize customs declaration documents, and on the inspection procedures and the evaluation criteria for use along the GMS economic corridors. Technical assistance projects were initiated for enforcing World Trade Organization rules by the judicial system in the PRC, regional customs cooperation in the Kyrgyz Republic, and a trade policy review in Mongolia. In addition, two loans were approved for the Kyrgyz Republic and Tajikistan to strengthen the governance and operations of customs organizations, improve the customs legal and regulatory framework in line with international standards, and develop a mechanism for regional cooperation.

In 2002, ADB approved 9 financial sector, 2 trade sector, and 1 SME-related loans totaling \$735 million; and 22 financial sector, 9 trade sector, and 11 SME-related technical assistance projects totaling \$26.3 million.

between rural finance and broad-based, inclusive rural development in reducing poverty, ADB placed integration of rural and microfinance with the broader financial system at the core of its strategic thrusts and adopted the financial system development approach in its rural and microfinance operations.

ADB focuses on three broad strategic areas in its rural and microfinance operations: creating an enabling policy environment; building the financial infrastructure necessary for improving rural and microfinance services; and strengthening rural and microfinance institutions.

ADB held workshops in 2002 in Bangladesh and the Philippines to improve DMC understanding of the commercialization of microfinance, and began publishing the study results (see [http://www.adb.org/Documents/Reports/Commercialization\\_Microfinance/BAN/](http://www.adb.org/Documents/Reports/Commercialization_Microfinance/BAN/)).

In partnership with other funding agencies to support the development of microfinance services, ADB continued to assist the Consultative Group to Assist the Poorest

(CGAP) (see [http://www.adb.org/Documents/TARS/REG/tar\\_oth35011.pdf](http://www.adb.org/Documents/TARS/REG/tar_oth35011.pdf)).

A highlight of ADB's rural and microfinance sector operations in 2002 was its participation in the voluntary donor peer review of microfinance operations, a program initiated by the CGAP and the Government of the United Kingdom to help funding agencies improve the effectiveness of their microfinance assistance. ADB was among the first six funding agencies to volunteer for the review. An international multi-donor team of microfinance experts reviewed ADB's microfinance operations in July. Recommendations were made available to the public shortly after. ADB also participated in the review process with the United Nations Development Programme and the United Nations Capital Development Fund in October.

Following its policy to support aid coordination, ADB assisted in formulating CGAP's new strategy and charter. The new strategy encompasses a vision in which the poor will have permanent access to a wide range of financial

Since the 1997 Asian financial crisis, policymakers have attached considerable importance to the development of bond markets in Asia to reduce the vulnerability of overdependence on bank financing and provide alternative investment options to investors. Essential to bond market development is credit rating; it provides a risk pricing mechanism and assists investors and financial intermediaries to differentiate among debt issues and arrive at informed investment decisions. Quality credit rating also has an important role to play in promoting sound corporate governance and financial market supervision.

The development of domestic credit rating agencies (CRAs) has been slow and uneven across the region, limiting investors' access to affordable quality rating services. To strengthen the capacity of domestic CRAs, the Association of Credit Rating Agencies in Asia (ACRAA) was established in September 2001 by members from Bangladesh; India; Indonesia; Japan; Republic of Korea; Malaysia; Pakistan; Philippines; Taipei, China; and Thailand to harmonize rating standards and adopt best practices. ACRAA encourages its members to share sound practices and policies, and to attain high performance standards. Establishing greater credibility is the bedrock of credit rating services.

ADB was a sponsoring partner of ACRAA. Through its Regional Economic Monitoring Unit, ADB provides technical assistance to ACRAA and its members in capacity building. The technical assistance on Capacity Building of Selected Credit Rating Agencies in Asia, approved in April 2002, supported a conference on rating standards; three training workshops on securitization, project finance rating, and financial analysis of banks; and a meeting on rating best practices.

services, including savings, payment services, and insurance. ADB, together with CGAP, cosponsored a staff training program in microfinance in Manila in December

To translate its operational priorities in rural and microfinance into concrete actions in Pakistan, ADB approved a Rural Finance Sector Development Program in 2002 to assist the Government in addressing key constraints in rural and microfinance and to strengthen the reform program. A loan for Uzbekistan for Small and Microfinance Development will create a viable and sustainable institutional framework and mechanism for effective delivery of financial services, particularly to poor, low-income households, and small and microenterprises.

A technical assistance grant is aimed at strengthening the Central Bank of Uzbekistan's institutional capacity for prudential regulation and supervision of savings and credit unions. In addition, ADB approved a microfinance component project to test interventions on a limited scale in urban sectors in the Lao People's Democratic Republic (Lao PDR), and one rural finance component project for plantation development in Sri Lanka. ADB continued its technical assistance to improve rural finance operations in the Lao PDR, initiating a diagnostic study on the Agriculture Promotion Bank, which is expected to assist policymakers in reforming this bank to provide rural financial services more efficiently and sustainably.

2002. In addition, ADB participated in several international events on microfinance organized by Inter-American Development Bank, International Finance Corporation, and United States Agency for International Development.

Recognizing the importance of disseminating good practices and improving knowledge to develop a sustainable microfinance industry, ADB continued to publish its quarterly newsletter on microfinance—*Finance for the Poor*—both in print and on its web site (see <http://www.adb.org/Documents/Periodicals/Microfinance/>).