



2005 ANNUAL REPORT

Asian Development Bank

The Record

(amounts in \$ million)

	1966–2005	2002	2003	2004	2005
OPERATIONAL ACTIVITIES					
LENDING (amount)	116,040^a	5,658^a	6,085	5,239^b	5,797
Number of Projects ^c	1,940	70	66	63	64
Ordinary Capital Resources (OCR) Loans (amount)	84,630^b	4,008	4,706	3,997^b	4,421
Number of Loans	1,093	35	37	32	32
Disbursements (amount)	56,377	3,067	2,688	2,508	3,498
Asian Development Fund (ADF) Loans (amount)	31,411	1,650	1,379	1,242	1,376
Number of Loans	1,105	53	47	47	40
Disbursements (amount)	22,118	1,136	1,128	1,055	1,247
A. Government and Government-guaranteed Loans (amount)	113,648	5,548	5,918	4,947	5,261
Number of Projects ^c	1,846	67	62	58	58
OCR Loans (amount)	82,252	3,898	4,539	3,705	3,885
Number of Loans	1,000	32	33	27	25
Disbursements (amount)	54,945	3,011	2,575	2,399	3,294
ADF Loans (amount)	31,396	1,650	1,379	1,242	1,376
Number of Loans	1,100	53	47	47	40
Disbursements (amount)	22,103	1,136	1,128	1,055	1,247
B. Private Sector Loans (amount)	2,392	110	167	293	536
Number of Projects	94	3	4	5	7
OCR Loans (amount)	2,378^b	110	167	293^b	536
Number of Loans	93 ^b	3	4	5 ^b	7
Disbursements (amount)	1,432	55	113	109	204
ADF Loans (amount)	14	–	–	–	–
Number of Loans	5	–	–	–	–
Disbursements (amount)	14	–	–	–	–
EQUITY INVESTMENT (amount)	1,121^b	36	36	164^b	217
Number of Investments	137 ^b	4	3	11 ^b	10
EQUITY UNDERWRITING (amount)	40	–	–	–	–
Number of Commitments	6	–	–	–	–
GUARANTEES	3,166	882	240	10	68
Number of Projects	25	4	3	1	2
Political Risk Guarantee (amount)	763	382	70	10	50
Number of Projects	9	3	1	1	1
Partial Credit Guarantee (amount)	2,403 ^b	500	170	0 ^b	18
Number of Projects	16 ^b	1	2	0 ^b	1
GRANTS (amount)	2,065	178	454	104	1,151
Number of Projects	151	27	12	27	51
TECHNICAL ASSISTANCE (amount)	2,782^b	179	175	195^b	199
Number of Projects	5,923 ^b	323	312 ^b	321 ^b	299
MULTITRANCHE FINANCING FACILITIES^d (amount)	1,520	0	0	0	1,520
Number of Facilities	2	0	0	0	2
COFINANCING^e (amount)	49,492	2,713	2,563	2,437	7,385
Number of Projects	692	33	28	32	34
RESOURCES					
Ordinary Capital Resources					
Authorized Capital (at end of period)	50,163	47,288	51,997	54,162	50,163
Subscribed Capital (at end of period)	50,163	47,234	51,997	54,162	50,163
Borrowings (gross)	59,553	6,145	4,141	1,629	4,230
Outstanding Debt (at end of period)	24,454	26,324	26,359	24,212	24,454
Ordinary Reserve (at end of period)	8,957	8,470	8,892	8,865	8,957
Special Reserve (at end of period)	194	184	186	190	194
Gross Revenue	34,010	1,979	1,657	1,313	1,432
Net Income after Appropriation of Commissions/ Guarantee Fees to Special Reserve	11,478	978	436	427	105
Special Funds Resources					
Asian Development Fund Total Resources (at end of period)	27,605	22,853	26,759	29,571	27,605
Technical Assistance Special Fund Total Resources (at end of period)	1,257	920	1,006	1,062	1,257
Japan Special Fund					
Regular and Supplementary Contributions (at end of period)	904	836	853	877	904
Asian Currency Crisis Support Facility	241	241	241	241	241
ADB Institute Special Fund Total Resources (at end of period)	110	71	83	96	110
Asian Tsunami Fund Total Resources	565				565
Pakistan Earthquake Fund Total Resources	85				85

– Nil.

^a Totals may not add due to rounding.

^b Adjusted to exclude terminated loans/guarantees/equity investments/technical assistance.

^c Projects with multiple loans are counted once. Cumulative number of projects excludes supplementary loans.

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

^e These are non-ADB funds generated by ADB's cofinancing operations for ADB projects.



Asian Development Bank
2005 Annual Report

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Chairman's Message

ADB: Relevant, Responsive,
and Results-Focused



President Kuroda visits women's hospital in Jaipur, India, refurbished with ADB assistance

Tragedy on a staggering scale was a recurrent theme in Asia during 2005. The year started with the international community rushing to help survivors of the Indian Ocean tsunami and ended with the huge humanitarian task of sheltering the millions whose homes were destroyed in October by the South Asia earthquake.

Both catastrophes and the threat of avian flu throughout the year illustrated Asia and the Pacific's vulnerability to events that cannot be contained within national borders.

At the same time, even as the region as a whole has become a formidable player in the global economy, large numbers of poor people and growing inequality make evident that not all are benefiting from strong economic growth. Many countries are unlikely to reach the non-income Millennium Development Goals by 2015. Clearly, poverty reduction remains the region's key challenge.

The Asian Development Bank faces these and other emerging issues in its developing member countries with hardened resolve. We must pursue our vision of an Asia and Pacific region free of poverty amidst a new era of development in which nations, economies, and societies are becoming more interdependent, more integrated. We will strive to help the region and the countries become more inclusive, with the benefits of dynamic growth spread more equitably.

ADB sees regional cooperation and integration as a powerful tool that can complement national-level efforts aimed at poverty reduction and shaping a better future. In 2005, our efforts were rewarded as the Central Asian nations and the countries that

share the Mekong River started to benefit from coordinated cross-border transport and energy infrastructure plans. Recently too, with ADB's help, these countries began to work together to address issues that transcend borders, such as environmental and health threats.

In 2005, ADB established the Office of Regional Economic Integration to further strengthen regional cooperation and integration initiatives and to ensure that they are coherent and strategically focused.

Cooperation with other development partners also deepened over the course of the year, in keeping with the commitment made in March at the high-level forum at which more than 100 countries and major international agencies endorsed the Paris Declaration on Aid Effectiveness. The international community also reaffirmed its commitment to poverty reduction and the Millennium Development Goals at the United Nations Millennium+5 Summit in September in New York. ADB contributed to and participated in both these processes.

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ADB collaborated with development partners to deliver quick recovery and reconstruction assistance to communities devastated by the tsunami and the earthquake, and joined the World Health Organization and the Food and Agriculture Organization in the fight to stop the spread of avian flu.

A series of internal changes and realignments over the year reshaped ADB to become more relevant, responsive, and results-focused in its operations. Under our Reform Agenda, we are improving policies and strategies, seeking to manage for development results, refining business processes, expanding knowledge management, and putting in place new procedures to improve human resources.

Better systems for planning, monitoring, and evaluation are being designed to track ADB performance at every level: the country level, the institutional level, and globally as part of a network of development institutions. Results-based country strategies and programs have been introduced for all developing member countries. And a new Public Communications Policy promises much more transparency and accountability to ADB's stakeholders.

An array of financing instruments offered under the Innovation and Efficiency Initiative, meanwhile, aims at giving developing member countries greater flexibility in meeting their investment needs. A sharper focus on portfolio management and project implementation has produced an increase in public sector loan disbursement, while projects at risk decline steadily.

To manage the risks inherent in development work, ADB moved last year to a centralized risk management structure through the new Risk Management Unit.

ADB will continue to play a major role in the fight against poverty in the Asia and Pacific region. ADB has made a clear commitment to raise the standards of its operations in keeping with dynamic forces at work in the region.

Armed with its clearer strategic priorities, critical focus on results, a more selective approach to

assistance—and even more collaboration with development partners—the Medium-Term Strategy II, which will be launched soon, should improve the effectiveness of operations over the coming years. As ADB moves toward its 5th decade as the region's development partner, it does so with the confidence that it is increasingly well placed to meet the emerging challenges of its developing members, striving to ensure that all have the opportunity to participate in, contribute to, and benefit from sustained economic growth. With the support and commitment of the staff and all our members and partners, it is my privilege to continue to serve ADB and to support its role in fostering peace and prosperity in Asia and the Pacific.

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Large numbers of poor people and growing inequality make clear that not all are benefiting from strong economic growth

Board of Directors' Report

Improving ADB's Effectiveness


Economic growth was strong in large parts of the region in 2005 despite the tsunami and earthquake disasters, avian flu threat, and higher oil prices. Many countries are no longer merely aspiring to be part of the global economy but have moved to its center.

Judged by purchasing power parity, Asia and the Pacific now makes up 30% of global gross domestic product (GDP), while the proportion of population surviving on \$1 a day or less has come down from about 34% in 1990 to 19% in 2003, or some 620 million people.

But Asia and the Pacific is still home to fully two thirds of the world's poor—more than any other region. Those living on less than \$2 a day still number about 1.9 billion, or nearly a third of the world's population. Clearly, reducing poverty must continue to be the guiding priority of the Asian Development Bank (ADB) in the years ahead.

ADB remains firmly committed to helping its developing member countries (DMCs)—and the entire region—achieve the Millennium Development Goals (MDGs). Meeting all these goals by 2015 will be a challenge and depends on the actions of the developing countries themselves, as well as those of all development partners. ADB will play its part to strengthen these partnerships, and actively monitors progress.

While the region as a whole is making good progress toward meeting the income poverty target of the first goal (to eradicate extreme poverty and hunger), several countries may fall short. The region is also at considerable risk of failing to reach the non-income goals, with available data indicating that 27 of ADB's DMCs are at risk of not achieving 25% or more of the indicators.



More action is needed in the region to achieve women's empowerment and gender equality in tertiary education



The greatest concerns are in the health, water supply and sanitation, primary education, and environment sectors. Additionally, more action is needed to achieve gender equality in tertiary education and women's empowerment.

Throughout the region, ADB must ensure that all its work is aimed at reducing poverty—its overriding purpose. This means intervening either directly—by including strong, pro-poor elements in all programs and projects—or indirectly, by fostering pro-poor sustainable economic growth in its DMCs.

In his speech at the 2005 Annual Meeting in Istanbul, ADB President Haruhiko Kuroda called on ADB to be more relevant, more responsive, and more focused on results so it can meet the challenges and demands of the borrowing members in achieving the MDGs.

The following presents some steps ADB is taking to ensure it is more effective and efficient in carrying out its work. Subsequent chapters of this report look at the work ADB continued or launched in 2005 to help meet the goals in each of its operational subregions.

Improving ADB's Effectiveness

PORTFOLIO PERFORMANCE AND RESULTS

The *Annual Report on Loan and Technical Assistance Portfolio Performance* for 2004 from the Operations Evaluation Department was well received by the ADB Board, which found that the report provided hard evidence and numbers to identify several important strategic challenges.

These findings were generally consistent with those

ADB President Haruhiko Kuroda called on ADB to be more relevant, more responsive, and more focused on results

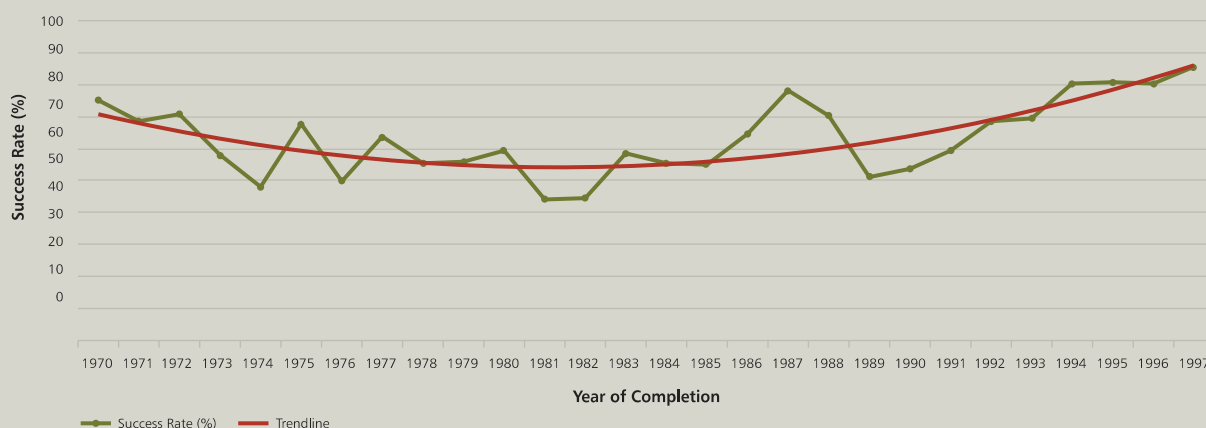
of other efforts, including the consultation missions for the partnership framework for middle-income ordinary capital resources (OCR) countries, and the independent assessment of the effectiveness of the reorganization of ADB and the Innovation and Efficiency Initiative (see page 11).

Among the findings, the analyses indicated that when the increased lending of 1997–1998 in response to the Asian financial crisis was factored out, the annual OCR and Asian Development Fund (ADF) loan approvals had stagnated at about \$5.2 billion a year in the past decade, and OCR disbursements had declined steadily. Income from OCR lending fell by 43% from 2001 to 2004, resulting in a 38% drop in ADB's gross annual income.

Some 86% of loan projects in the past 10 years experienced delays that required at least one extension of the loan closing date; 60% required extensions of more than 1 year, with the average overall extension about 2 years.

Many borrowers struggled to meet conditions for second and subsequent program loan releases, resulting in a carryover of about \$1.25 billion in delayed tranche releases at the end of 2005. In addition, lending was

Proportion of Successful Projects/Programs



Project/program Implementation: 5–6 years
 Completion report: 1–2 years after project/program is completed
 Project/program evaluation: 3 years after completion

heavily concentrated, with 8 DMCs receiving 83% of the total, while the 23 smallest borrowers received only 9%.

These broad trends supported the contention that ADB's traditional products were no longer meeting many of the needs of its key clients, and that new products and less arduous procedures were needed to improve the effectiveness of its development activities.

During 1998–2004, the total number of ongoing technical assistance grants in ADB's portfolio increased by 53%, while the net amount of the technical assistance portfolio increased by just 42%. There are indications that the technical assistance portfolio growth has exceeded ADB's capacity to manage it effectively. The proportion of technical assistance activities visited by a review mission has fallen steadily each year from a high of 66% in 1998 to a low of 25% in 2004. And despite the significant growth in the technical assistance portfolio, the average annual number of staff days on technical assistance review missions remained about the same during 1998–2004.

These issues are being addressed under ADB's

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Reform Agenda, through the Innovation and Efficiency Initiative and other programs. New products, such as the multitranche financing facility, subsovereign and nonsovereign public sector financing facility, local currency lending, refinancing and retrofinancing facility, and financing syndications and risk-sharing agreements, are being introduced, and the administration of more projects is being delegated to ADB's country offices to improve oversight and reduce response times.

The report's direct impacts are largely internal to ADB. For the first time, the Development Effectiveness Committee requested Management to prepare an action plan to address the findings of an Operations Evaluation Department report. Management formed a task force to prepare an action plan to address the issues identified in the report at the corporate level. The larger and more important indirect impacts of this report will be to stimulate improvements in ADB's performance in administering the portfolio, and better project delivery for ADB's DMCs.

ASSESSING PROJECT QUALITY

The reforms under way throughout ADB's operations are equally important in its Operations Evaluation Department, where changes have started to eventually turn the 2005 Annual Evaluation Review into a review of development results, rather than a review of evaluation activities.

In comparison with its predecessors, the 2005 review differed in structure, content, and analytical depth. In particular, it undertook a retrospective evaluation of ADB's public sector projects, which account for 84% of cumulative lending, and its conclusions should help ADB improve project quality and portfolio performance in the future.

In general, the analysis of 968 projects showed that project success deteriorated during the 1970s, bottomed

Project/Program Performance Audit/Evaluation Report Results by Sector

Sector	Total Rated Projects/Programs (No.)	Proportion (%)		
		HS/GS/S	PS	US
Transport and Communications	110	83	9	8
Energy	116	81	17	2
Industry	28	75	14	11
Multisector/Others	19	58	26	16
Social Infrastructure	127	55	40	5
Finance	80	46	45	9
Agriculture and Natural Resources	219	41	43	16
Private Sector	10	90	10	0
Total	709	60	31	9

GS = generally successful, HS = highly successful, PS = partly successful
S = successful, US = unsuccessful.

Data Source: Project/program performance audit/evaluation reports containing a rating circulated as of 31 December 2005.

Evaluation Results for Technical Assistance Operations

Type of Evaluation	Total Rated TAs (No.)	Proportion (%)		
		HS/GS/S	PS	US
Self-Evaluation				
TCRs	1,352	81	16	2
Independent Evaluation				
TPARs	173	61	32	7
Attached ADTAs ^a	131	50	31	19
Total	304	56	32	12

ADTA = advisory technical assistance, GS = generally successful, HS = highly successful, PS = partly successful, S = successful, TA = technical assistance, TCR = technical assistance completion report, TPAR = technical assistance performance audit report, US = unsuccessful.

^aEvaluations as part of project/program performance audit reports to which they are attached.

In general, the analysis of 968 projects showed that project success deteriorated during the 1970s, bottomed out in the early 1980s, and improved from 1987 onward

out in the early 1980s, and improved from 1987 onward (see graph, page 6). The evidence also suggests that efforts in the early 1990s to improve project quality through the project management structure, quality at entry, and portfolio management and project administration met with some success, although these efforts need to be continued.

The report highlighted some key factors necessary for ADB to become a results-based organization, such as improving selectivity and focus, taking into account past results of projects; raising the performance of countries with poor records; and strengthening the economic forecasts underlying project plans—since most infrastructure projects require that planners take a decades-long view.

Measures to prevent project approvals bunching up at the end of the calendar year were also suggested, among them, giving staff a clear message that achieving development results is more important than the calendar year in which a loan is approved. ADB Management responded in August, saying that ADB's ongoing and future operations will support the implementation of major recommendations. The report also noted that ADB had made considerable efforts to mainstream the Managing for Development Results agenda across all operations, particularly through its results-based country strategies and programs and the Project Performance Management Systems.

Another innovation in the 2005 report featured a chapter drawing together some of the broader findings of ADB's operations in one sector.

In 2005, the Operations Evaluation Department also published several separate sectoral evaluations (such as the social sector in Pakistan and the power sector in the Philippines). In addition, evaluations were completed on ADB's country assistance programs for Bhutan and Indonesia.

IMPROVING COUNTRY STRATEGIES

These evaluation findings are also being used to help ADB improve its country strategies.

Among the specific findings, the analysis showed that the project sector was an important determinant of project



Overall, energy is one of ADB's best-performing sectors

performance (see table, page 7). For transport and energy projects approved in the 1990s, the probability of a successful rating was over 85%. There was a lower probability of success, at 46%, for projects in the agriculture sector and for lines of credit to government-owned development finance institutions. The problems in the agriculture sector were widespread, although performance was relatively better for irrigation and rural development projects.

Performance also varied, naturally enough, by country, although it improved for all country groupings in the 1990s. More than two thirds of ADB-funded projects were successful in Bhutan, Central Asian republics, People's Republic of China (PRC), Greater Mekong Subregion (GMS), Maldives, and Mongolia.

The project success rate was below 50% in the Pacific islands, heavily influenced by weak performance in Papua New Guinea, and in the Philippines.

ADB policies were applied uniformly to all countries, despite clear differences in portfolio performance and borrower requirements. ADB has recognized that it will be more efficient, will reduce transaction costs, and likely improve results to delegate more authority and accountability to strong DMCs; work on this continues in the middle-income country strategy and through the Innovation and Efficiency Initiative. Efforts will also be required to assist small, vulnerable, and/or weakly performing DMCs whose primary needs may not be for loan-funded projects or programs.

In reviewing these reports, the Development

Of the 94 evaluated power projects, 76 were rated as successful or better

Effectiveness Committee recommended further work to improve sector selectivity and focus on country strategies, strengthen core technical skills, increase delegation to the resident missions, and strengthen loan and technical assistance project implementation. The committee noted that, while past performance in a sector is an important factor, other considerations also need to be taken into account, including the borrowers' requirements and the potential impact on poverty reduction.

SPOTLIGHT ON THE ENERGY SECTOR

The Operations Evaluation Department chose to put the energy sector under the spotlight in its 2005 report, because it accounts for 19.7% of cumulative lending and is going through structural changes in many countries.

Overall, energy is one of ADB's best-performing sectors. Although delays in implementation are the norm, of the 94 evaluated power projects, 76 were rated as successful or better, 16 as partly successful, and only 2 as unsuccessful.

ADB assistance has contributed to economic development by increasing access to electricity and making the energy sector more efficient. ADB should continue to support power sector reform, sound regulation, tariff reform and cost recovery; development of an enabling environment for private sector investment; and finance for both public and private sector investments in infrastructure.

New and Revised Policies and Procedures

REFORMING TO REMAIN RELEVANT

The year 2005 was very much a year of transition for ADB: a new president in February, the final year of the current medium-term strategy, and many changes implemented through its Reform Agenda.

To remain responsive and relevant in the complex and fast-changing environment and to help ensure that economic growth lifts as many lives as possible, ADB has been reforming its processes, policies, and programs. Many changes are being put in place under the plan known as the Reform Agenda, adopted in 2004, which is making ADB more effective in delivering country-level development outcomes and its goal of poverty reduction.

The agenda consists of 19 ADB-wide reform initiatives to deliver five broad outcomes related to internal changes

and realignment: improving operational policies, strategies, and approaches; mainstreaming Managing for Development Results; refining organizational process and structure; reinforcing knowledge management; and improving human resources management and staff incentives.

Major milestones were reached on many of the Reform Agenda's 19 initiatives in 2005, including adoption of three change proposals under the Innovation and Efficiency Initiative on new financing instruments and modalities, local currency loan product, and cost sharing and expenditure eligibility; adoption of a revised design and monitoring framework for the project performance management systems; establishment of an independent Risk Management Unit and the Office of Regional Economic Integration; adoption of a new Public Communications Policy; and adoption of a new performance management system under the human resources strategy.

Running like a thread through the organization, ADB is deepening its application of results-based systems for planning, monitoring, reporting, and evaluating its actions to better manage for development results.

MANAGING FOR DEVELOPMENT RESULTS

Managing for Development Results at ADB is focused on improved learning and decision making at the DMC level, within its own institutional framework, and globally as part of an emerging network of Managing for Development Results institutions and practitioners.

During 2005, for example, ADB produced the first results-based annual report on its poverty reduction strategy. The report assesses progress in advancing the



ADB must make sure all its programs and projects contain pro-poor elements



strategy, and introduces a results-based monitoring and evaluation framework with clear indicators.

The ADB Board of Directors also endorsed results-based country strategies and programs in Bangladesh, Bhutan, Mongolia, and Philippines, the first batch to join the 2004 debut of Nepal's pilot results-based country strategy and program. The country strategies and programs for Fiji Islands, Indonesia, Papua New Guinea, Uzbekistan, and Viet Nam are being developed to include tools to enable those programs to be managed for development results. All are being put together after extensive consultations with a broad spectrum of stakeholders in those countries, making the strategies and programs more inclusive and reflective than ever before of the needs of the poor.

RESULTS IN COUNTRY STRATEGIES AND PROGRAMS

Results-based country strategies and programs put in place a matrix of objectives and clear indicators for monitoring progress, and provide the flexibility to zero in on the developmental constraints of the member country. For example, the Philippine country strategy and program focuses on the fiscal deficit, the Bangladesh and Nepal country strategies and programs deal closely with governance, and regional imbalances are important in the Viet Nam country strategy and program.

Some countries have more capacity to adopt results orientation than others—such as large, middle-income economies—more so than smaller, fragile states. As a key action under Managing for Development Results, ADB will work with its DMCs to help develop their capacity and strengthen country systems for the strategy.

Regionally, the new Pacific Regional Economic



Women in Bangladesh learn the basics of microfinance, a key step to improving their lives (left); ADB must clearly and consistently demonstrate effectiveness in its operations (above)

Results-based country strategies and programs provide the flexibility to zero in on the developmental constraints of the member country

Cooperation Strategy and Program (Pacific Strategy) is also designed to be managed for results and was put together after consultations and extensive workshops with stakeholders concerned.

The Pacific Strategy is a unique document in ADB. It will guide the preparation of all country strategies and programs in the region and all regional activities. Through a matrix of three objectives and seven key result areas, the strategy is based on monitoring, reporting, and assessing work across the region, and, importantly, learning from this process for future decision making.

PROJECT PERFORMANCE MANAGEMENT SYSTEMS

Inadequate planning and insufficient involvement of stakeholders in project preparation are among the main reasons for project failure. The results-based approach is also working at the project level, under the Project Performance Management Systems, which centers around the development of improved design and monitoring frameworks for ADB projects, programs, and technical assistance.

The new frameworks are results-based participatory

instruments that help in conceptualizing, designing, implementing, monitoring, and evaluating projects. The improved use of better frameworks is expected to provide a consistent structure for all lending and non-lending operations; clarify outcomes by harmonizing better with other aid agencies; describe the “results chain” of a project; and improve the formulation of expected development outcomes by identifying performance indicators.

GLOBAL AGENDA

ADB has also played a key role in discussions among the multilateral development banks to mainstream Managing for Development Results. For example, it initiated joint development of the multilateral development banks' Common Performance Assessment System, which will collectively assess each year how five banks are progressing in mainstreaming the Managing for Development Results agenda.

Indeed, at the Second High-Level Forum on Aid Effectiveness in March 2005, delegates from more than 100 developed and developing countries and major international agencies endorsed the Paris Declaration on Aid Effectiveness. They resolved to take far-reaching and monitorable actions to reform the ways aid is managed.

ADB and other multilateral development banks also committed to harmonizing operational policies, procedures, and approaches to reduce transaction costs for donors and developing countries. ADB collaborates with partners on key economic, sector, and thematic works and increasingly uses harmonized approaches in developing results-based country strategies and programs.

INNOVATION AND EFFICIENCY INITIATIVE

ADB provides both finance and expertise to its clients. Finance includes debt, equity, and guarantees. Expertise covers sector and thematic areas and is channeled mainly via technical assistance grants. Besides its proximity to the market and sector/thematic knowledge, ADB also maintains a close working relationship with countries in the region.

To package these assets for greater development effectiveness, ADB is streamlining some of its business processes and developing new financing instruments and modalities. The Innovation and Efficiency Initiative has been established for this purpose. It aims to make ADB more client- and results-oriented, and efficient. The initiative covers seven change areas: new financial instruments, including local currency; better country strategies; simplified business processes; improved procurement policies; simplified consulting services; enhanced cost-sharing and expenditure eligibility criteria; and improved safeguard policies.

The Innovation and Efficiency Initiative aims to make ADB more client- and results-oriented, and efficient

NEW INSTRUMENTS AND MODALITIES

ADB is testing five new financing instruments and modalities to meet client needs in a more efficient and cost-effective manner. The new instruments will be implemented on a pilot basis for an initial period of 3 years, after which performance, suitability, and outcome will be evaluated. If found to be sound, relevant, and effective, they will be mainstreamed into ADB's operational toolkit.

The new financing instruments are meant to be client-driven and easy to use. They follow ADB's strategic framework, comply with ADB's Charter, and are aligned with existing policies and procedures.

They are also designed to preserve the institution's triple A credit rating. An independent Risk Management Unit was created in 2005 as a precondition for the pilot instruments, and to evaluate nonrecourse financing or nonsovereign finance transactions. This unit will cover public and private sector operations processed by regional departments, by the Private Sector Operations Department, or by joint teams.

The financing instruments include the following.

- **A multitranche financing facility, similar to a standby and noncontingent line of credit, relevant for both debt equity and guarantee finance.** The facility targets mainly investment programs, large projects, and credit lines. Pilot testing began in 2005 with two transactions, one in India and another in Pakistan.
- **Direct financing to subsovereign, quasi-sovereign, and state-owned enterprises.** This new instrument responds to the decentralization process taking place in the region and allows ADB to service a new set of clients.
- **Local currency financing.** This is now applicable to both public and private transactions. It addresses the potential mismatch between borrowing in foreign currency and having income streams in local currency. This is especially relevant in the case of public services, utilities, and infrastructure projects.
- **Refinancing facility.** This allows ADB to help with the restructuring and/or expansion of existing projects with inappropriate financing plans.



New country strategies and programs are being put together after extensive consultations, making them more inclusive and pro-poor

- **New forms of cofinancing.** ADB has seen increased interest from commercial financial institutions in both the private and public sectors to enter into risk-sharing agreements—cofinancing through active financial syndications and risk sharing with commercial financing partners. The new arrangements will expand cofinancing and partnership opportunities for all parties involved.

OTHER POLICIES AND STRATEGIES

ADB has been reviewing and improving its policies, strategies, and approaches to ensure that they are focused on results and are relevant. In 2005, ADB reviewed its existing Private Sector Development Strategy and started preparing a new strategy for regional cooperation and integration. Following the review of its Private Sector Development Strategy, ADB prepared and submitted to the Board of Directors a new strategic framework. This focuses on enabling environment intervention to create a level playing field for instruments, mobilization of finance for private sector development, and new ways of financing public goods and services. The framework is accompanied by an action plan.

Setting the tone for policy review, meanwhile, the Public Communications Policy was approved. After extensive and transparent consultations with interested groups around the world, working drafts were posted on the internet, and extensive comments were publicized on the ADB intranet. ADB closely considered all contributions in the final product, which is now setting a progressive tone for the organization's dissemination of knowledge and information (see page 13).

Similar wide-ranging consultations were held as part of the review of the implementation of ADB's governance and anticorruption policies. ADB circulated the review

ADB has been reviewing and improving its policies, strategies, and approaches to ensure that they are focused on results and are relevant

conclusions in the draft paper *Improving Governance and Fighting Corruption: Implementing the Governance and Anticorruption Policies*, which was made publicly available for comment in December 2005.

The review finds that ADB has succeeded in raising the profile of governance in the region and significantly increased assistance between 2000 and 2004. However, the review concludes that there is a long way to go toward embedding implementation of the governance and anticorruption policies in the mainstream of ADB operations. The sheer scope of the governance policy and its action plan has resulted in too many small projects of short duration and thinly spread staff resources.

The review also concludes that ADB has achieved some success in dealing with fraud and corruption in procurement and in increasing awareness of the Anticorruption Policy. But less progress has been made in assessing the impact of corruption on a country's ability to meet its development goals.

The review also finds that service delivery in many DMCs is plagued by inefficiency and corruption, for example, in health, education, water, licensing, revenue, and land titles. It says that higher priority should be given to supporting investments in local transparency, participation, and complaint mechanisms; and strong preventive measures against corruption must be built into project design and followed up with effective oversight and corruption risk mitigation management during implementation.

ADB also continued implementation of its Performance-Based Allocation Policy, which governs the allocation of grants and loans to borrowers from the ADF (see below).

And the year included work to prepare ADB's second Medium-Term Strategy, which will introduce some strategic measures as the first steps to a more comprehensive longer-term ADB response to the rapid and far-reaching changes in the region is experiencing. The document will be made available in 2006 (www.adb.org/Documents/Policies/MTS/2006/). A review of ADB's Long-term Strategic Framework is also to progress, beginning in 2006.

Public Communications Policy: Making Information Available

ADB's new Public Communications Policy heralds an ambitious shift toward sharing knowledge. ADB commits to a refined and more focused approach to external relations, with clear positions on issues of importance, better information products to explain them, and wider distribution. The policy's new rules regarding the disclosure of information about its operations put ADB ahead of other international finance institutions.

The policy forthrightly supports the right of people to seek, receive, and impart information and ideas about ADB's activities. Among its unique features, it will proactively make information publicly available by posting it on the web, and not only after a request. People should be able to find the information they want, rather than having ADB presuppose what they need.

If the information ADB holds is not subject to clear confidentiality criteria, it must be publicly disclosed. The policy even favors disclosure of sensitive information if the public's interest in receiving the information outweighs the harm that may be caused to ADB. By leapfrogging other international development organizations, the new policy puts ADB apace with a global movement toward greater transparency and disclosure. The organization believes that greater awareness and understanding of its objectives will help generate public trust.

Disclosure Enables Participation

Overall, the more transparent approach under the policy ensures that much more information will be available to the public in the early stages of policies, country strategies, or projects—before decisions are made and members of the public can no longer influence the development initiatives that affect them. By sharing information, people can better participate in decision making.

ADB also recognizes that those who need information do not necessarily have access to the internet. Early in the design of projects that affect local residents, information will be made available to the people likely to be affected, and ADB will work closely with the borrower or project sponsor to ensure information is provided and feedback sought. A focal point will also be designated for regular contact.

Organizations such as national-level civil society groups increasingly want to be involved in their country's development strategy. ADB enables this involvement by requiring that draft country strategies and programs be disclosed to in-country stakeholders.

ADB regularly consults a wide range of groups before adopting or revising new operational policies and strategies, and now requires draft policy and strategy papers to be posted routinely on its website.

Disclosure Enables Accountability

From the beginning of open and broad-based consultations with a huge spectrum of interests in preparing the policy—a process one major nongovernment organization (NGO) called the best policy review to date among multilateral development banks—ADB has signaled a new direction under this policy. As a public finance institution, it wants to be held publicly accountable.

ADB-supported development activities are paid for by citizens of its member countries, so the organization recognizes that it needs to be transparent with the public. ADB reviewed all the documentation it regularly produces and asked the question: What is the harm in releasing this document? This puts

the onus on ADB staff to defend why information cannot be released.

The policy also favors “redaction” rather than withholding of information; that is, ADB will remove the confidential part of a document in order for the bulk of it to be released. And ADB will not withhold information simply because it is negative. It will report failures and disappointments, as well as successes.

ADB now has strict time limits for responding to requests for information, and regularly monitors the policy to ensure that it operates in accordance with its principles and rules. Reports on the policy's implementation will be produced and disclosed annually.

ADB will not withhold information simply because it is negative



The policy supports the rights of people to seek, receive, and impart information and ideas about ADB's activities

Disclosure of sensitive information is favored if the public's interest in receiving the information outweighs the harm that may be caused to ADB

PERFORMANCE-BASED ALLOCATION POLICY

ADB's Performance-Based Allocation Policy governs the allocation of resources under the ADF, which provides loans and grants to poorer countries on highly concessional terms. The policy and its implementation was a central theme of ADF IX negotiations. ADB began implementation of its revised Performance-Based Allocation Policy after Board approval in December 2004.

In 2005, ADB took a number of steps to strengthen implementation and increase transparency of the policy, and to further harmonize performance-based operations with those of development partners.

A focal point was established in ADB's Strategy and Policy Department. The First Multilateral Development Banks' Technical Meeting on Performance-Based Allocation, jointly planned by the African Development Bank, ADB, and the International Development Association of the World Bank Group, was hosted in Manila in January 2005.

In April, ADB organized regional technical workshops in Suva, Fiji Islands, and in Bangkok, Thailand, to explain the objectives of the new policy to officials from DMCs and civil society organizations.

In line with the revised policy, the World Bank's Country Policy and Institutional Assessment questionnaire was adopted to conduct the 2005 country performance assessments, and the two organizations coordinated to ensure consistency in the conduct of assessments exercises.

The first country performance assessments under the revised policy were carried out in 2005 to determine ADF allocations for 2007–2008. The assessments covered five areas: macroeconomic management, structural policies, social inclusion/equity, governance, and portfolio management.

Recently, ADB reached an important milestone in implementing the revised Performance-Based Allocation Policy, with numerical ratings being released for the first time in the public domain.

Internal Initiatives

HUMAN RESOURCES

Human Resources Strategy

The Human Resources Strategy, approved in 2004, is a critical component of ADB's Reform Agenda. ADB made significant progress implementing several initiatives under the strategy in 2005. The initiatives, by improving management of human resources, help ADB work toward achieving results.

The ADB-wide competency framework was

implemented through the new performance management system and learning and development programs. Subsequent implementation of the ADB-wide competency framework will continue in 2006 through enhancements to the recruitment, selection, and promotion systems.

Among the initiatives, the new performance management system clearly defines individual staff responsibilities and accountabilities in annual work plans agreed between staff and managers. The Performance and Development Plan provides better alignment between an individual staff member's work plan and the organization's key results. It is a framework that provides the needed structure to manage performance on a daily basis through timely, continuous, and constructive feedback as well as more objective performance distinctions and recognition. The Performance and Development Plan will allow ADB to efficiently manage staff development and personnel decisions. Improvements will continue to be made to the performance management system during the 2006 cycle.

Recruitment and selection initiatives were improved through the delegation of some oversight functions to the Vice President (Finance and Administration) and through the use of external specialized recruitment firms for senior positions in the Private Sector Operations Department and the new Risk Management Unit. Panel interviews for professional staff and greater participation of the hiring divisions were sought to screen and interview external candidates.

To facilitate implementation of the strategy, ADB was required to first attain the flexibility to adjust the composition of its workforce to ensure that staff possess the appropriate competencies, motivation, and potential to perform. Implementation of the Enhanced Separation Program started in 2005 and will be completed in 2006. The program encourages selected staff members who have reached a plateau in their careers to take the opportunity to separate from ADB earlier than their normal retirement date.

New Unit Formed to Focus on Learning

The Learning and Development Unit was established in 2005 to optimize the use of learning and development resources, support a more efficient approach to learning and development, and adopt a more strategic approach toward identifying learning needs within the business

The Human Resources Strategy is a critical component of ADB's Reform Agenda

environment. The focus is primarily on promoting institutional efficiency and effectiveness, redesigning leadership programs, and improving technical programs. To determine ADB's learning needs, an ADB-wide training needs assessment was implemented as part of the new performance management system. Several new workshops were introduced in 2005, and broad training programs on technical and operations skills development as well as leadership coaching to strengthen leadership and accountability were conducted. A job rotation pilot was implemented for resident mission national officers.

Initiatives that continue to support the objective of creating an inclusive and women-friendly environment were implemented, including diversity and gender sensitivity sessions.

Staffing

At the end of 2005, ADB had a staff of 2,456 coming from 53 of its 64 member countries. The total comprised 887 professional staff members and 1,569 local staff members, of whom 342 or about 17.2% are located in field offices. During the year, there were 95 appointments and 68 departures of professional staff members, while 137 local staff joined ADB, and 102 left. Women professional staff members increased in number but decreased as a percentage of total professional staff. Women professional staff members totaled 255 (29.8% of total professional staff) at the end of 2004 and 259 (29.3% of total professional staff) at the end of 2005.

COMPENSATION

Consistent with ADB's market-driven compensation system, the Board approved a 3.4% weighted average salary increase for professional staff and a 0.9% salary budget for nonrecurring, non-pensionable bonus for 2006. It also approved a weighted average salary increase of 10.9% for national officers and administrative staff at headquarters for 2006, while an overall weighted average salary increase of 10.8% for the national officers and administrative staff in 25 field offices was implemented for 2006.

The Board discussed the Comprehensive Review of Compensation and Benefits for professional staff in November 2005. It approved a change in the methodology for setting professional staff salaries. The European Bank for Reconstruction and Development has been added as a comparator, in addition to the World Bank. The salary budget increase has been split into two components: a salary increase to be distributed based on performance; and a nonrecurring, non-pensionable bonus to be given to staff rated exceptional under the Performance and



The new performance development plan provides better alignment between staff work plans and ADB's key results

At the end of 2005, ADB had a staff of 2,456 coming from 53 of its 64 member countries

Development Plan. Some benefit changes that were discussed with the Board and approved by Management included changes to the Staff Retirement Plan and the Group Medical Insurance Plan for pensioners, as well as minor changes to the expatriate benefits on housing, home country travel, and education assistance.

INTERNAL ADMINISTRATIVE EXPENSE BUDGET

Internal administrative expenses for 2005 totaled \$294.3 million, a saving of \$5.5 million against the original budget of \$299.8 million, resulting mainly from lower-than-expected staff costs, business travel, and administrative expenses, despite emergency assistance to the earthquake- and tsunami-affected areas. Savings were offset by a higher requirement for consultants and staff relocation. About \$0.7 million was transferred from the general contingency to meet the unexpected increase in staff-related expenses of the Operations Evaluation Department and higher relocation expenses of the offices of the directors.

For 2006, the internal administrative expense budget is \$312.9 million, including a general contingency of 1% (summarized in Appendix 10), and net of \$3.8 million

estimated to be recoverable from administering trust funds of multilateral and bilateral institutions. The 2006 budget has been prepared under a zero real growth scenario, with no professional staff increases. The nominal budget increase over the 2005 budget estimate is 5.3%, which is fully attributable to price increases. To achieve this flat real growth budget and to ensure that resources are available to fund priority work programs for 2006, an across-the-board sequestration of 5% of the authorized professional staff complement and selected discretionary expenses was applied.

Budgetary resources in 2006 will fund a prioritized work program, including the following major initiatives: expansion of OCR lending to meet the priority needs of DMCs, including lending to subsovereign and nonsovereign entities; expanded private sector operations to reach unserved DMCs; enhanced portfolio management with increased delegation of project implementation and other functions to resident missions; strengthened credit risk assessment and management; enhanced regional and subregional cooperation and integration; Managing for Development Results and the Human Resources Strategy under the Reform Agenda; the Committee of Sponsoring Organizations of the Treadway Commission framework; knowledge management action plan; and implementation of the Public Communications Policy. Increases in budgetary resources to support these initiatives are to be met through sequestration of resources, trade-offs, productivity gains, and various efficiency measures.

In addition to internal administrative expenses, the 2006 budget also includes an annual capital budget of \$4.1 million, mainly to fund cyclical capital expenditures for headquarters facilities and information technology equipment, and to meet replacement and acquisition requirements of field offices.

ADMINISTRATIVE SERVICES

The Office of Administrative Services worked to maintain a safer and better work environment through several major

The 2006 budget has been prepared under a zero real growth scenario, with no professional staff increases. The nominal budget increase over the 2005 budget estimate is 5.3%, which is fully attributable to price increases

initiatives in 2005. Under the Enhanced Security Access Control Project—one of the projects under the Special Capital Budget Projects, which was approved in April 2004 by the Board of Directors—all six entrances to the headquarters building were improved and the Security Operations Center that operates 24/7 to provide timely information was established. It also led to the development of the ADB Business Continuity Strategy, approved in February 2005. The strategy, which aims to mitigate the probability of a risk occurrence and reduce the impact of a risk event, focuses on the timely response to a disruption affecting ADB's business processes.

In November 2005, ADB passed its second year surveillance and maintained its ISO 14001 and OHSAS 18001 certification, confirming that ADB's environment, health, and safety management systems comply with international standards.

The office also launched and managed ADB's i-travel self-booking tool to enable personnel to make online travel reservations anytime they require. Last year's projects also included the improvement of procurement procedures and outsourcing opportunities, and the latest printing technology upgrade.

All these bank-wide initiatives were anchored on the Balanced Scorecard and Six Sigma, which are now being used in the office as tools to measure quality for business process management improvement.

INFORMATION SYSTEMS AND TECHNOLOGY

The Office of Information Systems and Technology provides access to knowledge and information as required, in support of ADB goals in three major areas: information systems, technology infrastructure, and information technology governance.

Under information technology governance, the office recently completed a realignment, putting in place four business units: Technology Division, Solution Delivery Division, Infrastructure Unit, and Business Process Support Unit.

As part of the Information Systems and Technology Strategy Phase II, several initiatives have started to increase efficiency in information and technology areas. Foremost is the infrastructure optimization initiative to simplify and consolidate existing technology. This is expected to streamline ADB's information and technology environment toward the desired enterprise architecture laid out against the defined business direction and to ensure greater cost-effectiveness.

In the area of information systems, the office is working closely with the Knowledge Management Center and the Regional and Sustainable Development Department to

identify requirements for better information sharing in support of decision making and knowledge management.

Governing Structure

BOARD OF GOVERNORS AND BOARD OF DIRECTORS

ADB's highest policy-making body is its Board of Governors, which is composed of one representative from each ADB member. The Governors meet annually and elect the 12 members of the Board of Directors, who serve 2-year

terms. Each Director appoints an Alternate. The President is elected by the Board of Governors for a 5-year term and serves as Chairperson of the Board of Directors. The President manages ADB, assisted by four Vice Presidents and a Managing Director General. (For the current list of Governors and Directors, see appendixes 4 and 5.)

Haruhiko Kuroda assumed office as ADB President on 1 February 2005 after being unanimously elected by the Board of Governors in November 2004.

Vice President Joseph Eichenberger completed his assignment on 31 December 2005. C. Lawrence

38th Annual Meeting

The 38th annual meeting of the Board of Governors was held in Istanbul, Turkey, from 4 to 6 May 2005, with activities and events commencing on 2 May 2005.

ADB's Board of Governors recognized that developing Asia had entered a new era of development characterized by dynamic growth, increased interdependence, and an unprecedented prominence in the global economy. The Governors also recognized that the generally buoyant economic profile was not uniform, that significant disparities in economic and social development persist within countries and across the region, and that reducing non-income poverty has been slow in many countries.

The Governors expressed firm commitment to reducing poverty and achieving the MDGs in the Asia and Pacific region, and reaffirmed their vision of a region free of poverty.

The Governors also

- expressed their strong appreciation to ADB for its leadership role and quick response in addressing the aftermath of the tsunami in late 2004;
- reaffirmed the importance of Managing for Development Results;
- noted ADB's strong commitment to a more proactive role in regional cooperation and integration, and welcomed the creation of the Office of Regional

Economic Integration;

- shared ADB's concern with the negative net transfer of resources to DMCs, and welcomed ADB's plan to streamline policies and procedures, develop new lending instruments, sharpen the focus of its operations, and ensure cost competitiveness, within a well-defined medium-term strategic framework;
- urged ADB to work with governments, development partners, and the private sector to meet the large infrastructure challenges in

the region; and

- commended ADB on the introduction of grants in ADF IX, and noted that the use of ADF IX grant resources must be consistent with ADB's overall commitment to development effectiveness.

About 2,500 participants attended the annual meeting, including representatives from multilateral and bilateral institutions, the global financial community, and civil society. The 39th annual meeting will be held in Hyderabad, India.



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The Governors expressed firm commitment to reducing poverty and achieving the MDGs for a poverty-free Asia and Pacific region

Greenwood, Jr. was elected by the Governors to replace Mr. Eichenberger. Mr. Greenwood assumed office on 28 February 2006.

The Board of Directors met formally on 49 occasions and held 38 informal meetings in 2005 including briefings, discussion seminars, and presentations. Members of the Board of Directors made official visits to India, Maldives, and three Central Asian republics.

The Annual Meeting was held on 4–6 May 2005 in Istanbul, Turkey (see page 17).

BOARD COMMITTEES

The Board of Directors has four standing committees. Membership is shown in Appendix 6.

Audit Committee

The Audit Committee identified and reviewed a comprehensive range of audit issues within its mandate, representing a broad cross-section of ADB operations and activities, including the quarterly financial statements, which are analyzed closely to review the financial soundness of ADB, and to keep track of the net income position. It continued to monitor implementation of the Financial Accounting Standard, FAS 133, covering accounting principles and practices in relation to derivative instruments; the effectiveness and efficiency of control procedures, including backup procedures as part of the Business Continuity Plan; and measures being taken to prevent fraud and corruption.

The committee, together with relevant ADB departments, finalized a review of its terms of reference, bringing them in line with those of other multilateral development banks. The role of the committee was made more specific with the inclusion of risk management, and procurement policies and procedures as part of the review of internal controls. The committee supported the initiative of the President at the Istanbul Annual Meeting of establishing an independent Risk Management Unit.

Budget Review Committee

The Budget Review Committee discussed the Enhanced Separation Program, later approved by the Board. It clarified how the program will provide flexibility to adjust human resources in line with the Human Resources Strategy.

The committee also discussed and amended its terms of reference to reflect the participation of Vice Presidents in committee meetings as necessary, allowing the discussion of strategic directions before the finalization of the work program and budget framework. The committee also looked at efforts and progress to improve cost information. It noted that the work program

and budget framework should be viewed as an ADB business plan to enhance effectiveness, with inclusion of a stronger results framework.

The committee reviewed the special capital expenditure proposal on a business continuity facility, later approved by the Board, to serve as a backup work facility during business interruptions at headquarters. It also recommended approval of ADB's 2006 budgets for internal administrative expenses and annual capital expenditures. The guiding principle of the budget formulation was zero real growth.

During the deliberations on the 2006 budgets, the committee requested a review of the overall lending program projections in the draft budget document, and these were subsequently revised upward. In response, the committee was provided with an update of the projected programs on regular operations, ADF grants, multitranches financing facility, and emergency assistance. The committee expressed concern about the impact of a zero real growth budget on the scaling up of operations, implementation of new initiatives, and the medium-term strategy. The committee was informed that this would not restrict work program objectives and targets, which are fully resourced.

The committee reviewed the work program of the ADB Institute, proposed a 2006 budget of \$14.2 million, and recommended its approval.

Compliance Review Committee

The Compliance Review Committee, set up under the Accountability Mechanism (see page 19), clears the Compliance Review Panel's proposed terms of reference and time frame for conducting compliance reviews, and reviews the panel's draft monitoring reports on implementation of remedial actions approved by the Board before the panel finalizes them. In 2005, the committee discussed the panel's proposed terms of reference for conducting a compliance review of the request under the Southern Transport Development Project in Sri Lanka and three draft monitoring reports on the implementation of remedial actions on the inspection request on the Chashma Right Bank Irrigation Project (Stage III). The terms of reference and monitoring reports are posted on the panel's website (www.compliance.adb.org).

Development Effectiveness Committee

To ensure the independence of ADB's operations evaluation process and reports, on 1 January 2004, the Operations Evaluation Department began reporting directly to the Board of Directors through its Development Effectiveness Committee.

Evolving areas of concern to the committee include how evaluation recommendations that Management accepts are turned into action, with an eye to making improvements. They also include how impact is monitored, and how the department could play a more strategic role.

All evaluation reports are posted on ADB's website upon circulation to the Board and Management, in accordance with the Public Communications Policy. Management's responses to the reports and recommendations, and the chair's summaries of committee discussions of the department's major reports are also posted when available.

The committee has changed the focus of its reviews and discussions from individual project evaluations to broader evaluations at the country, sector, thematic, and policy levels. Accordingly, in 2005, the committee meeting agenda included only such broader studies, none at the project level. For the first time, the committee recommended that Management formulate a comprehensive action plan to address key strategic issues identified in the annual report on portfolio performance. Management responded positively to the recommendation and committed to monitoring and reporting to the Board on such an action plan.

Accountability Mechanism

ADB's Accountability Mechanism aims to improve development effectiveness, project quality, and transparency in operations. Its two functions—consultation and compliance review—help solve problems and investigate alleged violations of ADB's operational policies and procedures.

Through the mechanism, people adversely affected by an ADB-assisted project can file a complaint with the Office of the Special Project Facilitator (www.adb.org/SPF), which reports directly to the ADB President.

Through the consultation function, the mechanism seeks agreement among all parties. A venue and a process for problem solving that can include fact-finding reviews, meetings, roundtable discussions, stakeholder consultations, and other means appropriate to the situation are provided.

Separately, affectees may also file a request for compliance review with the Compliance Review Panel (<http://compliance.adb.org>) if they believe they have been adversely affected by

a project because ADB has failed to comply with its operational policies and procedures. The panel will assess eligibility and will conduct compliance reviews agreed to by the Board of Directors. The Compliance Review Panel reports directly to the ADB Board of Directors for such matters.

The Office of the Special Project Facilitator received a complaint from five villages in South Kalimantan about the Community Empowerment for Rural Development Project in Indonesia and declared it eligible in March 2005. The agreed course of action consisted of preparatory meetings with all parties involved, joint fact-finding activities, and multi-stakeholder consultations.

At the end of September 2005, the parties signed village agreements for all five villages, and the consultation phase was concluded. Three Indonesian NGOs played an important role as intermediaries. The parties were to submit a progress report on the implementation of the agreements by the end of January 2006.

In December 2004, the Compliance Review Panel received a request for compliance review of the Southern Transport Development Project in Sri Lanka. The Compliance Review Panel found the project to have lapses of compliance with several ADB operational policies and procedures, including involuntary resettlement; and environmental considerations, gender and development, and incorporation of social dimensions in ADB operations. The Board approved the recommendations in the Panel's Final Report in July 2005. The Panel is presently monitoring ADB Management's implementation of the remedial actions.

The Panel also monitored ADB Management's implementation of the Board-approved remedial actions under the inspection request of the Chashma Right Bank Irrigation Project (Stage III) in Pakistan.

The Office of the Special Project Facilitator and the Office of the Compliance Review Panel intensified their outreach activities with government representatives, civil society, private sector, academe, and ADB personnel in nine countries.

The Office of the Compliance Review Panel hosted the 2nd Meeting of Accountability Mechanisms, which was attended by 18 representatives from various accountability mechanisms in development institutions.

Through the mechanism, people adversely affected by an ADB-assisted project can file a complaint

The main instruments for providing help to ADB's DMCs are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance

Financing Operations in 2005

FINANCIAL RESOURCES

Authorized and subscribed capital stock amounted to \$50.2 billion. ADB raised long-term funds totaling \$4.2 billion, of which \$1.0 billion was raised through a global public offering.

Gross income, which includes revenue and net realized gains, amounted to \$1.4 billion, \$1.0 billion of which was generated from the loan portfolio, \$375.3 million from the investment portfolio, and \$36.3 million from other sources, of which \$24.5 million came from equity investment operations.

ADB's Special Funds are the ADF¹ with 2005 committed resources amounting to \$2.6 billion, Technical Assistance Special Fund of \$195.5 million, Japan Special Fund totaling \$34.3 million, ADB Institute Special Fund of \$13.9 million, Asian Tsunami Fund of \$578.6 million, and Pakistan Earthquake Fund of \$85.5 million.

FUNDING

About 72.9% of cumulative lending is from OCR. Funding from OCR comes from three distinct sources: private placements and capital markets in the form of borrowing; paid-in capital provided by shareholders; and accumulated retained income (reserves), which provides a buffer for risks.

The main instruments for providing help to ADB's DMCs are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

ADB offers a range of modalities and terms for loans aimed at improving performance.

Loans are also provided from Special Funds. The ADF offers loans on concessional terms to members with low per capita gross national product and weak debt-repayment capacity. It is the only multilateral development bank concessional fund dedicated exclusively to economic and social development in the region. The ADF is financed by periodic voluntary contributions from donors. The current ADF IX program is \$7 billion for 1 January 2005–31 December 2008.

ADF IX grants are assisting countries in reducing the debt burden of development finance, making the transition from conflict to peace and stability, and combating HIV/AIDS and other infectious diseases.

ADB also manages and administers additional funds: Japan Scholarship Program, Japan Fund for Poverty Reduction, and Japan Fund for Information and Communication Technology, including those grants provided by bilateral and multilateral donors to support technical assistance and soft components of loans. In recent years, thematic trust funds focusing on gender and development, governance, poverty reduction, water, energy, and the environment were established to support technical assistance operations and selected components of loan projects (see page 41).

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

ADB has a triple-A credit rating and actively mobilizes financial resources through its cofinancing operations, tapping official, commercial, and export credit sources. Assistance to its DMCs creates an enabling environment for private sector development. ADB also directly finances private sector projects to assist commercial investors and lenders (www.adb.org/about/fnncemgt.asp).

OVERVIEW OF OPERATIONS

In 2005, ADB approved 72 loans (64 projects) for \$5.8 billion, 10 equity investments for \$217.1 million, 2 guarantees for \$68.4 million, 51 grant-financed projects for \$1.2 billion, and 299 technical assistance operations for \$198.7 million for ADB operations of \$7.4 billion (see page 24). In addition, ADB approved 2 multitranche financing facilities totaling \$1.5 billion.

LOANS

Lending with government guarantee accounted for 65 loans for \$5.3 billion (58 projects and programs), comprising 25 loans from ADB's OCR for \$3.9 billion and 40 loans from the ADF for \$1.4 billion.¹ This is a 6% increase over the almost \$5 billion in 2004 (an increase of 4.9% for OCR lending and 11% for ADF lending). Lending without government guarantee to the private sector accounted for seven loans for \$536.0 million (seven projects)—in financial terms, this is an increase of 83.2% over the five loans for \$292.5 million (five projects) in 2004.



In discussions with borrowers during 2005, countries highlighted the need for ADB to expand support for poverty reduction programs

Of the 64 public and private sector projects and programs approved in 2005, 16 (25%) were categorized as targeted interventions and 48 (75%) as general interventions. By theme, sustainable economic growth was most prevalent and was associated with 53 projects. By sector, transport and communications received the largest share of lending (30%).

The 54 public and private sector projects represented a total investment of approximately \$19.7 billion, of which \$5.1 billion (26%) will be financed by ADB; \$4.4 billion (23%) by governments and borrowers; \$10.1 billion (51%) by cofinanciers, equity sponsors, and local finance institutions; and \$50.7 million (0.3%) by project beneficiaries. Eight projects, amounting to \$1.0 billion, were financed under the sector lending modality, compared with seven projects amounting to \$1.3 billion in 2004.

By theme, sustainable economic growth was most prevalent and was associated with 53 projects; by sector, transport and communications received the largest share of lending (30%)

The 10 policy-based programs² approved in 2005 were valued at \$1.14 billion, compared with 14 programs for \$1.12 billion in 2004. Two program loans approved in 2005 were coupled with an investment project loan or a technical assistance loan.

EQUITY OPERATIONS

Ten equity investments totaling \$217.1 million were approved in 2005, compared with 11 for \$164 million in 2004.

COFINANCING AND GUARANTEE OPERATIONS

ADB actively promotes cofinancing to complement its assistance to its developing member countries with funds from bilateral partners and multilateral financial institutions, export credit agencies, as well as commercial financial institutions. As of 31 December 2005, non-ADB funds generated by ADB's cofinancing operations amounted to \$7.4 billion, including \$5.2 billion of commercial cofinancing from international and domestic banks and export credit agencies, \$1.8 billion of official loan cofinancing, and \$352.6 million of grant cofinancing from bilateral and multilateral development partners. Of this, cofinancing raised through ADB's provision of financial administration or credit enhancement services amounted to \$322.9 million, including \$68.4 million in credit enhancements (guarantees) for commercial loans, \$30.5 million with partial administration services for

official loans, and \$224.0 million with full or partial administration services for project grants.

Additionally, ADB established two new trust funds—PRC Poverty Reduction and Regional Cooperation Fund (\$20 million) and Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific (\$12.8 million)—with financing commitments of \$32.8 million, and replenished two funds with commitments of \$57.2 million.

GRANTS

ADB approved a total of 51 project grants for \$1.2 billion. Of this amount, \$246.6 million was funded from ADF IX; \$570.0 million from the Asian Tsunami Fund; \$80.0 million from the Pakistan Earthquake Fund; and \$254.7 million from cofinancing sources with full or partial administration by ADB, including \$28.4 million from the Japan Fund for Poverty Reduction, \$12.1 million from the Global Environment Facility, \$2.4 million from the Japan Fund for Information and Communication Technology, and \$211.8 million for ADB administration from bilateral and multilateral sources (Australia, Canada, Finland, Netherlands, New Zealand, Norway, Sweden, United Kingdom, and European Commission).

In addition, parallel grants of \$128.6 million were provided from multilateral and bilateral institutions without ADB administration services for seven ADB-financed projects.

TECHNICAL ASSISTANCE

A total of 299 technical assistance activities for \$198.7 million, including 269 new ones and 30 supplementary, were approved in 2005—in financial terms, this represents a 2% increase over the 321 technical assistance activities for \$195.1 million in 2004. Of the 299 technical assistance activities, 68 were for project preparation, 152 were advisory, and 79 were for regional assistance. Of the total amount approved, \$89.5 million will be financed from the Technical Assistance Special Fund, \$28.4 million from the Japan Special Fund, \$2 million from the Asian Tsunami Fund, and the remaining \$79 million from other multilateral and bilateral sources.

ADB established two new trust funds—PRC Poverty Reduction and Regional Cooperation Fund and Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific

MULTITRANCHE FINANCING FACILITIES

Under a new financing modality, two multitranche financing facilities were approved, totaling \$1.52 billion.³ These were \$770.0 million to Pakistan for the National Highway Development Sector Investment Program, and \$750.0 million to India for the Rural Roads Sector II Investment Program. It is expected that loans from these facilities will be approved starting in 2006.

RESOURCE TRANSFERS

While 2005 shows improvement in disbursement, lending to clients over the past 10 years was stagnant. In discussions with borrowers during the year, countries highlighted the need for ADB to expand support for poverty reduction programs. The Board discussed a range of new financial mechanisms and business procedure reforms under the Innovation and Efficiency Initiative to respond to client demands.

The net transfer of resources to ADB from its DMCs decreased to \$0.4 billion in 2005, compared with \$2.1 billion in 2004. There was a net inflow of \$1.0 billion (\$2.6 billion in 2004) to ADB from OCR borrowers/investors, mainly from full repayment of the financial sector program loan to the Republic of Korea of \$1.7 billion and prepayments of \$0.6 billion in 2005 (\$2.8 billion in 2004) of OCR loans. However, net transfers from ADB to ADF borrowers increased from \$468.5 million in 2004 to \$612.2 million in 2005 (see tables 27, 28, Statistical Annex, Volume 2).

Loan disbursements in 2005 totaled \$4.7 billion comprising 116.8% of the target for the year. Of the total, OCR disbursements were \$3.5 billion or 74% and ADF disbursements were \$1.2 billion or 26% (see tables 8, 9, 15, Statistical Annex, Volume 2).

Loan service payments reached \$5.2 billion in 2005, compared with \$5.6 billion in 2004. The decrease was mainly because of lower prepayments of \$0.6 billion (\$2.8 billion in 2004). In 2005, the four largest net resource transfers from ADB were to PRC, India, Pakistan, and Viet Nam (see tables 27, 28, Statistical Annex, Volume 2).

PRIVATE SECTOR OPERATIONS

A total of 17 financial markets and infrastructure projects providing \$821.5 million in assistance in the private sector were approved by ADB in 2005. The interventions are composed of 10 equity investments of \$217.1 million, 7 loans of \$536 million, a partial credit guarantee of \$18.4 million, and a political risk guarantee of \$50 million.

ADB's loan and equity investments mobilized



ADB's private sector loan and equity investments mobilized funding from other sources, leveraging ADB's own funds by almost 10 times

funding from other sources, leveraging ADB's own funds by almost 10 times. In 2005, ADB's private sector operations also embarked on technical assistance for capacity building in areas such as water, trade, finance, small business and microfinance banks, development of the asset-backed securities market, and worker remittances.

ADB has undertaken strategic interventions through public-private partnerships in projects that boost a DMC's domestic capacity to finance private sector and economic growth, an indispensable ingredient in poverty reduction. The projects improve the delivery of essential services and extend them to the poor. Although private sector operations are still and will remain in the larger DMCs, ADB continues to look at opportunities in the smaller borrowing DMCs, following the priorities identified in various regional and country strategies and programs. For example, the first and largest private sector project in the Lao People's Democratic Republic (Lao

PDR) was approved for the Nam Theun 2 Power Company Limited in 2005.

One hundred ninety-one projects with cumulative assistance of about \$5 billion (inclusive of all types of interventions) have been approved since ADB commenced private sector operations in 1983. ADB's cumulative equity and loan approvals of \$3.5 billion have catalyzed a total of about \$31.6 billion in funding for private sector projects, leveraging ADB's investments by a ratio of 5.4 times. Cumulative disbursements for private sector projects have thus far amounted to \$2.1 billion.

As of 31 December 2005, the overall private sector exposure amounted to about \$1.7 billion, consisting of \$598.2 million in equity investments, loans of \$732.2 million, and guarantees of \$361.7 million. ADB's private sector exposure is largest in the infrastructure sector with a total of \$820.9 million in exposure, followed by investment funds and financial institutions at \$742.3 million, with exposure in all other sectors at \$128.9 million.

The total private sector exposures are largely in India (17.1%), PRC (15.6%), Sri Lanka (11.5%), and Bangladesh (11.2%). Regional projects account for roughly 8.9% of the total.

Capital was freed up for new investments in the amount of \$53.4 million as ADB's equity shareholdings in 15 private companies were fully or partly divested in 2005. Loan repayments for the year, including prepayments, amounted to \$54.7 million, while total disbursements amounted to \$336.2 million.

While ADB constantly explores ways to improve risk management in its private sector operations, a loss provision is recorded for equity investments and loans. The loss provision, which includes impairment loss, was about \$116.6 million as of 31 December 2005. The loss reserve ratio as a percentage of total outstanding portfolio was 10.8%.

191 projects with cumulative assistance of about \$5 billion have been approved since ADB commenced private sector operations in 1983

Endnotes

¹ Total ADF operations—loans and grants—amounted to \$1.62 billion.

² Policy-based programs include program loans and policy loan components of sector development program facilities.

³ In 2005, there were four projects with project cost in excess of \$1 billion each. In 2004, there were no projects of this size.

2005 in Figures

OPERATIONS

ADB Operations, 2004–2005

	2004 ^a	2005	Change
	(\$ million)		(%)
Lending	5,239.0	5,796.8	10.6
Public	4,946.5	5,260.8	6.4
OCR	3,704.5	3,885.2	4.9
ADF	1,242.0	1,375.6	10.8
Private	292.5	536.0	83.2
Equity and Guarantee	174.4	285.5	63.7
Grant-financed Projects	104.4	1,151.4	1,002.9
Technical Assistance	195.1	198.7	1.8
TOTAL	5,712.9	7,432.4	30.0

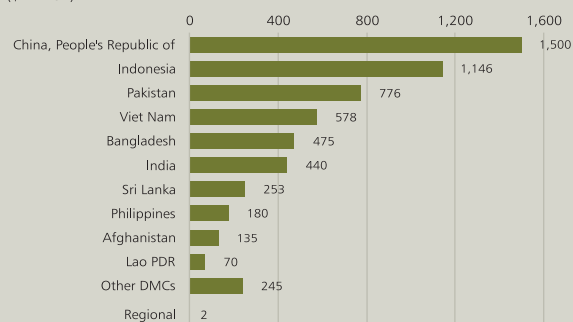
^a Adjusted to reflect terminated loan and changes in technical assistance.

\$7.4 billion
provided in ADB operations

Operations up by 30%
over 2004 volume

LOANS

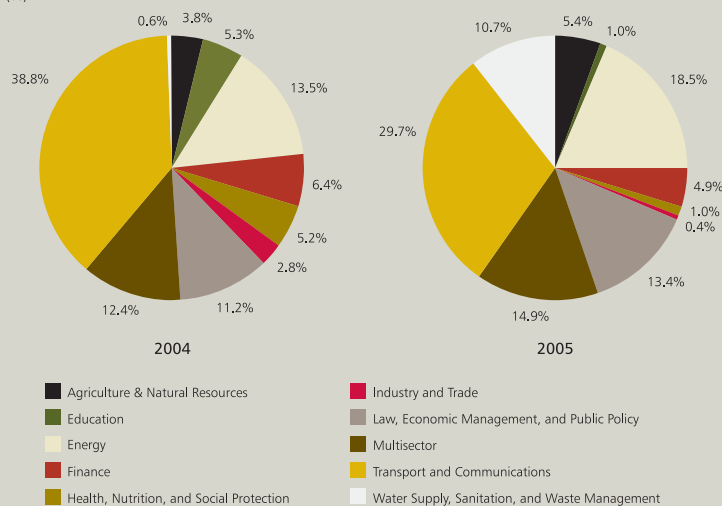
Top Borrowers, 2005
(\$ million)



Total \$5.8 billion

\$5.8 billion
for 72 loans
for 64 projects

Loans by Sector, 2004–2005
(%)



\$1.7 billion
for transport and
communications,
30% of total lending

Total: \$5.8 billion (includes private sector loans)
Total may not add due to rounding.

DISBURSEMENTS

Loan Approvals and Disbursements, 1995–2005
(\$ million)

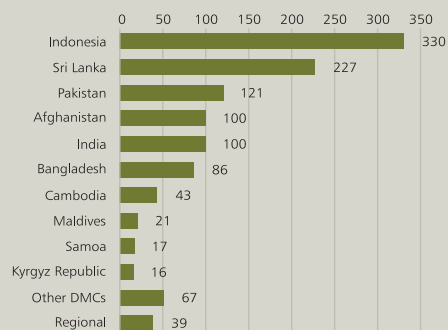


\$4.7 billion

disbursed in 2005, 33% more
than in 2004

GRANTS

Top Recipients of Grants, 2005
(\$ million)



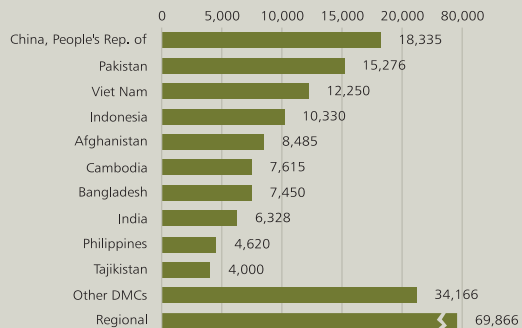
Total: \$1.2 billion
Total may not add due to rounding.

\$1.2 billion

for a total of 51 projects

TECHNICAL ASSISTANCE

Top Recipients of Technical Assistance, 2005
(\$ thousand)



Total: \$198.7 million
Total may not add due to rounding.

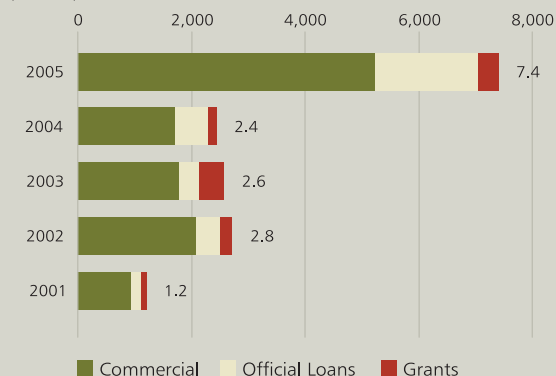
\$198.7 million

for 299 technical assistance activities

COFINANCING

Cofinancing Arrangements, 2001-2005

(\$ million)



\$7.4 billion
raised in total cofinancing

RESOURCE TRANSFERS

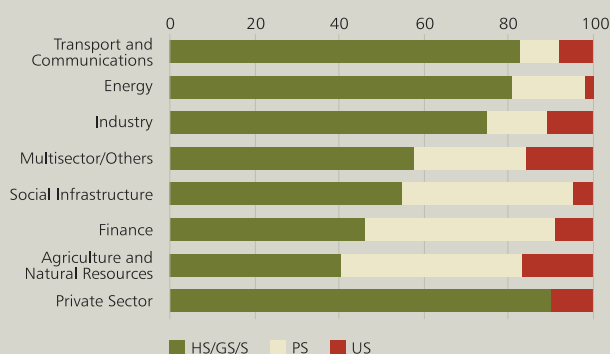
Resource Transfers to Developing Member Countries
(\$ million)

	2004	2005
OCR		
Loan Disbursements	2,508	3,498
Principal Repayments*	(3,953)	(3,491)
Payments of Interest/Charges	(1,095)	(1,041)
Net Equity Investment	(20)	47
Net	(2,560)	(987)
ADF		
Loan Disbursements	1,055	1,247
Principal Repayments	(390)	(434)
Payments of Interest/Charges	(196)	(201)
Net	469	612
TOTAL	(2,091)	(375)

(-) Represents resource inflow from developing member countries.
* Includes prepayments of \$597.4 million (\$2,790.5 million in 2004).

EVALUATION

Evaluation Results by Sector, 2005
(%)

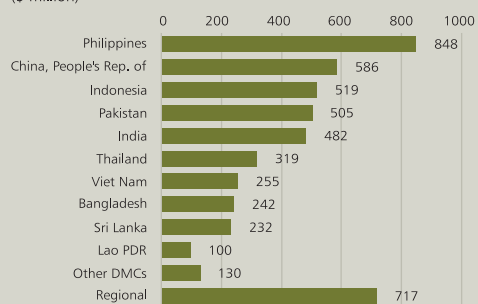


GS = generally successful, HS = highly successful, PS = partly successful
S = successful, US = unsuccessful

Data Source: Project/program performance audit/evaluation reports containing a rating circulated as of 31 December 2005.

68.4%
of the 19 public sector
projects/programs
evaluated in 2005
rated successful or highly
successful

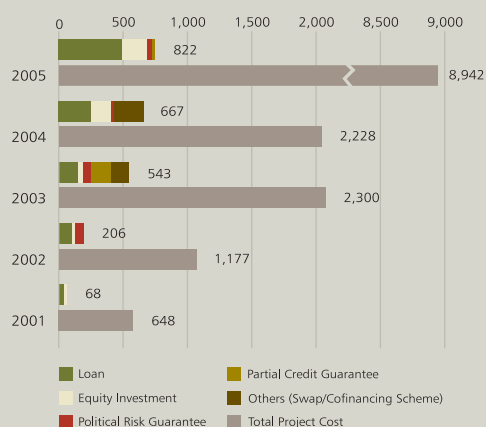
Private Sector Operations Portfolio Distribution
by Top Countries, 1983–2005
(\$ million)



Total: \$4.9 billion

Private sector cumulative
approvals of
\$4.9 billion,
20.6% more than in 2004

Private Sector Operations, 2001–2005
(\$ million)



Private sector
assistance up
23.2%
over 2004 volume

Management



Haruhiko Kuroda
President



Liqun Jin
Vice President



Geert van der
Linden
Vice President



Khempheng
Pholsena
Vice President



C. Lawrence
Greenwood, Jr.
Vice President



Young-Hoi Lee
Managing Director
General



Jeremy Hovland
The Secretary

Board of Directors



Volker Ducklau
Director

David Taylor
Alternate Director

Austria, Germany, Luxembourg, Turkey, United Kingdom



Emile Gauvreau
Director

Pasi Hellman
Alternate Director

Canada, Denmark, Finland, The Netherlands, Norway, Sweden



Sibtain Fazal Halim
Director

Marita Magpili-Jimenez
Alternate Director

Kazakhstan, Maldives, Marshall Islands, Mongolia, Pakistan, Philippines, Timor-Leste



Agus Haryanto
Director

Richard Stanley
Alternate Director

Cook Islands, Fiji Islands, Indonesia, Kyrgyz Republic, New Zealand, Samoa, Tonga



Chol-Hwi Lee
Director

Batir Mirbabayev
Alternate Director

Republic of Korea; Papua New Guinea; Sri Lanka; Taipei, China; Uzbekistan; Vanuatu; Viet Nam



Masaki Omura
Director

Atsushi Mizuno
Alternate Director

Japan



Patrick Pillon
Director

Niklaus Zingg
Alternate Director

Belgium, France, Italy, Portugal, Spain, Switzerland



Ashok Saikia
Director

Nima Wangdi
Alternate Director

Afghanistan, Bangladesh, Bhutan, India, Lao People's Democratic Republic, Tajikistan



Stephen Sedgwick
Director

Richard Moore
Alternate Director

Australia; Azerbaijan; Cambodia; Federated States of Micronesia; Hong Kong, China; Kiribati; Nauru; Palau; Solomon Islands; Tuvalu



Paul W. Speltz
Director

Paul W. Curry
Alternate Director

United States



Chaoyuth Sudthitanakorn
Director

Sein Tin
Alternate Director

Malaysia, Myanmar, Nepal, Singapore, Thailand



Xiaosong Zheng
Director

Xiaolong Mo
Alternate Director

People's Republic of China

Operations in 2005

Promoting Growth, Fighting Poverty

The year 2005 was, in part, one of tragedy in Asia and the Pacific. It opened as survivors of the Indian Ocean tsunami picked through the remnants of lives ruined by giant waves and closed as the homeless victims of the crushing earthquake in South Asia struggled to find shelter from the Himalayan winter.

ADB responded with speed and flexibility to both natural disasters, providing over \$850 million for the countries hit by the tidal waves and a package of \$1 billion for Pakistan. Early disbursements, although slow in some areas, were concentrated on reestablishing roads, power facilities, and other major infrastructure. ADB worked to focus its efforts to ensure speedy implementation of projects—and close cooperation with development partners in response to the disasters (see page 34) as well as to control the spread of the avian flu virus (see page 38).

Overall operations during the year, meanwhile, focused on the physical infrastructure needed to remove barriers to faster economic growth, an important factor in efforts to reduce poverty when linked with complementary services and activities that support the broadening of livelihood opportunities for the poor.

ADB also found new ways to draw in private sector support for development projects—one of five thematic areas of its programs—including through risk mitigation products that can overcome investor hesitancy. Most developing countries hold enormous untapped potential for greater involvement from private markets, both international and domestic, and multilateral development banks can help unlock this potential and bring it to bear on the massive funding gap for infrastructure projects.



ADB's infrastructure projects, particularly roads, are encouraging private firms to invest



Similarly, ADB continued to build “soft” infrastructure under the second of its main development themes, capacity development. Ensuring strong economic growth means encouraging laws and strategies that protect property rights, promote openness, improve financial governance, and strengthen capital markets.

The other thematic areas include regional cooperation and integration, gender and development, and environment (see pages 37–43).

The most advanced of ADB’s regional programs, for example, the Greater Mekong Subregion Economic Cooperation Program (GMS Program), has helped build a sense of community in the Mekong subregion, making solid progress in establishing a sound infrastructural base, and has begun to move into other areas (see page 63). Realizing the power of partnership, ADB has forged an alliance comprising eight countries and six multi-lateral institutions to further regional cooperation

ADB continued to build “soft” infrastructure under the second of its main development themes, capacity development



A power station access tunnel at Nam Theun 2 in the Lao PDR; the GMS is making solid progress toward a sound infrastructure base

under the Central Asia Regional Economic Cooperation Program. As a result, the program has become a model for cooperation and enhancing development effectiveness. Collectively, about \$1.05 billion has been mobilized for regional cooperation projects under the program for the next 2 years alone in addition to assembling a vast pool of knowledge to increase cooperation in Central Asia.

Through such efforts, ADB is helping countries achieve stronger economic growth and make progress in their commitment to internationally agreed MDGs on poverty reduction by 2015.

However, the region has more people with inadequate nutrition, more living in slum conditions, and more without access to water and sanitation than any other developing region. To help relieve the problems faced by the poor, ADB’s lending programs also concentrate on several sectors, including education, governance, energy, environment, water, finance, social development, and health.

Public-private sector partnerships, for example, have had great success in improving health services in Bangladesh and Cambodia. In both cases, nongovernment organizations (NGOs) have been engaged to improve health service delivery in government clinics (see pages 68, 89–90).

Hundreds of inventive projects have also been carried out under the ADB-administered poverty funds over the years (see page 41). One standout project is the Strategic Private Sector Partnerships for Urban Poverty Reduction financed by the Japan Fund for Poverty Reduction and implemented with the corporate-led NGO, Philippine Business for Social Progress. The NGO has recorded a number of great successes in upgrading slums and improving the livelihoods of the urban poor in Metro Manila (see page 101).

There are other funds to accelerate ADB’s efforts on poverty reduction such as the Poverty Reduction Cooperation Fund, with financing from the United Kingdom (see page 41) and the Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies financed by the Netherlands government.

Throughout its lending operations, ADB strives to ensure that environmental issues are central, and that there is a sharp focus on issues affecting women and other disadvantaged groups, two of five thematic priorities in lending operations. Environmental concerns are reflected in every loan, but several in particular were designed to square environmental concerns with the demands of high economic growth in places such as the PRC (see pages 56–57).

INFRASTRUCTURE

Investment in infrastructure accounted for the bulk of ADB lending in 2005, as it has for several years. It comprises about 60% of ADB's overall lending portfolio. The biggest portion of these loans in 2005 was for transportation and telecommunications projects at close to 30%. Loans for energy-related projects amounted to about 18% of the total, while water supply, sanitation, and waste management accounted for 11%.

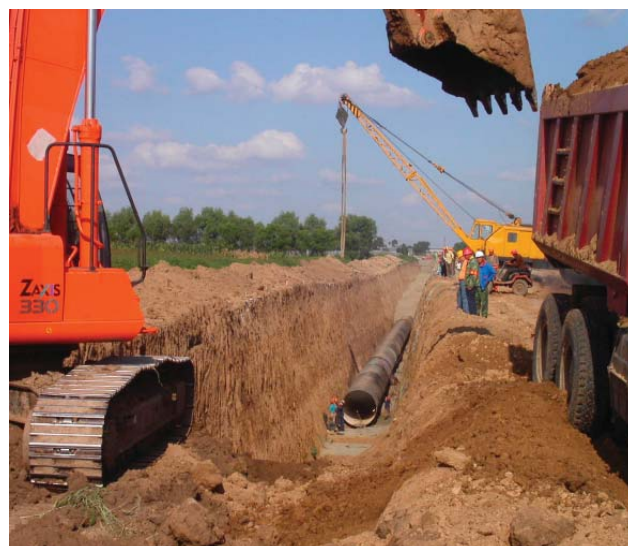
One highlight of the year was the Nam Theun 2 Hydroelectric Project in the Lao PDR. It underscored the importance to development not only of infrastructure but also of the private sector, regional cooperation, stakeholder consultations, and close collaboration among development and finance institutions. Eventually, it will provide much-needed power to Thailand and much-needed development funds for the Lao PDR (see page 69).

However, in developing Asia and the Pacific, funds for infrastructure still fall far short of the estimated need. Private sector investment generally cooled off in East Asia after the 1997–1998 financial crisis, particularly for countries like Indonesia and the Philippines. Poorer countries in the region continue to attract little or no private infrastructure funds.

Financing needs for energy, transport, information and communication technology, and water and sanitation systems are expected to exceed \$250 billion per year over the next 10 years. East Asia alone will require \$1 trillion in infrastructure investment over the next 5 years to sustain fast growth and create jobs for its young population, according to a joint study published in March 2005 by ADB, World Bank, and Japan Bank for International Cooperation. The PRC still accounts for the lion's share, at some 80%, of East Asian investment.

In ADB's 4 decades, more than half of the \$113 billion invested in Asia and the Pacific has gone to improvements in transportation and communications, energy, and water supply and sanitation. Commerce cannot thrive and the poor cannot improve their lives using potholed roads, archaic phone systems, weak irrigation, and distant sources of drinking water.

Financing needs for energy, transport, information and communication technology, and water and sanitation systems are expected to exceed \$250 billion per year over the next 10 years



Building infrastructure is clearing the obstacles to economic growth and helping reduce poverty

The experience of the PRC shows how large investments in such infrastructure support stronger economic growth and reduce poverty. Transport projects, in particular, open up bottlenecks and clear the way to new markets. ADB approved a large loan in September to help develop a modern railway connecting the provinces of Henan and Shaanxi (see page 55).

At the other end of the scale, an infrastructure loan in Indonesia (approved in late 2005) illustrates ADB's work to lift living standards in poor and often isolated villages. ADB is providing \$50 million over 3 years to support government efforts in some 1,800 communities to cushion the effect of a 186% rise in the price of kerosene caused by the oil price spike and an end to government subsidies. The loan will finance construction and repair of roads, bridges, irrigation systems, water pipes, and drainage works with the help of community organizations. About 2 million people stand to benefit (see pages 101–102).

For more on ADB's infrastructural and other lending programs, see the subregional chapters.

PRIVATE SECTOR DEVELOPMENT

Raising development funds for infrastructure and other programs is a formidable challenge, and meeting it requires broad commitment of private sector funding and expertise. However, getting that support requires innovation.

The rebuilding of Afghanistan is a case in point. When the Taliban was pushed from power in 2001, there was little left of infrastructure. The roads, phone system, and financial system were shattered. Without such basic structure, many private sector investors were lukewarm

ADB Assists Disaster-Struck Areas

Sakina Bibi was at home with her children in northern Pakistan on 8 October 2005 when she felt the mountains shake. "I thought it was the end of the world...and we (were) all going to die," she recalls. "I started calling out to Allah and ran out with my children. Within seconds my entire house had collapsed."

The devastating earthquake was one of two dreadful disasters that book-ended 2005. The year dawned just days after massive waves had torn through coastal areas around the Indian Ocean, killing more than 200,000 people. And it ended as millions of survivors of the enormous quake faced winter in tent camps.

Connecting the two was the swift response from ADB. In record time, with marathon legal and assessment work, ADB launched the Asian Tsunami Fund. This was equaled by the speed with which ADB's project teams processed the emergency assistance for all disaster-struck countries. At \$600 million, the fund is the largest grant program in ADB's history. ADB then used the knowledge gained to launch the Pakistan Earthquake Fund in even less time.

ADB coordinates its assistance for countries faced with natural disasters and post-conflict reconstruction under its Disaster and Emergency Assistance Policy of 2004. It has had a disaster policy since 1987 and provided \$2.4 billion in emergency assistance loans since then.

Under the new policy, however, ADB is learning from its long experience in disaster management gained through a string of calamitous events in the region, whether the Gujarat earthquake in India in 2001, massive flooding in Bangladesh in 2004 and in the PRC in 1998, or after conflicts in Cambodia, Timor-Leste, and elsewhere.

The policy emphasizes better coordination among the many development agencies and relief organizations that respond to



Surveying the damage in Pakistan

disaster, and places a premium on disaster risk planning.

Rebuilding after the Waves

Around the Indian Ocean, more than a year after the tsunami, the survivors are putting their lives back together with ADB's help. With subsequent replenishment of the fund, ADB approved \$859.9 million during the year for the countries hit by the waves.

In Aceh, Indonesia, those funds are helping the severely affected agriculture sector get back on its feet. The waves washed out a fourth of cash crop areas and rice fields, taking away the livelihoods of about 320,000 farmers and employees

and leaving damage estimated at more than \$200 million.

ADB's Earthquake and Tsunami Emergency Support Project is helping communities find the resources they need to repair farms: agricultural enterprises are being restored and support services are being rehabilitated.

Government and development partner joint assessments estimated losses to Indonesia at about \$4.7 billion. Some 126,000 lives were lost in the provinces of Aceh and North Sumatra, and hundreds of thousands were left homeless. ADB approved grant financing of \$300 million—\$290 million for the Earthquake and

ADB coordinates its assistance for countries faced with natural disasters and post-conflict reconstruction under its Disaster and Emergency Assistance Policy of 2004



ADB reviews the damage in Sri Lanka (top) and Aceh, Indonesia (left); the response was swift and effective

Tsunami Emergency Support Project and \$10 million for the Multi-donor Trust Fund.

In South Asia, the tsunami funds are helping rebuild the essentials of economic growth and recovery: roads, power facilities, and other major infrastructure. They are being used to restore livelihoods, provide primary education and health services, revitalize water supply and sanitation, and rebuild homes.

Sri Lanka is faced with the arduous task of rebuilding about 100,000 houses; replacing 70% of the fishing fleet; and helping 11,000 companies get back to business. Another 150,000 people, now in informal self-employment, have to get back on their feet. Sri Lanka is using the funds it received, a package of just under \$240 million, to help rebuild roads—especially those in the north and east of the country—community-based infrastructure, fishery harbors, and livelihoods. ADB's tsunami assistance also addresses governance issues, legal empowerment for survivors, and anticorruption issues.

In India's states of Tamil Nadu and Kerala, ADB has helped thousands of fishermen get back to work. Electricity, water, and transportation links are also coming back. Assistance to India includes the \$200 million Tsunami Emergency

Assistance Sector Project, comprising a \$100 million loan and an Asian Tsunami Fund grant of \$100 million. Another \$5 million will come from technical assistance grants.

In the Maldives, the tsunami caused damage of nearly \$500 million, equivalent to some 62% of GDP, although the loss of lives was comparatively small. ADB's tsunami assistance package of \$23.2 million is helping restore infrastructure (transport, water supply/sanitation/solid waste management, power, agriculture, and fisheries). As a result of lingering tsunami-related effects coupled with a steady increase in oil prices, fiscal balances in the Maldives deteriorated.

ADB Rushes Assistance to Pakistan after Earthquake

The 8 October earthquake in South Asia was another debilitating natural disaster in the region's history, killing about 73,000 and leaving another 70,000 severely injured or disabled. More than 2.8 million people were rendered homeless, and 2.3 million were left without adequate food. About 324,000 jobs were lost to the earthquake, equal to 29% of the previously employed population in the worst-hit districts.

The cost of reconstruction is estimated at \$3.5 billion.

ADB responded quickly. ADB President Haruhiko Kuroda

announced a package of \$1 billion for reconstruction and recovery. Using the experience gained in putting the Asian Tsunami Fund together, ADB established the Pakistan Earthquake Fund in November to channel grant funding.

Under the \$300 million Earthquake Emergency Assistance Project, for example, ADB will help reconstruct lost assets and restore the transport, power, health, and education sectors in Azad Jammu and Kashmir* and in North-West Frontier Province.

Approved in December, the loan features a quick-disbursing mechanism, amounting to \$100 million, to finance imports of materials urgently needed for the recovery process.

The project aims to quickly revive economic activity, with work to rehabilitate major roads and bridges, repair hydropower generating stations, and construct new lines and facilities. Health clinics and schools will also be reconstructed.

The project will help reestablish some government services destroyed in the disaster. It will offer legal assistance and address governance issues and the rebuilding of government institutions to reduce the enormous strain on government services. This includes replacing documents such as birth and death certificates, property titles, and identification cards.

* Azad Jammu and Kashmir is an area over which India and Pakistan have been in dispute since 1947. The Asian Development Bank does not intend to make any judgment as to the legal or other status of any disputed territories or to prejudice the final determination of the parties' claims.

Banking from Scratch—Investing in Afghanistan

The damage in Afghanistan was more than ruined buildings after a quarter century of war. The country's financial institutions had ceased to function or no longer commanded trust; and the central bank had only a loose grip on the currency. By contrast, the ancient cash-based *Hawala* system enjoyed customer loyalty others could only envy.

Afghanistan International Bank, established as a commercial bank that could foster private sector development crucial to economic revival, was among the first institutions to step in. Under a contract with Dutch banking giant ING and supported by an ADB investment of \$2.6 million for a 25% stake, it is helping rebuild the shattered financial sector.

"It was very basic when we started here, and we had to start from scratch. This is not a branch office; we were setting up an all-new local bank. We needed not only to find a building, but also to create a whole new banking system. We couldn't just adopt the system of our parent organization," says Chief Executive Officer John Haye, a banking veteran who came to the bank from ING.

The bank was established in Kabul in March 2004 as a local bank operating to international standards. It opened its first branch in Mazar-e-Sharif in August 2005, followed by a branch in Kandahar in October.

Staffing was among the big challenges. To find corporate banking experts and chief accountants, skills not widely available in a country emerging from 25 years of war, the bank had to look abroad. It found suitable and affordable candidates, including Pashto



A man and a boy prepare the day's bread from scratch; rebuilding the country has also meant starting from scratch

speakers, in Pakistan.

The next step was finding clients. Again, unlike other foreign banks, the bank could not tap an established clientele. "Most of the other banks operating here had merely shifted to their Pakistan clientele (many of them Afghan expatriates). So they had a clientele already," says Mr. Haye.

For its lending portfolio, the bank had some help from the United States Agency for International Development, with a \$2 million funding program used to finance the agriculture sector and plans for another line to fund small- and medium-sized enterprises.

The bank has also developed its own lending portfolio. "You have to be careful which clients you are selecting," says Mr. Haye, referring to the need to avoid those involved in the huge illicit drug trade in Afghanistan and other areas.

The bank has chosen economic

sectors it feels are financially rewarding and need support. These include import substitution businesses that can replace lucrative goods now expensively imported from Pakistan or elsewhere, and promising Afghan export sectors that can generate foreign currency.

Afghanistan International Bank, established as a commercial bank that could foster private sector development crucial to economic revival, was among the first institutions to step in

about committing money. With ADB support for private sector investments, however, a new commercial bank was established and began expanding in 2005, and an investment fund to help small- and medium-sized enterprises was set up (see above).

Another ADB loan in 2004, \$35 million to Roshan—

a company that provides most of Afghanistan's telecommunications—has helped produce spectacular results from establishing a mobile phone network (see pages 90–91).

Nonetheless, many obstacles to private sector growth still exist in Asia and the Pacific. Economic and regulatory uncertainties; macroeconomic instability;

high tax rates; onerous regulatory and administrative requirements; corruption; and insufficient infrastructure, finance, and skills are all significant barriers to investment.

Through its private sector operations, ADB is finding innovative ways to overcome investor reticence toward some parts of Asia. It is mitigating risks, for example, through the creation of guarantee instruments such as partial credit guarantees and political risk guarantees, which protect investors against confiscation, nationalization, breach of contract, and other factors.

In 2005, ADB reinitiated a partial credit guarantee to banks in Pakistan to encourage lending to small- and medium-sized enterprises, while in Afghanistan it was in the process of disbursing loans of \$5 million for the Afghanistan Investment Guarantee Facility and \$10 million for a supplemental political risk guarantee.

Other major private sector projects included the Tangguh Liquefied Natural Gas project in Indonesia, for which ADB approved a \$350 million loan to build and operate gas production wells, platforms, and a liquefied natural gas facility. ADB made an equity investment of \$75 million in the PRC's Bank of China, and in Pakistan, it will provide \$37.3 million to help bridge a pending electricity shortfall in its first assistance to a private sector hydropower project (see page 87).

REGIONAL COOPERATION

Regional cooperation and integration have intensified in many parts of Asia and the Pacific over the past decade. Intraregional trade now accounts for 55% of East Asia's total, up sharply from 35% in 1980; free trade agreements are proliferating; and rapid growth in the PRC and India is encouraging the trend.

ADB believes regional cooperation and integration will continue to play a significant role in the growth of Asia and the Pacific. It has stepped up its effort to encourage both and is managing the area under the new Regional Cooperation and Integration Strategy, which rests on four pillars: regional and subregional cooperation programs, trade and investment cooperation and integration, monetary and financial cooperation and integration, and the provision of regional public goods (such as in efforts to control HIV/AIDS or avian flu; see page 38).

The GMS Program is widely recognized as an example of a successful subregional initiative established in 1992 with the support of ADB. In addition to ADB's vigorous effort toward continued strengthening of the GMS Program, it envisages significant scaling up of support for the Central Asia Regional Economic Cooperation Program in the coming years, and work there has

found momentum in building roads, ports, and bridges; planning power and telecommunication networks; and untangling trade relationships through harmonized policy and institutional environments (see pages 49–50).

Leaders in the Pacific region have overcome a recent lack of momentum toward greater cooperation and are moving forward with agreement to a new Pacific Plan for regional cooperation and integration.

In South Asian countries, dialogue is increasing through several programs, including the South Asian Association for Regional Cooperation, South Asia Subregional Economic Cooperation, and Subregional Economic Cooperation in South and Central Asia programs.

Meanwhile, emerging trends of trade and investment integration in Asia prompt ADB to have a more coherent approach to promote trade and investment intraregionally as well as extraregionally. ADB will focus on supporting regional and subregional policy dialogue on trade and investment, conducting research on regional trade agreements—how to make them a building block toward multilateral liberalization—and strengthening institutions within developing member countries.

Support for monetary and financial cooperation and integration has been significant. ADB has supported several regional initiatives, including those under the Association of Southeast Asian Nations (ASEAN), ASEAN+3, Asia-Pacific Economic Cooperation, and Asia-Europe Meeting. ADB will expand its support to other regional groups, such as the South Asian Association for Regional Cooperation Finance Ministers and Central Asia Regional Economic Cooperation Program Finance Ministers. ADB has conducted extensive research to support the ASEAN+3 Research Group and the Asian Bond Market Initiative Working Group. ADB publishes the biannual *Asia Economic Monitor* and *Asia Bond Monitor* and maintains the AsianBondsOnline website.

In April 2005, ADB established the Office of Regional Economic Integration to act as an internal focal point for regional cooperation and integration efforts. Two special advisors to the President in charge of regional cooperation and integration were appointed to coordinate and streamline activities undertaken by ADB's departments and advise on strategic measures and initiatives to enhance the organization's role in furthering regional cooperation and integration in Asia and the Pacific.

In April 2005, ADB established the Office of Regional Economic Integration

IMPROVING FINANCING OPTIONS

To expand the range of financing instruments and modalities, ADB began testing three new initiatives in 2005 under the Innovation and Efficiency Initiative. The aim is to increase flexibility to respond better to client needs.

A new approach to cost sharing and expenditure eligibility has been put in place. This will improve ADB's project financing capability in a manner more consistent with market practices. The new arrangement involves more flexible cost-sharing limits and expands the categories of expenditures ADB can finance (land acquisition and payments for rights-of-way, taxes and duties, and other expenses such as bank charges, leasing, and secondhand goods). It also does away with the old distinction between foreign exchange and local costs and a level of investment plans.

A number of nonsovereign transactions with state-owned enterprises (majority owned by the state) are being prepared, namely in India and Indonesia. Project teams

are screening proposals with local government units. Refinancing propositions are also under consideration.

ADB began testing the new multitranche financing facility in 2005 with two loans for major road investment programs in South Asia (see pages 85 and 87). Designed to provide finance "as you go" and somewhat akin to a commercial bank's letter of credit, this facility will allow ADB to finance long-term investment programs in structured and staggered multiple loans. It allows clients to combine financing sources with ADB. The financing sources can include multilateral development banks, bilateral agencies, private equity groups, commercial banks, and capital market operators.

The facility establishes a means to target specific, sequential components of large stand-alone projects; slices (or tranches) of sector investments over a longer time frame than the current norm; equity investments; financial intermediary credit lines; and guarantees.

ADB has been expanding its coverage into local

Cooperation Combats Avian Flu

Of the 175 human cases of avian flu the World Health Organization has reported globally since the outbreak in January 2004, almost all have been in Southeast Asia. Of those, 93 occurred in Viet Nam, with deaths now at 42.

In October 2005, ADB approved \$58 million for two planned grant projects—a \$28 million regional project addressing bird flu and \$30 million for a communicable disease project in the Mekong. It plans to rapidly allocate an additional \$600,000 to continue its support to the World Health Organization's regional office in Manila and extend this to its Delhi office covering Southeast Asia.

However, estimates of the cost for controlling avian flu and preparing for a possible pandemic stand at about \$1 billion for the next 5 years. Viet Nam's Ministry of Agriculture and Rural Development and Ministry of Health estimate their needs to be about \$300 million each. The government is providing about \$130 million per year, mainly for the Ministry of Agriculture and Rural Development,

and external agencies have committed about \$90 million so far.

Viet Nam has been the epicenter of the epidemic to date, with cases reported from most provinces and totaling over 1,900 outbreaks. About 60 million of the 300 million chicken and ducks have died or been culled and a nationwide campaign is in place to identify and contain new outbreaks in flocks.

Although the poultry sector is relatively small, the economic cost is put at about \$200 million, and a similar sum has been used for control efforts, most of it government-financed. The flu epidemic is estimated to have lowered GDP by

about 0.5% in 2004. In the medium term, ADB could commit at least \$470 million to support the overall response in Asia, it announced in November. Assistance could include about \$300 million for new projects in the PRC, Indonesia, Philippines, and Thailand.

Viet Nam has been the epicenter of the epidemic to date, with cases reported from most provinces and totaling over 1,900 outbreaks



Estimates of the cost for controlling avian flu and preparing for a possible pandemic stand at about \$1 billion for the next 5 years

currency lending through bond issues and commercial swaps in the PRC, Philippines, and Thailand.

GOOD GOVERNANCE, FIGHTING CORRUPTION

Governance and legal systems have been called the weakest link in the strong chain of development in a number of economies in Asia. Poor government, ineffective policies, and corruption hinder economic growth and development, and thus efforts to reduce poverty. Public administration is often also used to serve a small portion of the population who rely on the state and its institutions to provide special privileges for their businesses or their personal interests.

ADB was the first multilateral development bank to adopt a governance policy applying to all its operations, in 1995, following it up 3 years later with the Anti-corruption Policy. Governance work has covered a range of areas. In national government administration, for example, ADB's work embraces Viet Nam's Support Implementation of the Public Administration Reform Master program. It includes assistance to the Marshall Islands to refocus its public sector for effective delivery of basic social services, and technical assistance to Azerbaijan to develop a competition policy framework.

ADB is helping local governments in Cambodia, Indonesia, Pakistan, and Philippines to decentralize and improve their financial management and service delivery. In law and judiciary, ADB has supported the Access to Justice Program in Pakistan; set up a cadastral commission in Cambodia; and strengthened legal education in the Maldives, Mongolia, and elsewhere.

Among loans approved in 2005, ADB is providing the Indonesian government with \$200 million to support its medium-term development plan, which aims to raise average GDP growth to 7% annually by 2009 from about 4% in 2004. Reaching that goal in Indonesia will require greater macroeconomic stability, and sound fiscal and financial management. To support the government's plans, ADB is working with the World Bank and using the Development Policy Support program, which includes a series of structural reform packages. It is one of several recent loans in Indonesia that will help improve governance (see page 99).

In its second *Asian Environment Outlook*, released in 2005, ADB stressed that a “grow now, clean up later” approach to economic growth is unacceptable

And to keep its governance programs sharp and its fight against corruption up-to-date, ADB began a review in 2005 of the implementation of its governance and anticorruption policies.

ENVIRONMENTALLY SUSTAINABLE GROWTH

Serious environmental problems have accompanied strong economic growth in the region: air pollution chokes many major cities, forest cover is the world's lowest per capita, and wetlands and wildlife habitat are disappearing fast. Often the poor suffer the worst effects.

The countries of Asia and the Pacific must continue to grow strongly to overcome poverty. However, in its second *Asian Environment Outlook*, released in 2005, ADB stressed that a “grow now, clean up later” approach to economic growth is unacceptable. Degradation is not inevitable, and a healthier environment in Asia and the Pacific is a prerequisite to economic development that includes the poor.

Under its Environment Policy of 2002, ADB is working to reshape views toward environmental management under five goals: promoting environmental interventions to reduce poverty directly, mainstreaming environmental considerations in economic growth, supporting the maintenance of global and regional life support systems, building partnerships, and integrating environmental safeguards into ADB operations.

In 2005, 9 of 58 new public sector loan projects had environmental sustainability as a theme, totaling some \$605 million, up from \$569 million in 2004. They represented 12% of total public sector lending. Of the total, 80% funded urban environmental improvements through provision or rehabilitation of water supply, sanitation, and waste management systems; 15% promoted the conservation of natural resources; while 5% funded the rebuilding and restoration of tsunami-affected areas.

Many of ADB's interventions support several of the Environment Policy goals simultaneously.

The Fuzhou Environmental Improvement project in the PRC, Kerala Sustainable Urban Development, Phase II project in India, and Regional Development project in the Maldives, for example, are improving environmental infrastructure, strengthening planning and environmental management, and building management and implementation capacity. These projects were designed with strong stakeholder participation and are expected to provide the basis for stronger economic growth potential.

The Sanjiang Plain Wetlands Protection project, meanwhile, began establishing a program in 2005 to conserve globally significant biodiversity while generating employment and income in a sustainable manner in the

northeast corner of the PRC (see page 57).

Assistance was approved to restore tsunami-affected areas in Sri Lanka in ways that will conserve coastal ecosystems.

Technical assistance grants are also an important source of environmental work. Of the nearly \$307 million in technical assistance and grants approved in 2005 with environmental objectives—almost triple the 2004 amount—77% funded improvements to urban or rural environments, 15% promoted natural resource conservation, and 7% helped mainstream the environment into the legislative, policy, and institutional frameworks.

The amount of technical assistance grants approved in 2005 to strengthen environmental capacity at the national and regional levels doubled to about \$38 million from \$19 million in 2004. Moreover, environment-oriented grants rose to \$260 million compared with \$24 million in 2004, with a sizeable portion of this increase attributed to rebuilding tsunami-affected areas in Sri Lanka (\$203 million), but also including protection of wetlands in the Sanjiang Plain of the PRC (\$12.14 million) and support for the Tonle Sap sustainable livelihoods initiative in Cambodia (\$15 million; see page 65).

In the Mekong subregion, ADB is undertaking extensive work to ensure that environmental sustainability remains of paramount importance as the subregion's economy expands. In May 2005, in conjunction with its endorsement of the Core Environment Program, the environment ministers of countries of the GMS Program endorsed the establishment of an environment operations center in Bangkok to enhance cooperation in the subregion.

ADB continued to support efforts to reverse patterns of land degradation afflicting many parts of the region, an important factor contributing to poverty. As an executing agency of the Global Environment Facility, ADB is leading three partnerships for combating drought and desertification and mitigating drought in Central and East Asia.

In 2004 and 2005, for example, ADB approved a regional technical assistance activity, the Prevention and Control of Dust and Sandstorms in Northeast Asia, in

ADB continued to support efforts to reverse patterns of land degradation afflicting many parts of the region, an important factor contributing to poverty



Furrowing the land to protect against erosion in Gansu, PRC (top); through efforts such as those to protect the Tonle Sap, ADB is striving to achieve environmentally sustainable growth

collaboration with the United Nations Environment Programme, United Nations Economic and Social Commission for Asia and the Pacific, and United Nations Convention to Combat Desertification. Four countries are actively participating: PRC, Japan, Republic of Korea, and Mongolia.

The Central Asian Countries Initiative for Land Management, meanwhile, with ADB serving as the lead Global Environment Facility agency, will support the implementation of a 10-year program of country-driven activities and resource mobilization to pursue sustainable land management in those countries.

In collaboration with the International Finance Corporation, ADB approved a small-scale technical assistance for the training of representatives from financial institutions in the region on environmental and social due diligence, and on finding new business opportunities in the environment field.

In parallel with these new efforts, ADB has continued to implement a range of ongoing regional environmental programs. The Poverty and Environment Program in 2005

helped integrate environmental considerations into poverty reduction projects, while ADB's Renewable Energy, Energy Efficiency, and Climate Change program supported by Canada, Denmark, and Netherlands has provided funding to the Climate Change Adaptation Program in the Pacific, which is helping some Pacific countries prepare for the likelihood of rising seas and more frequent severe storms (see page 78).

ADB is also one of the few international institutions providing underlying finance to projects that can produce tradeable emission-reducing credits for governments to meet commitments made under the Kyoto Protocol (www.adb.org/CDMF). Three such projects have already contracted credit buyers, and several more projects will be coming on board in 2006 or 2007 through assistance by the Clean Development Mechanism facility.

Among ADB's major existing environmental partnerships, work continued in 2005 under the Clean Air Initiative–Asia, which now has over 130 members including cities, governments, development agencies, NGOs, academic organizations, and corporations. The initiative's work centered on the establishment of national networks in several parts of the region to promote investment and policy reform supporting air quality improvement.

In 2005, ADB presented its second *Asian Environment Outlook*, which focuses on opportunities for the region to address environmental issues more effectively through strong engagement of the private sector. It argues that the

pursuit of a sustainable future for Asia and the Pacific must include a business sector that takes responsibility for its environmental performance and also recommends how the public and private sectors can work together more closely to achieve environmental goals (www.adb.org/environment/aeo).

ENVIRONMENTAL AND SOCIAL SAFEGUARDS

ADB has three safeguard policies covering the environment, indigenous peoples, and involuntary resettlement. These policies aim to avoid, minimize, and/or mitigate adverse environmental and social impacts including the marginalization of vulnerable groups that may result from development projects.

Working under the overriding safeguard mandate to ensure all projects “do no harm,” ADB reviewed all projects for Board approval during the year to ensure safeguard policy compliance. In a review of 74 projects and equity investments, 59 projects required environmental assessment reports, 20 required the preparation of a plan or specific action for indigenous peoples, and 41 required resettlement plans and/or frameworks. More than a hundred staff members at headquarters and resident missions were trained on ADB's safeguard requirements. ADB reinforced knowledge sharing through the regular update of its websites on the safeguards.

During the year, ADB initiated a safeguard policy update to enhance the effectiveness of its safeguard policies and ensure relevance to changing client

Fund Leads by Example

Sharpening the poverty reduction efforts of developing members is the focus of the ADB-administered Poverty Reduction Cooperation Fund.

The \$60 million grant facility from the United Kingdom's Department for International Development was opened in 2002 to fund a wide range of projects that are designed to improve policy, strategy, and capacity through advisory support, small-scale pilots, research, and knowledge sharing.

Many of the projects test how best to target assistance to the poor and to socially excluded groups, and serve as good examples

for broader ADB investments. For example, a \$700,000 technical assistance grant in the Greater Mekong Subregion is trying to identify a set of successful methods to raise awareness of HIV/AIDS among specific ethnic minority groups.

By 2005, the fund had been fully committed to 109 projects, with \$20 million endorsed last year. Five technical assistance grants had

been completed, and most others had been started. Two of the completed grants went to the PRC, which has a \$9 million window. Two others helped the Lao PDR, with one helping silk weavers gain business skills and another assisting the country in developing a social protection strategy. Another went to support a consultative process for developing multi-donor poverty reduction efforts across the Pacific.

Many of the projects test how best to target assistance to the poor and to socially excluded groups

needs and new lending modalities and instruments (www.adb.org/Safeguards/policy.asp). A discussion note, uploaded on the ADB website, describes the objective and scope of the safeguard policy update. Face-to-face consultations will start after completion in 2006 of an independent study by the Operations Evaluation Department on the implementation of the three safeguard policies.

ADB approved assistance to help strengthen the country safeguard systems of selected member countries and will shortly begin to develop its corporate approach to country safeguard systems. Together with the United States Agency for International Development, ADB also launched the Asian Environmental Compliance and Enforcement Network, which will serve as an important new mechanism for sharing of best practices among Asian environmental decision makers.

In relation to involuntary resettlement and under regional technical assistance for Capacity Building for Resettlement Risk Management, ADB assisted three participating countries—Cambodia, PRC, and India—to identify resettlement risks and improve capabilities for handling involuntary resettlement.

In Bangladesh, ADB is working with the Ministry of Land to develop a national policy on involuntary resettlement, while in Cambodia, technical assistance for Enhancing the Resettlement Legal Framework and Capacity Building is helping the government develop a subdecree on compensation, resettlement, and rehabilitation. In Nepal, the National Planning Commission is preparing a national resettlement policy framework with ADB support. In Viet Nam, technical assistance for Enhancing the Resettlement Legal Framework and Institutional Capacity assisted the government in developing a decree on compensation and resettlement and to disseminate it nationwide.

In its continuing effort to safeguard the interests of indigenous peoples, ADB also actively participated in regional and global discussions. In two regional workshops, ADB engaged in constructive dialogues with some indigenous peoples network members from the region. It also took part in a dialogue between the United Nations Permanent Forum on Indigenous Issues (the

Permanent Forum), World Bank, Inter-American Development Bank, ADB, and International Fund for Agricultural Development. Discussions highlighted the need for international finance institutions to rethink the concept of development, with the full participation of indigenous peoples in development processes and taking into account their rights and traditional practices. ADB also continued to work with the World Bank and the Inter-American Development Bank on the joint publication of the *Global Handbook on Indigenous Peoples Policy*.

GENDER AND DEVELOPMENT

As a major thematic concern of ADB's Poverty Reduction Strategy, gender issues have been increasingly mainstreamed in ADB loan operations across a range of sectors: agriculture, water resource management, transport, rural infrastructure, governance, education, and water supply and sanitation. In 2005, ADB continued to strengthen its overall loan portfolio addressing gender issues. Significant gender mainstreaming was evident in 37% of loans in 2005. Of these, 17% (11 loans) were classified with a gender theme, while 20% (13 loans) were classified with significant gender mainstreaming. The majority of the remaining loans indicate the potential to benefit women in some ways.

Loans addressing gender equality objectives were represented in all three core strategic areas of ADB operations—pro-poor, sustainable economic growth; inclusive social development; and good governance. While they tend to be concentrated in the health, education, and water supply sectors, some loans were for irrigation, rural development, agriculture and natural resources, small- and medium-sized enterprises, public resource management, and rural infrastructure. ADB also continued to improve how it addresses gender issues in large infrastructure projects, especially road projects.

The multi-donor Gender and Development Cooperation Fund established in 2003 continued to support gender equality and women's empowerment through regional and technical assistance activities. As of 31 December 2005, 4 technical assistance projects and 24 subprojects under regional technical assistance were approved for funding to enhance gender design features in ADB loans, support initiative and strategic approaches to empower women and girls, and promote regional awareness and cooperation on gender issues. These include 14 subprojects approved in 2005.

Other technical assistance approved in 2005 included the \$4.5-million Pakistan Gender Reform Action Plan Implementation, financed by the Government of Canada and the United Kingdom's

In Bangladesh, ADB is working with the Ministry of Land to develop a national policy on involuntary resettlement



By ensuring that gender issues are reflected in all its work, ADB is helping improve women's lives

As a major thematic concern of ADB's Poverty Reduction Strategy, gender issues have been increasingly mainstreamed into ADB loan operations across a range of sectors

prepared for Azerbaijan, Kazakhstan, Kyrgyz Republic, and Tajikistan under regional technical assistance on Mainstreaming Gender into Poverty Reduction Strategies in Four Central Asian Republics.

In 2005, ADB continued the review of the implementation of the Gender and Development Policy to assess progress and effectiveness since its adoption in 1998, the results of which will form the basis for the Gender and Development Action Plan. As part of the review, ADB conducted rapid gender assessments on gender equality results in selected projects in Bangladesh, Cambodia, Nepal, and Pakistan. The assessments aim to determine whether the introduction of project-specific gender action plans and strategies has improved project implementation, outreach, and results for women as compared with those for men.

Department for International Development through the ADB-administered Poverty Reduction Cooperation Fund, and a \$550,000 regional technical assistance activity, Legal Empowerment for Women and Disadvantaged Groups.

Meeting the MDGs by 2015 will mean ensuring that development programs increasingly address issues affecting gender equality and women's empowerment. Goal 3 specifically calls for promoting gender equality and women's empowerment, whereas Goal 5 calls for improving maternal health. In addition, two other goals—Goal 2 on education and Goal 6 on HIV/AIDS—include gender-specific or gender-disaggregated indicators.

To help ensure that gender concerns are reflected in its country strategies and programs, ADB has been preparing country gender assessments and related strategies, which specify how ADB intends to promote and implement its overall gender and development objectives in a DMC, and discuss how ADB assistance will address gender disparities. In cooperation with multilateral/bilateral donors and United Nations agencies, country gender assessments were completed for Mongolia, Timor-Leste, and Uzbekistan and are under way for Fiji Islands and Indonesia. Assessments were

SOCIAL PROTECTION

ADB defines social protection as a set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, lowering people's exposure to risks, and enhancing their capacity to protect themselves from hazards and loss of income.

Loan projects in 2005 contributed to social protection schemes in pensions in India, work protection in Pakistan, child protection in the Kyrgyz Republic and Azerbaijan, and social security reform in Mongolia. Social protection in the informal sector, social insurance, labor issues in enterprise restructuring, and migration for employment were among the areas of special focus during the year.

KNOWLEDGE MANAGEMENT

In July 2005, ADB marked its first year implementing the Knowledge Management Framework. Through its extensive operations in the region, ADB has always been a major repository of information. The framework aims to make better use of this information by making ADB a hub for knowledge about Asian countries, encouraging sharing within ADB and among DMCs.



Gaining knowledge and new skills in a computer class in Viet Nam

Binding groups of professionals together in organized communities of practice helps them share their knowledge

Vice President Geert van der Linden put it more simply: “In India, the people want to find out how things are done in the People’s Republic of China.”

In 2005, the Knowledge Management Center worked to establish communities of practice to help generate and share knowledge within ADB. A community of practice includes groups of professionals who share common expertise in areas such as education or governance but who may otherwise be spread out in different departments. Binding them together in organized communities of practice helps them share their knowledge.

Other communities of practice within ADB concern energy, environment, water, finance, gender and social development, health, regional cooperation, and transport; the number of groups was narrowed last year from 19 to 10.

Among other activities, ADB also signed a memorandum of understanding with the Republic of Korea to establish the e-Asia and Knowledge Partnership Fund at ADB. This aims to narrow the “digital divide” in the region by providing technical assistance for promoting information and communication technology in e-government, e-learning, e-trade, and e-commerce.

In 2006, the framework will include initiatives to increase awareness through an internal communications plan and a knowledge management electronic newsletter, to increase the number of activities to help staff integrate knowledge management concepts into their work

Consultations Enhance Role of NGOs

ADB’s efforts to involve NGOs and other civil society organizations meaningfully in its development activities are evolving quickly. Through deeper and more organized consultations, these groups are now taking part more frequently at the early stages of project and policy formulation, and implementing an increasing number of effective projects targeted at poverty reduction.

For example, a regional 3-year technical assistance project begun in 2003 and completed in December—Promoting NGO Support for Poverty Reduction in the Greater Mekong Subregion—has demonstrated through practical trials in the GMS

how their early involvement in formulating ADB’s latest regional and country strategies can contribute to the depth and support for such strategies. By nurturing trust among government, civil society organizations, and ADB, it has strengthened foundations for regular future collaboration.

Some of the most dynamic ADB-assisted projects involving NGOs, meanwhile, were being carried out through a pilot NGO small-grants facility established under a regional technical assistance for NGO Partnerships for Poverty Reduction.

Through this 3-year activity, ADB supported more than 70 NGO-run projects in 15 countries, with the last grants made in 2005.



Through closer consultations, civil society representatives are getting involved early in projects and policy

processes and to create incentives to encourage staff to support knowledge sharing. Together with the Office of Information Systems and Technology, systems will be developed for capturing, classifying, and accessing information to encourage the exchange of information and collaboration among staff.

ASIAN DEVELOPMENT BANK INSTITUTE

Encouraged by the Board of Directors, the Tokyo-based Asian Development Bank Institute increased its focus in 2005 on work in infrastructure for regional cooperation, as well as continuing work in other areas of poverty reduction, governance, and private sector development.

The institute responds to stakeholders' requests for assistance in research, training, and the supply of local language materials. For example, after the Indian Ocean tsunami, the institute coordinated a conference for Indonesia to promote financial accountability in managing funds for conflicts, tsunamis, and other disasters. It also commissioned a study on long-term efforts to rebuild damaged areas of Sri Lanka, translating it into Bahasa Indonesia to share the lessons learned.

Under poverty reduction, the institute published the book *Poverty Targeting in Asia*, which includes studies on the effectiveness of poverty targeting in the PRC, India, Indonesia, Philippines, and Thailand.

It also released a study in English and Khmer on Cambodia's accession to the World Trade Organization, and lessons for other least developed countries.

Work in the private sector area included aspects of the revitalization of the PRC's northeast region, focusing on trade with Japan and the Republic of Korea, enterprise performance, and technological capability.

As part of knowledge management activities, more than 50 independent expert reviews of development-oriented CD-ROMs have been posted on the institute's website. A guidebook to Asian think tanks and their research programs is also online.

AUDIT AND INTEGRITY

The Office of the Auditor General, through the Financial, Administrative and Information Systems Division, conducts independent appraisals of ADB activities to ensure that internal controls are adequate and effective, and to improve efficiency. Through the Integrity Division, it addresses alleged incidents of corruption or fraud in ADB projects, or by staff.

The office completed 20 audits in 2005 related to financial and administrative operations of resident missions and a representative office, administration of loans and technical assistance in two countries; realloca-



Fighting corruption and ensuring integrity help all people in Asia and the Pacific, including this family

tion of loan proceeds, and post-implementation review of two modules of ADB's financial and human resources information system.

ADB barred 40 firms and 33 individuals in 2005 as a result of corruption investigations, making a total of nearly 250 firms and individuals currently ineligible to work with the development institution.

The Integrity Division, which enforces ADB's Anticorruption Policy, received 199 complaints last year, up 44% from 2004.

The Integrity Division also conducted four project procurement-related audits as part of its efforts to reduce weaknesses that may allow fraud, corruption, or abuse in ADB-financed projects. It also recommended strengthening of internal control over the procurement process.

ADB barred 40 firms and 33 individuals in 2005 as a result of corruption investigations

East and Central Asia

Armenia, Azerbaijan,
People's Republic of China,
Kazakhstan, Kyrgyz Republic,
Mongolia, Tajikistan,
Turkmenistan, Uzbekistan

Subregional Perspective

The People's Republic of China (PRC) has made remarkable progress in reducing poverty, establishing an example among emerging economies in East and Central Asia, including the South Caucasus. By 2004, the number of people living on \$1 per day or less had been slashed to about 10.4% of the population from 33% in 1990, while by 2005 the number of rural poor under the official poverty line had fallen to 23.7 million from 250 million in 1978.

To the west, and blessed with oil, natural gas, cotton, gold, and hydroelectric potential, the Central Asian and the Caucasian republics are also growing strongly and stepping away from their post-Soviet decline.

The PRC's economic rise is well documented. In 2005, economic growth surged to 9.9%, led by strong investment, accelerating consumption, and robust exports. Foreign trade exceeded \$1.4 trillion to make it the third highest volume in the world. The government recently adjusted its growth figure for 2004 from the 9.5% originally reported to 10.1%. Its economy is now the world's fourth largest.

Major economic developments in 2005 included the reform of the foreign exchange regime. Beginning in July 2005, the PRC adopted a package of reforms installing a managed floating exchange rate system based on market supply and demand and with reference to a basket of foreign currencies.

Inflation in 2005 was under control at 1.8%, below the government's 4% target, while urban unemployment was kept to 8.39 million.



Smooth and strong, silk being spun in Samarkand, Uzbekistan, which along with its Central Asian neighbors, grew strongly in 2005



East and Central Asia: Main Indicators,^a 2005

Country	Poverty Rate (%)	Real GDP Growth Rate (%)	Average Inflation Rate ^a (%)	Trade Balance (\$ million)	Foreign Direct Investment (\$ million)
Armenia	39.0	13.9	0.6	(534.0)	151.0
Azerbaijan	29.0	26.4	9.6	2,701.0	3,466.0
China, People's Republic of	10.4	9.9	1.8	133,450.0	60,325.0
Kazakhstan	14.3	9.4	7.6	9,817.0	2,544.0
Kyrgyz Republic	45.9	(0.6)	4.4	(435.0)	60.0
Mongolia	36.1	6.2	12.7	(95.0)	110.0
Tajikistan	56.6	6.7	7.1	(279.0)	55.0
Turkmenistan	29.9	10.0	5.9	1,301.0	233.0
Uzbekistan	26.2	7.0	7.8	1,300.0	200.0

— no data available, () negative.

^a Where 2005 data are unavailable, data for the latest year have been provided.

High oil prices are an area of concern, however, and pose some risks to the 2006 economic outlook. In 1993, the PRC was an oil exporter, but as its economy surged, so have its energy needs. It now imports 40% of its oil, and its energy efficiency still needs improvement.

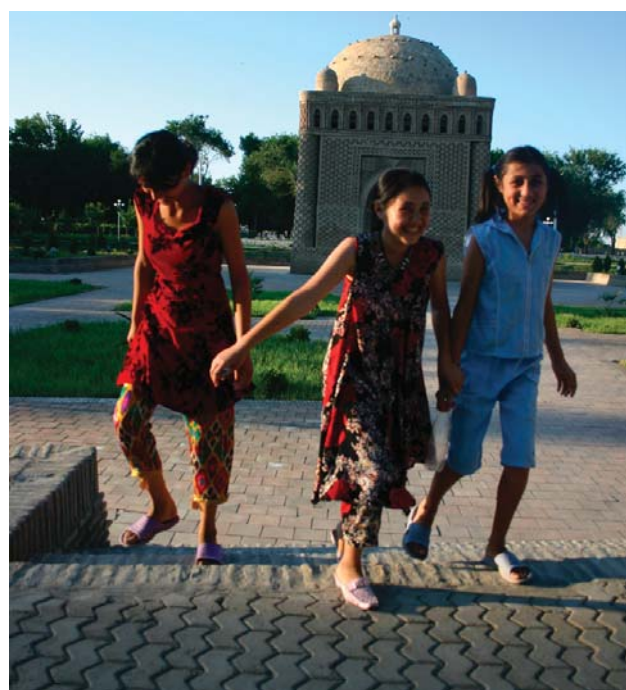
In Mongolia, GDP expanded by 6.2% in 2005, down from 10.7% in 2004. Strong growth in 2005 was underpinned by higher livestock production, investments in the mining and mineral sectors, and surging commodity prices. But all these have been insufficient to bring down the high levels of poverty—more than one third of the population—that emerged in the transition from centrally planned to market-based economies.

In Central Asia, growth has been strong in recent years, fueled by gas and oil deposits in Azerbaijan, Kazakhstan, and Turkmenistan; gold in the Kyrgyz Republic; cotton in Uzbekistan; and construction in Armenia.

However, Central Asia remains poor, and a gap is opening up between those countries with oil and gas, and those without. Per capita incomes in the oil producers in 2005 were already more than double those in the Kyrgyz Republic, Tajikistan, and Uzbekistan. In Kazakhstan's case, per capita GDP was \$3,600 in 2005, compared with Uzbekistan's \$515. Agriculture accounted for about 50% of the Kyrgyz economy in 2005, but for just 6.3% of Kazakhstan's.

The value of exports increased by 87% in Azerbaijan in 2005 and by 40% in Kazakhstan, with proven oil reserves of 0.6% and 0.8% of the world total, respectively. Turkmenistan has less oil, measured at about 0.3% of world reserves in 2003, but also accounts for about 2.1% of global natural gas production.

If the Central Asian and the Caucasian republics are to sustain strong growth, they will have to direct more attention to the nascent private sector, the development of which has



Stronger economies and greater regional cooperation mean a better future for children like these in Bukhara, Uzbekistan

In Central Asia, growth has been strong in recent years, fueled by gas and oil deposits in Azerbaijan, Kazakhstan, and Turkmenistan; gold in the Kyrgyz Republic; cotton in Uzbekistan; and construction in Armenia

lagged behind both the PRC and Mongolia. In these countries, except in Armenia, which has undergone large-scale privatization, the private sector is still being overshadowed by large state enterprises; afflicted by weak support for services; and hamstrung by poor policy, legal, and regulatory frameworks.

Regional Cooperation

Economic cooperation in the East and Central Asian regions is advancing strongly, fueled by the PRC's economic success. The PRC is actively working with its neighbors to foster regional cooperation. To the south, through Yunnan province, the country has been a member of the GMS Program from its inception in 1992. In 2005, the GMS Program began integrating the PRC's Guangxi Zhuang Autonomous Region into its activities (see page 63). To the west, the PRC—through the Xinjiang Uygur Autonomous Region—is also finding new opportunities as a member of the Central Asia Regional Economic Cooperation Program, as the Central Asian republics look to reestablish age-old commercial ties with their booming neighbor.

Remote and landlocked, yet a land bridge connecting Asia with Europe and Russia with South Asia, Central Asia and the Caucasus are finding regional cooperation a necessity. Under the program, founded in 1997 with ADB support, the countries are rediscovering regional trade and finding bigger markets.

Spanning nearly 4,000 km across Central Asia, from Baku, Azerbaijan on the west coast of the Caspian Sea, through Ulaanbaatar in Mongolia, the program includes Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Uzbekistan, and the Xinjiang Uygur Autonomous Region of the PRC. Afghanistan was admitted in November 2005, while Russia has been invited to join.

As of end-2005, ADB had approved 13 loans totaling \$357.1 million for nine program-related projects and had attracted cofinancing amounting to \$52.8 million for three projects. ADB had also approved 37 technical assistance grants totaling \$23.8 million.

The program is an alliance of development partners that includes ADB, World Bank, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and European Bank for Reconstruction and Development. So far it has focused on transport, energy, and trade.

BOOSTING TRANSPORT AND TRADE

ADB provided assistance in the transport sector for improving important sections of the old Silk Road and

other regional transport corridors through a series of road projects in Kazakhstan, Kyrgyz Republic, and Tajikistan.

A loan was approved in November 2004 for the Southern Transport Corridor Road Rehabilitation project to improve the road linking Osh in the south of the Kyrgyz Republic through Irkeshtam on the PRC border with the major Xinjiang market town of Kashgar and beyond.

In November 2005, ADB approved another loan, the Dushanbe–Kyrgyz Border Road Rehabilitation II project, to improve a section of the road running north from Dushanbe in Tajikistan to the border with the Kyrgyz Republic. Further projects are under consideration to complete the improvement of the north–south corridor through the Kyrgyz Republic and Tajikistan, to extend it west toward Kashgar and Urumqi in the PRC, and to extend it east into Uzbekistan.

Under the Central Asia Regional Economic Cooperation Trade Facilitation Program, the PRC has strengthened bilateral customs cooperation with other participating countries. PRC customs entered into bilateral cooperation agreements and protocols with Azerbaijan, Kyrgyz Republic, and Uzbekistan, and initiated harmonization of customs manifest with Kazakhstan and a joint customs control initiative with Mongolia. Significant progress has been made in preparing accession to the Customs Convention on International Transport of Goods under Cover of Transports Internationaux Routiers Carnets to promote transit trade and transform Central Asia and the western part of the PRC into a modern Silk Road. PRC customs is also a major host and financial sponsor of regional training and knowledge forums. Five events have been organized in the PRC since the beginning of the Trade Facilitation Program.



Bread for sale in Khojand, Tajikistan; ADB projects provide micro credit and assistance to small- and medium-sized enterprises



Major work has been done to improve Central Asia's roads as on this one between Bishkek and Osh in the Kyrgyz Republic (right), making trade easier (above)



ADB is also helping the regional transport sector with assistance to the Shanghai Cooperation Organization in drafting a regional road transport agreement including PRC, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, and Uzbekistan.

A large amount of infrastructural lending to the Central Asian republics is channeled through the Central Asia Regional Economic Cooperation Program and, as in other regions, ADB has aimed to get the private sector more deeply involved. Central Asia needs about \$2–3 billion per year in new infrastructure from 2005 to 2010 to sustain growth and reduce poverty, up from about \$1 billion per year.

For now, however, most is state-funded and insufficient. Red tape, excessive bureaucracy, insufficient property rights, and corruption are just some factors discouraging private sector growth. There is potential, however, particularly for private sector participation in railways, water supply, and aviation.

A large amount of infrastructural lending to the Central Asian republics is channeled through the Central Asia Regional Economic Cooperation Program and, as in other regions, ADB has aimed to get the private sector more deeply involved

East and Central Asia: Approvals by Country, 2005 (\$ million)

Country	Loans	Equity and Guarantees	Grant-Financed Projects			Total
			ADF IX	Other Funds ^a	Technical Assistance	
Armenia	—	—	—	—	0.15	0.15
Azerbaijan	52.00	—	—	1.50	2.94	56.44
China, People's Republic of	1,499.52	95.00	—	12.14	18.33	1,624.99
Kazakhstan	—	—	—	—	1.30	1.30
Kyrgyz Republic	15.50	—	15.50	—	1.80	32.80
Mongolia	10.00	—	—	1.00	1.65	12.65
Tajikistan	29.50	—	—	1.80	4.00	35.30
Turkmenistan	—	—	—	—	—	—
Uzbekistan	55.00	—	—	—	2.30	57.30
TOTAL	1,661.52	95.00	15.50	16.44	32.47	1,820.93

— = nil, ADF = Asian Development Fund.

^a Includes trust funds and externally financed grants.

POWERING CENTRAL ASIA

In the energy sector, projects under the Central Asia Regional Economic Cooperation Program included improving regional gas transmission networks, rehabilitating the power supply in Tajikistan, rehabilitating the Central Asia–Central Europe gas pipeline, and working on power interconnection.

The program established the Members Electricity Regulators Forum in 2005 to support regional electricity trade through better regulation of power industry reforms and the promotion of efficient energy use.

The program is gaining recognition, particularly with its expansion to Afghanistan, and plans to include Russia. It operates in partnership with other regional organizations such as the Shanghai Cooperation Organization and the Eurasia Economic Community (which was recently merged with the Central Asia Cooperation Organization), and is the only forum that brings together all the countries of the region, key multilateral institutions, and regional trade organizations within a single institutional framework.



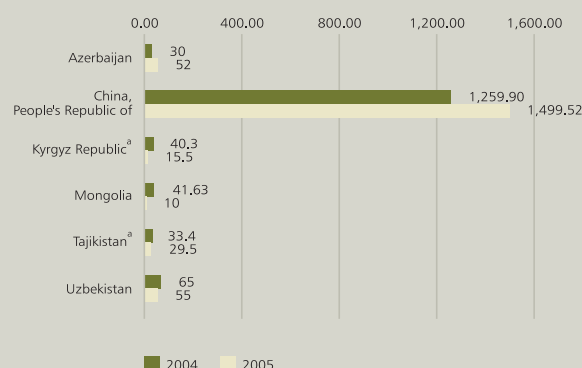
A giant transformer in Nurek, Tajikistan; the Central Asia Regional Economic Cooperation Program is taking measures to support regional electricity trade

East and Central Asia: Cumulative ADB Lending by Country as of end-2005 (\$ million)

Armenia	–
Azerbaijan	104.00
China, People's Republic of	16,375.40
Kazakhstan	501.60
Kyrgyz Republic	588.50
Mongolia	620.34
Tajikistan	273.84
Turkmenistan	–
Uzbekistan	914.70
TOTAL	19,378.38

– nil.

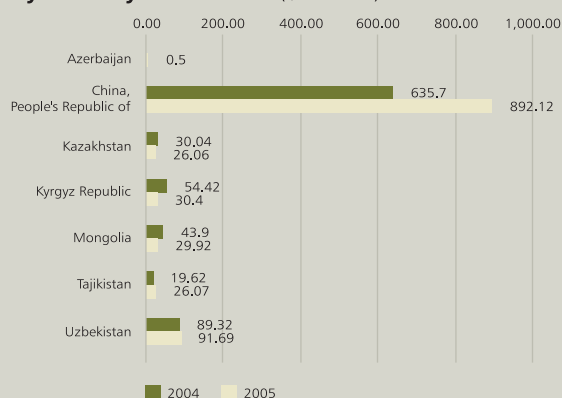
East and Central Asia: ADB Lending by Country 2004–2005 (\$ million)



Kazakhstan and Turkmenistan had no loans during the period.

^aIncludes loan components for regional project.

East and Central Asia: ADB Disbursements by Country 2004–2005 (\$ million)



Turkmenistan had no disbursements during the period.

East and Central Asia: Cumulative ADB Disbursements by Country as of end-2005 (\$ million)

Armenia	–
Azerbaijan	0.50
China, People's Republic of	9,920.25
Kazakhstan	432.58
Kyrgyz Republic	452.41
Mongolia	491.98
Tajikistan	99.59
Turkmenistan	–
Uzbekistan	374.31
TOTAL	11,771.62

– nil.



By strengthening its partnership with the PRC and members of the Central Asia Regional Economic Cooperation Program, ADB aims to promote cooperation in the region's trade and transport

ADB is strengthening its partnership with the PRC and members of the Central Asian Regional Economic Cooperation Program to enhance cooperation in trade and transport in the region

ADB is strengthening its partnership with the PRC and members of the program to enhance cooperation in trade and transport in the region. An expressway project linking Urumqi, the capital of Xinjiang Uygur Autonomous Region, to the border of the Kyrgyz Republic, and an urban infrastructure and environment improvement project have been included in the 2007 and 2008 lending program.

In March 2005, the PRC contributed \$20 million to set up a technical assistance fund to promote regional cooperation and poverty reduction among the countries of developing Asia.

East and Central Asia: Public and Private Sector Loan Approvals by Country, 2005 (\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
AZERBAIJAN					
East-West Highway Improvement	49.00	3.00	52.00	93.20	8 Dec
CHINA, PEOPLE'S REPUBLIC OF					
Sanjiang Plain Wetlands Protection	15.00	—	15.00	55.55	14 Mar
Jilin Water Supply and Sewerage Development	100.00	—	100.00	232.20	18 Jul
Fuzhou Environmental Improvement	55.80	—	55.80	185.50	29 Jul
Business Development Bank Limited ^b	20.72	—	20.72	35.72	11 Aug
Central Sichuan Roads Development	600.00	—	600.00	2,077.00	22 Sep
Xi'an Zhengzhou Railway	400.00	—	400.00	4,131.93	22 Sep
Henan Wastewater Management and Water Supply	100.00	—	100.00	200.00	9 Dec
Hunan Road Development III	208.00	—	208.00	519.51	15 Dec
KYRGYZ REPUBLIC					
Banking Sector and Capital Market Development Program	—	15.50	15.50	15.50	20 Dec
MONGOLIA					
Financial Regulation and Governance Program	—	10.00	10.00	10.00	15 Dec
TAJIKISTAN					
Dushanbe-Kyrgyz Border Road Rehabilitation (Phase II)	—	29.50	29.50	39.50	17 Nov
UZBEKISTAN					
Information and Communications Technology in Basic Education	—	30.00	30.00	43.00	27 Oct
Kashkadarya and Navoi Rural Water Supply and Sanitation Sector	—	25.00	25.00	36.00	12 Dec

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

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and sub-borrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

^b Private sector loan without government guarantee.

Loan Helps Clean the Air in the PRC

Coal is the primary fuel in the PRC. It fires heavy industry and envelops cities in a smoky, unhealthy haze, particularly in the winter months. Improving air quality means finding more efficient ways to use coal to meet energy needs.

Coal mines are already extracting methane from mines around the country, which improves coal mining safety. Inefficient methane removal, however, causes the gas to be released into the atmosphere, with the PRC coal mines releasing about 6 billion cubic meters of highly potent methane each year. Methane has 21 times the greenhouse impact of carbon dioxide on the earth's atmosphere.

Another way is to make better use of cleaner-burning methane gas, present in many coal mines, for heating and power, and to convert methane into less harmful carbon dioxide. In doing so, the process can generate tradable emission reduction credits by using the Clean Development Mechanism, a major provision of the Kyoto Protocol on climate change.

To that end, ADB is lending \$70 million for the Liaoning Environmental Improvement project to extract, store, and distribute methane gas from coal mines. A component of the project centered around Fuxin is financed with backing from a \$15.8 million loan.

The Liaoning project will capture up to 46 million cubic meters of methane for residential and industrial use, delivering it through new and upgraded pipelines and

substations to the cities of Benxi and Fushun.

Before 2002, none of the major cities in Liaoning province in the PRC met national air quality standards. By 2003, 7 of 14 did, helped by a concerted government effort to close small and highly polluting coal-fired heating boilers.

The project will also supply large and efficient heating boilers equipped with modern pollution control devices, and allow the closure of more than 412 small, polluting coal-fired boilers.

Meanwhile, ADB's Clean Development Mechanism Facility and Clearworld Energy, a clean-energy development company based in Beijing, have structured agreements for the Fuxin Mining Group to sell greenhouse gas emission reduction credits to two buyers under the mechanism. The mechanism allows industrialized countries to invest in developing country projects and to acquire credits that they can then use to meet reduction targets under the Kyoto Protocol.

ADB set up its facility in September 2003 to provide technical and administrative assistance to eligible projects in parallel with project identification and loan processing.

A larger undertaking to capture methane is the Coal Mine Methane



Cleaner air through reduced methane emissions is the goal of several projects

Development project in Shanxi province. This project will use the latest technologies to boost methane production produced by coal mines to about 265 million cubic meters to fuel a 120-megawatt power plant, and will transport methane to consumers under a \$117.4 million ADB loan. It is expected to save about 430,000 tons of coal per year.

The Liaoning Environmental Improvement project will capture up to 46 million cubic meters of methane for residential and industrial use

The Regional Cooperation and Poverty Reduction Fund, the first such one set up by an ADB developing member, will encourage greater sharing of knowledge and experience on regional cooperation and poverty reduction across developing Asia. All ADB developing members will be eligible for grants.

In addition, the Inner Mongolia Autonomous Region of the PRC has been exploring ways to cooperate in cross-

border trade, transport, and environmental protection with Mongolia. Mongolia is also a member of the program, and a part of several other regional cooperation efforts.

ADB Assistance

To enhance relevance, ADB is adapting its programs in the PRC to improve infrastructure development,



ADB assistance is helping the PRC rail network expand to the far reaches of the interior, helping address income disparities

environmental protection, agriculture and natural resource management, energy conservation, social sector development, private sector development, and regional cooperation.

In Central Asia and the Caucasus, ADB's lending portfolio has emphasized regional cooperation. Loan and grant support has also helped in several other areas in individual countries, including programs to help combat land degradation under the Central Asian Countries Initiative for Land Management (see page 55).

Assistance in East and Central Asia totaled about \$1.84 billion in 2005.

PEOPLE'S REPUBLIC OF CHINA

Improving Connectivity

ADB approved loans to the PRC totaling about \$1.5 billion in 2005, with total assistance of about

\$1.6 billion. It also approved \$18.3 million in technical assistance, and secured \$2.5 billion in cofinancing. About 81% of ADB lending in 2005 went to transportation, particularly roads and railways; about 17% for projects for urban infrastructure and urban environmental improvement; and the rest for agriculture and natural resources.

One way that ADB is helping address income disparities between the east and west, and between urban and rural areas, is through "connecting" infrastructure, particularly roads and railways that lead to larger markets. About 30 loans since 1991, totaling nearly \$6.2 billion, have financed approximately 4,500 km of expressways, which encourage interregional trade, and 7,700 km of local road networks to foster economic efficiencies.

The "go west" policy involves a massive redistribution of resources from coastal areas to 12 western provinces. The policy is designed to create conditions supportive of economic activities, transport, infrastructure, utilities, education, health, environmental protection, and private sector promotion.

A \$600 million loan to finance construction of a 244-km expressway from Ya'an to Lugu in Sichuan province was among the features of transport assistance approved in 2005. Part of a \$2 billion project, the expressway will complete a 900-km route connecting the Sichuan capital, Chengdu, with Kunming in Yunnan province; upgrade 678 km of local roads in poor areas; and rehabilitate four public transport centers.

Located in the poor mountainous periphery of the province, the PRC's seventh smallest, the project will improve the network and increase access to jobs, markets, and social services. It also supports the Western Region

Agreement Tackles the Dust Bowl in Central Asia

The Central Asian republics suffer severe land degradation caused by years of unsustainable agricultural practices including overgrazing and deforestation, and natural disasters. Degraded lands hamper economic progress, are a health risk, and undermine the region's social structure. Yet efforts to address problems have generally had limited success. They have been poorly coordinated, and have suffered from weak policy, legislation, and regulation.

In answer, ADB and the Global Mechanism of the United Nations Convention to Combat Desertification have spearheaded formulation of the Strategic Partnership Agreement for UNCCD Implementation in the Central Asian countries. The agreement aims to coordinate a more integrated response among the development agencies to the subregion's land degradation problems.

Members include the Global Mechanism, ADB, Canadian International Development Agency, the Convention to Combat Desertification Project of the German Agency for Technical Cooperation, Swiss Agency for Development Cooperation, International Fund for Agricultural Development, International Center for Agricultural Research in Dry Areas, and United Nations Development Programme. The World Bank has applied for membership.

The Central Asian Countries Initiative for Land Management has



Desertification can be tackled only through an integrated and cooperative effort involving all development partners

emerged as the main vehicle for reaching their goals. With ADB serving as the lead Global Environment Facility agency, the initiative will support the implementation of a 10-year program of country-driven activities and resource mobilization covering 2006–2015, with an additional 5 years for implementation (to 2020).

In 2005, it was in the design phase, with a multi-country partnership framework currently being prepared for submission to the Global Environment Facility in March 2006.

The initiative will help describe the necessary policy, legislative, and institutional conditions needed for sustainable land management and will present an approach to mainstreaming sustainable land management into national development

planning and budgetary processes. It will also identify the leading problems and constraints to sustainable land management, and identify priority areas and investment and technical assistance requirements.

The agreement aims to coordinate a more integrated response among development agencies to the subregion's land degradation problems

Development Strategy of the government, which aims to reduce development disparities between the interior and coastal regions.

Similarly, a \$208 million loan for Hunan's rural and mountainous Xiangxi Tujia and Miao Autonomous Prefecture will help build an expressway to provide access to the poor region.

Related objectives are behind PRC plans for construction of eight passenger railway lines by 2020.

In 2005, ADB approved a \$400 million loan to develop the railway connecting the provinces of Henan and Shaanxi, with plans for 459 km of track and nine new stations from Zhengzhou in Henan to Xi'an in Shaanxi. The line will help link PRC cities and ports with Central Asia and Europe by connecting the Beijing–Guangzhou, Shanghai–Xuzhou, and Beijing–Wuhan main lines in the east with the Xi'an–Baoji–Lanzhou, Xi'an–Baoji–Chengdu, Xi'an–Ankang, and Xi'an–Yan'an main lines in the west.

Improving the Environment

The PRC's rapid growth and urbanization have taken a toll on the environment. Urban infrastructure construction has not kept pace and large-scale investments will be required to improve air quality in major cities and towns, treat wastewater discharged into rivers and lakes, and provide safe drinking water supplies. Land degradation is also a serious concern for the PRC and one that is linked to agriculture. Sandstorms are an annual event, with desertification encroaching in the west and north, while other areas suffer as farmers convert wetlands and other natural areas into agricultural uses (see page 57).

ADB provided three loans in 2005 to improve the urban environment of cities in Jilin and Henan provinces and Fuzhou municipality. ADB's partnership with the PRC in urban infrastructure and environmental improvement is expected to strengthen in the next few years.

To fight air pollution, ADB has undertaken several projects to provide clean energy, one of which is building a hydroelectric power plant in Gansu province, where coal-fired thermal plants have been the main source of energy. Approved in 2003 and expected to be completed in 2007, the \$35 million project is constructing the 98-megawatt Xiaogushan Hydropower plant to serve Zhangye city. It will also upgrade the power supply to three poor rural townships—Xishui, Huazhai, and Anyang. Zhangye suffers frequent power interruptions and shortages, a situation that has worsened as demand has risen and new generating plants have been slow to come online.

Two other projects, in Liaoning and Shanxi, are helping extract and use the methane gas produced in coal mining as a clean fuel (see page 53).

An important \$1 million technical assistance grant helped develop a strategy for pollution control in the Songhua River Basin, and is in line with the PRC government's goal to develop a suitable river basin approach for managing water quality. The strategy gives attention to the critical areas of water quality and pollution control management, as well as addressing a number of related policy, technical, institutional, regulatory, and financial issues. The government has committed \$1.9 billion to clean up the Songhua River's domestic and industrial wastewater, providing a basis for further, faster, and sustainable growth of the northeast economy.

Private Sector Development

The PRC's private sector has been growing strongly, and more rapid development is expected as the government continues its efforts to tackle constraints such as unclear private property rights, market entry barriers, high taxation for domestic private enterprises, and inadequate access to financial services. The government has asked ADB for strong support. In response, ADB's private sector operations in the PRC have focused on environmental improvement and on the infrastructure, energy, and financial sectors.

In October 2005, ADB made an equity investment of \$75 million, less than a 1% stake, in the Bank of China Limited, its largest equity transaction to date from its private sector operations. This is an important effort to support the PRC as it reforms its financial sector to prepare for greater competition under the World Trade Organization and fits ADB's view that an efficient financial sector is a critical component of the region's economic development. The Bank of China is one of the country's largest commercial banks and among the first state-owned banks slated for privatization.

More than 80% of small- and medium-sized enterprises still have trouble accessing financial services. Under one loan in 2005, ADB agreed to lend the Business Development Bank Limited \$17.5 million and 2.5 million euros.

The Business Development Bank now extends mainly dollar-denominated loans to medium-sized enterprises requiring dollar financing in Shanghai and nearby coastal provinces. It is also permitted to conduct



A flower seller in Kunming, Yunnan province; the province is gaining new economic opportunities through the GMS Program

More than 80% of small- and medium-sized enterprises still have trouble accessing financial services

Wetlands Plan Marks a Watershed

Massive flooding in the PRC in 1998—which left thousands dead, millions homeless, and the economy poorer—marked a critical change in views about flood control. It helped officials recognize the havoc caused by the destruction of natural systems that for millennia had sustained the country's river basins.

"There was an awakening after the 1998 floods: People asked 'Why, when we've been spending all this money, are these floods still happening and causing more and more severe damage?' The emerging view is that floods must be managed under an integrated approach and in better harmony with nature," says KyeongAe Choe, ADB principal natural resources management specialist.

That "new" thinking is behind the \$55 million Sanjiang Plain Wetlands Protection project, which is designed to manage watersheds in an integrated way to protect humans and biological diversity on the vast Sanjiang Plain in Heilongjiang province in the northeastern PRC. This is in line with the long-term focus of ADB assistance for the Songhua River.

The plain covers an area the size of the Republic of Korea and supports about 37 ecosystems, 1,000 plant species, and 528 vertebrate species. Yet 5 decades of agricultural expansion have imperiled it, and just one fifth remains in the original forest and wetland cover.

Residents have drained wetlands to expand farms and have channeled floodwaters. Immense networks of drainage canals, pumping stations, and flood control dikes have altered the cycle of entire watersheds and destroyed millions of hectares of natural marshes and wet meadows.

To put the plain on a sustainable path, the project adopts an integrated watershed and wetland management approach, combining conservation with the economic welfare of rural people. It began in



Two views of the vast Sanjiang Plain, where an ADB project is improving management

mid-2005 and is funded jointly by the Global Environment Facility, PRC government, and ADB.

It will increase forest cover in upper watershed areas and improve water resource planning and management. It also targets restoration of 3,433 hectares of wetlands and the repopulation of wetland natural reserves with globally threatened wildlife species. Six key nature reserves will directly benefit from habitat and wildlife protection.

The Sanjiang Plain Wetlands Protection project is designed to manage watersheds in an integrated way to protect humans and biological diversity

Grant Fortifies Diets for Children

A lack of basic vitamins and micronutrients in the diet is damaging the cognitive health of children in Central Asia, where deficiencies are unusually high.

Only two parts of the world are now suffering from a rise in the levels of stunted children caused by malnutrition: Central Asia and Sub-Saharan Africa. Iron-deficient women are more likely to die in childbirth and to give birth to children with impaired or delayed motor and cognitive skills.

In Tajikistan alone, more than 30% of children suffer from a severe lack of iodine in their diets, which can impair brain development. There are pockets of Central Asia where the incidence of iodine deficiency is greater than 90%.

Yet salt can be iodized for as little as \$0.05 per person per year, and wheat flour can be fortified with iron for as little as \$0.09, according to the World Bank.

A two-phase project under the Japan Fund for Poverty Reduction—Improving Nutrition of Poor Mothers and Children in Asian Countries in Transition, begun in 2001 and provided with over \$7 million in 2004—is one of two approved by ADB to remedy the situation.

A second phase of the project, running from 2005 to 2007, is promoting fortification as a simple solution to the malnutrition problem, and is helping iodize salt and fortify wheat flour with iron, folic acid, and other minerals in Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

After almost 3 years of implementation, both production and consumption of iodized salt had substantially increased in all participating countries. As of April 2004, production of iodized salt in Kazakhstan, Kyrgyz Republic, and Tajikistan had surpassed the project goal of 66% of domestically consumed salt. Tajikistan produced more than twice the project goal.



Fortifying basic, staple foods will allow children like this one in the Kyrgyz Republic to grow up healthy

A Japan Fund for Poverty Reduction project is promoting fortification as a simple solution to the malnutrition problem, and is helping iodize salt and fortify wheat flour



Education provides the basis for a sound economy

limited renminbi business with foreign enterprises in specified major cities. Under the loan, it will expand lending to small- and medium-sized enterprises, increase its capital base, and obtain a broader renminbi business license to provide local currency loans to local enterprises.

The year 2005 also saw the launch of the first yuan-denominated bond (the Panda Bond) for CNY1 billion (\$124.9 million), part of a bigger plan to boost local currency capital markets throughout East Asia and improve the availability of funds for the private sector in the PRC.

MONGOLIA

A \$10 million loan for the Financial Regulation and Governance Program, approved in 2005, will develop a sound and broad-based financial sector. The program aims to reduce borrowing costs and expand credit, strengthen governance in banks, and enhance the role of nonbank

financial institutions in mobilizing savings for investment capital by helping establish a single regulator for the sector. The program will establish a financial intelligence unit in the Bank of Mongolia to help reduce the risks from money laundering.

In 2005, ADB approved \$1.65 million in technical assistance to Mongolia to prepare the Urban Development and Housing project to support capacity building for financial sector reforms, and for a prefeasibility study of the Western Regional Road Corridor. A \$1 million Japan Fund for Poverty Reduction grant for Maternal Mortality Reduction will help Mongolia meet this important MDG.

CENTRAL ASIAN AND CAUCASIAN REPUBLICS

ADB approved about \$152 million in loans to the Central Asian and Caucasian republics in 2005, almost the same as in 2004. A third of the loan assistance went to Uzbekistan at 36%, followed by Azerbaijan with 34%, Tajikistan with 19%, and the Kyrgyz Republic with 10%. ADB also approved \$12.49 million in technical assistance.

Supporting Transition

A considerable number of projects are helping support transition to more market-friendly rural economies, where economic growth has been slower, with much wider support for farmers' rights and with less state interference.

In Tajikistan, for example, ADB is assisting farm reform and is implementing the Farm Debt Resolution Strategy. This \$15 million project will help the Tajikistan government resolve cotton farm debt through an analysis of a large number of indebted farms.

The technical assistance grant will also help coordinate the activities of other agencies involved in the country's rural sector, including the World Bank, United Nations Development Programme, and European Union.

ADB is helping Azerbaijan improve the last two sections of its East-West Highway through a new loan package of \$52 million approved in late 2005. It is improving a two-lane paved road on the Yevlakh–Ganja and Qazakh–Georgian border, as well as local roads.

Improving Education

In the Kyrgyz Republic, ADB approved a \$15.5 million grant to help it deliver better basic education services to children in poor areas.

In Uzbekistan, ADB lent \$30 million to integrate information and communications technology—including computers and internet access—into basic education. The project will directly benefit some 540,000 students



Students at a computer class in Merv, Turkmenistan; information and communication technology will equip them to land better jobs

in grades five to nine as well as 89,000 teachers in predominantly poor, rural, and remote areas.

Uzbekistan invests substantially in its education system and, indeed, all the Central Asian republics boast high literacy rates. However, the systems are expensive and based on Soviet values and the labor requirements of a centrally planned economy, and are thus ill suited to transitional economies.

Safe Drinking Water, Improved Health

Another project approved in 2005 will benefit around 250,000 rural residents in Uzbekistan, who will gain access to safe drinking water and sanitation through rehabilitation of dilapidated infrastructure in two provinces, backed by a \$25 million ADB loan. The project will help improve living conditions and public health in about 170 villages in Kashkadarya and Navoi provinces through rehabilitating and upgrading piped water supply systems, building public and school latrines, and improving wastewater drainage. Some 12 subprojects will be carried out covering clusters of up to 20 villages comprising an integrated water supply system and improved sanitation facilities.

Wide-ranging support also included a grant from the Japan Fund for Poverty Reduction to help the region deal with the serious problem of poor nutrition that is behind the high incidence of cognitive dysfunction, birth defects, and maternal and child mortality (see page 58).

Mekong

Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam

Regional Perspective


The Mekong River has always connected the diverse peoples living in its watersheds, a geographic constant in the face of trade links often broken in the past by conflict. The countries sharing its watersheds, however, are now securing lasting ties amid growing economic prosperity.

Poverty in the Mekong countries has declined markedly since 1990, when the incidence was close to 50%. Recent estimates show national poverty levels ranging from 9.8% in Thailand to 34.7% in Cambodia. Despite this reduction, poverty remains a major development challenge.

In 2005, most Mekong countries grew strongly despite high oil prices and the economic fallout from avian flu (see page 38).

Cambodia registered remarkable growth estimated at 8.4% in 2005, buoyed mainly by considerably stronger agricultural production. New government legislation is expected to have far-reaching, positive implications for Cambodia's private sector and for growth throughout the economy.

The Law on Commercial Enterprises, which took effect recently, eases business start-up by substantially reducing the time and cost to register. Similarly helpful to private businesses, the Law on Secured Transactions is likely to reduce lending costs and increase bank intermediation, and the Law on Concessions should improve the environment for private participation in infrastructure projects. Both are before the National Assembly awaiting approval.



The lungs of the Mekong, the waterways of the Tonle Sap must be preserved



Mekong: Main Indicators, 2005

Country	Poverty Rate (%)	Real GDP Growth Rate (%)	Average Inflation Rate (%)	Trade Balance (\$ million)	Foreign Direct Investment (\$ million)
Cambodia	34.7 ^a	8.4 ^b	5.8	(1,033.5) ^b	216.0 ^{b,c}
Lao PDR	32.7 ^d	7.2	7.2	(342.3)	27.1 ^e
Myanmar	26.6 ^f	12.2 ^g	—	1,231.7 ^h	—
Thailand	9.8 ⁱ	4.5	4.5	(8,578.0)	3,288.9 ^c
Viet Nam	19.5 ^a	8.4	8.3	(4,564.0)	1,914.0 ^c

— no data available, () negative.

^a Data as of 2004; ^b Estimates; ^c Net basis; ^d Data as of 2002–2003; ^e Gross basis; ^f Data as of 2001; ^g Fiscal year 2005 (April 2005–March 2006); ^h Fiscal year 2004 (April 2004–March 2005); ⁱ Data as of 2002.

Cambodia's financial sector has made significant progress since the Financial Sector Cluster program began in 2001, with greater financial stability, increased financial services, and indications of growing confidence in the sector.

The Lao PDR grew strongly in 2005, following on healthy expansion in recent years that helped lower poverty figures. The country is also making progress toward the income and non-income MDGs. Inflation slowed to 7.2% in 2005, while the trade and current account balances remained in deficit.

Thailand posted growth of 4.5% in 2005, helped by the favorable performance of the export sector and with the effect of the December 2004 tsunami and drought subsiding in the second half of the year. The country's

fiscal situation remained solid, while business confidence remained strong.

Viet Nam, a net exporter of oil, actually benefited from the oil price rises. Oil prices aside, the country was also spurred by an improving business environment. Standout sectors included strong manufacturing, a diverse agricultural base little influenced by avian flu, and buoyant hotel and restaurant businesses, which grew by 15% during the year, thanks to a surge in tourism. A solid expansion of private enterprise also boosted growth.

In Myanmar, ADB continues to monitor economic developments, but a reliable assessment remains to be made, depending on the availability of timely and reliable data.



Major transport routes are being built to form the base of the subregion's economic corridors that link production, trade, and investments

Regional Cooperation

The Greater Mekong Subregion Economic Cooperation Program (GMS Program) was established in 1992 with ADB support. It promotes cooperation in nine sectors—transportation, energy, telecommunications, human resource development, tourism, environment, trade, investment, and agriculture—and provides a means for GMS members to reduce poverty. Member countries—Cambodia, PRC, Lao PDR, Myanmar, Thailand, and Viet Nam—have made steady progress toward greater connectivity and improved competitiveness, resulting in an increased sense of community in the Mekong subregion. Initiatives aimed at addressing shared concerns, such as those related to sustainable management of shared natural resources and tackling health and social issues, are also contributing to a more equitable and prosperous subregion.

The GMS Program entered a new phase in 2005 as work on several economic transport corridors passed milestones. Hundreds of kilometers of newly paved roads, easier border crossings, and agreements to expand trade are boosting livelihoods around the subregion. By streamlining cross-border transport arrangements; laying down modern roads, telecommunications, and power links; and promoting tourism and investment, GMS members are reducing poverty.

In 2005, five GMS loans and grants amounting to \$56 million and 24 technical assistance grants totaling \$39.2 million (including cofinancing) were approved. Between 1992 and December 2005, ADB approved loans totaling \$1.8 billion and technical assistance grants amounting to \$67 million under the GMS Program.

GMS SUMMIT AND OTHER EVENTS

The Second GMS Summit of Leaders was held in Kunming in July 2005. The successful conclusion of the summit saw the issuance of the Kunming Declaration: A Stronger GMS Partnership for Common Prosperity, which embodied the subregional leaders' strong commitment to the GMS Program, underscoring the need for concerted effort to achieve the MDGs. The Biodiversity Corridors Conservation Initiative, launched by the GMS Ministers of Environment in May 2005, was an important legacy of the summit.

Initiatives in the social and environment sectors were also pursued more vigorously. These include the prevention and control of infectious diseases, training of civil servants under the Phnom Penh Plan for Development Management, and the Core Environment Program.

The 13th GMS Ministers' Meeting, held in Vientiane in December 2004, welcomed the inclusion of the Guangxi Zhuang Autonomous Region of the PRC in the GMS Program. Guangxi began participating in GMS Program activities in 2005 and, during the year, ADB assisted a study of how Guangxi could more rapidly link with the rest of the GMS.

ECONOMIC CORRIDORS BOOST ECONOMIES

Reflective of the progress in 2005 on the projects under way are the major transport routes that form the base of the GMS economic corridors—the strategic concentrations of infrastructure development linked to production, trade, and investment. The transport corridors are at the core of the 11 flagship programs of the GMS Program. The three major economic corridors—the east-west, north-south, and southern corridors—will provide the foundation for significantly higher cross-border economic activity.

Along the newly upgraded 240-km highway between Phnom Penh and Ho Chi Minh City, business is booming. Traffic increased rapidly once the road improvements were made.

Hundreds of kilometers of newly paved roads, easier border crossings, and agreements to expand trade are boosting livelihoods around the subregion



Under the GMS Program, the Mekong countries are simplifying customs procedures to speed up border crossings



The Tomb of Emperor Tu Duc in Hue, Viet Nam, is one of the many tourist attractions in the GMS, where tourist arrivals totaled nearly 20 million in 2005

Progress on the East-West Economic Corridor is indeed impressive. It stretches nearly 1,500 km from the Andaman Sea in the west to the South China Sea in the east. At Sepon, Savannakhet province, on the East-West Economic Corridor, an Australian mining company has made substantial investments. The development has provided employment and other forms of livelihood to the benefit of local villages.

EASIER BORDER CROSSINGS

The GMS Program is helping reduce nonphysical barriers to the cross-border movement of people and goods through the implementation of the Cross-Border Transport Agreement. Formulated under the auspices of ADB technical assistance, the agreement is a multilateral instrument designed to be adopted by all GMS members. It covers in one document all the relevant aspects of cross-border transport facilitation including single-stop, single-window inspection; cross-border movement of people; transit traffic regime; and exchange of commercial traffic rights.

In 2005, the GMS Program began implementing the agreement at the Lao PDR–Viet Nam border of Dansavanh–Lao Bao. Implementation will commence in 2006 at the borders of Bavet–Moc Bai, along the Phnom Penh–Ho Chi Minh City highway; at Mukdahan–Savannakhet along the East-West Economic Corridor; and at Aranyaprathet–Poipet between Thailand and Cambodia. Trade is already on the rise in many parts of the subregion.

PROMOTING TOURISM, TELECOMS

To boost tourism, the GMS countries in 2005 launched the long-term GMS Tourism Sector Strategy, which aims to promote the subregion as a single destination. They have begun to relax visa regimes, upgrade airports, start training programs, and step up marketing efforts. Tourist arrivals in the six countries in 2005 totaled nearly 20 million, and these are expected to soar to 30 million by 2010.

In the telecommunications sector, meanwhile, feasibility studies have been undertaken for establishing a subregional network. Fiber-optic cable links are planned for the missing portions of a backbone that will interconnect national networks in the subregion. Cooperation will also focus on constructing an information super-highway network that will enhance the range of services and applications based on subregional network facilities.

To boost tourism, the GMS countries in 2005 launched the long-term GMS Tourism Sector Strategy, which aims to promote the subregion as a single destination

Initiative Protects Cambodia's Great Lake

Centuries ago, Cambodia's inhabitants mastered the seasonal ebb and flow of Southeast Asia's largest freshwater lake, maximizing rice production and making possible the wonder of the Angkor Kingdom. Today, many Cambodians rely on the Tonle Sap for fish to feed their families and on its monsoon-fed waters to irrigate their rice fields.

Under its Tonle Sap Initiative, ADB is helping the Cambodian government put in place a plan to protect the rich natural resource that sustains so much of the nation. Central to the initiative is a phased sequence of core loans and grants that will put in place an integrated and basin-wide approach to dealing with its problems.

The special characteristics of the Tonle Sap Basin derive from the 100-km long Tonle Sap River, which runs into the Mekong River farther south at the capital, Phnom Penh. During the rainy season, the heavy flow of the Mekong forces the Tonle Sap River to reverse flow and head north, filling the lake. This causes it to swell from around 2,500 square kilometers to as much as 16,000 square kilometers. Fish, birds, mammals, and plants thrive in this hydrological phenomenon.

The Tonle Sap supports one of the most productive fisheries in the world and provides most Cambodians with their main source of protein. Its land, water, and biotic resources directly benefit 40% of the population of provinces adjoining the lake and shore up food security and employment elsewhere. The lake is also of global significance for biodiversity conservation.

Overexploitation of fisheries and wildlife, conversion of the flooded forest to agriculture, and collection of wood for fuel are threats to this balance. Widespread deforestation in the watershed is destroying habitats, impairing water and soil quality, and increasing siltation rates.

Cambodia designated the Tonle Sap a multiple-use protected area in

1993. The United Nations declared it a biosphere reserve in 1997. In 2003, ADB finalized the Tonle Sap Basin Strategy, giving geographical focus to its country strategy and program for 2005–2009 and its annual updates. The development objectives are to foster, promote, and facilitate pro-poor sustainable growth, access to assets, and management of natural resources and the environment.

Threats to the lake must be considered from the perspective of

the basin as a whole, but everything cannot be tackled at the same time. Interventions work from core areas of the lake to its upper catchments over an 8-year period, repeating this cycle as may be needed to allow the accomplishments and lessons learned to be incorporated into long-term protection for the complex ecosystem.

As part of the initiative, in 2005, ADB approved a grant for \$18 million that will help provide safe drinking water to more than 1 million people living around the Tonle Sap River Basin.

The grant will help fund a project that will provide rural water supply and sanitation facilities to about 1,760 villages in five provinces around the basin. It will also improve sanitation for about 720,000 rural people, train communities to take responsibility for the facilities, and conduct health and hygiene awareness outreach.



The Tonle Sap supports one of the most productive fisheries in the world and supplies protein to a majority of Cambodians

Fish, birds, mammals, and plants thrive in this hydrological phenomenon





ADB is coordinating with its development partners to help poultry farmers control avian flu

WARDING OFF AVIAN INFLUENZA

To help stem the avian influenza threat in Asia and the Pacific, ADB has committed to another subregional initiative to encourage cooperation on infectious diseases. A \$30 million ADF grant, approved in 2005, will assist Cambodia, Lao PDR, and Viet Nam in controlling the spread of avian flu and other infectious diseases among vulnerable groups. ADB committed \$18 million in 2005 for Viet Nam, which was at the center of the avian flu outbreak in 2005 (see page 38).

Mekong: Cumulative ADB Lending by Country as of end-2005 (\$ million)

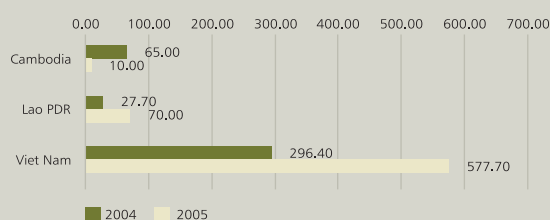
Cambodia	850.24
Lao PDR	1,183.14
Myanmar	530.86
Thailand	5,388.07
Viet Nam	3,732.37
TOTAL	11,684.68

To ensure that the GMS Program proceeds along an environmentally sustainable path, the member countries endorsed in 2005 the implementation of the Core Environment Program, including the Biodiversity Conservation Corridors Initiative

SAFEGUARDING THE ENVIRONMENT

To ensure that the GMS Program proceeds along an environmentally sustainable path, the member countries endorsed in 2005 the implementation of the Core Environment Program, including the Biodiversity Conservation Corridors Initiative. ADB approved its largest-ever regional technical assistance—about \$25 million—to support the initiative, which aims at environmental sustainability and social equity in the Mekong Subregion toward increasing its development potential, performance, and impact.

Mekong: ADB Lending by Country, 2004–2005 (\$ million)



Myanmar and Thailand had no loans during the period.

Mekong: Approvals by Country, 2005 (\$ million)

Country	Loans	Equity and Guarantees	Grant-Financed Projects			Total
			ADF IX	Other Funds ^a	Technical Assistance	
Cambodia	10.00	—	42.00	9.98	7.62	69.60
Lao PDR	70.00	50.00	16.00	1.50	3.02	140.52
Myanmar	—	—	—	—	—	—
Thailand	—	—	—	—	3.35	3.35
Viet Nam	577.70	—	25.64	0.90	12.25	616.49
TOTAL	657.70	50.00	83.64	12.38	26.24	829.96

— = nil, ADF = Asian Development Fund.

^a Includes trust funds and externally financed grants.

ADB Assistance

Helped by an ADB investment of about \$800 million in 2005, the Mekong countries continued to focus on speeding up social and economic development as well as reducing poverty in the subregion. Assistance to these countries focused on providing the infrastructure needed to boost economic growth and to reduce poverty, always in cooperation with member governments and development partners. Transport and energy-related projects accounted for over three quarters of lending.

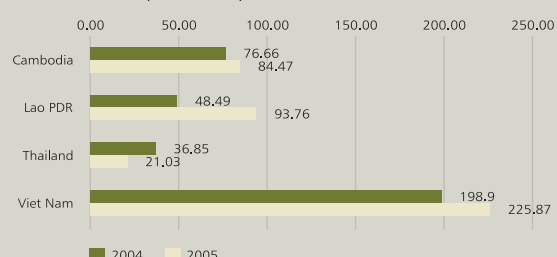
CAMBODIA: TONLE SAP INITIATIVE

During 2005, three loans/grants amounting to \$43 million were approved for Cambodia, including two exclusive grant assistance projects for rural water supply and sanitation



A new bridge across the Mekong at Mukdahan to Khanthabuly will lessen dependence on ferries

Mekong: ADB Disbursements by Country 2004–2005 (\$ million)



Myanmar had no disbursements during the period.

Mekong: Cumulative ADB Disbursements by Country as of end-2005 (\$ million)

Cambodia	564.58
Lao PDR	905.76
Myanmar	411.83
Thailand	4,183.05
Viet Nam	1,955.16
TOTAL	8,028.38

Mekong: Public and Private Sector Loan Approvals by Country, 2005 (\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
CAMBODIA					
Financial Sector Program (Subprogram III)	–	10.00	10.00	10.00	29 Sep
LAO PDR					
Greater Mekong Subregion Nam Theun 2 Hydroelectric					
– Private Sector Loan	50.00	–	50.00	1,450.00	4 Apr
– Public Sector Loan	20.00	–	20.00		4 Apr
VIET NAM					
Preventive Health System Support	–	27.90	27.90	47.54	25 Aug
Support the Implementation of the Poverty Reduction Program II	–	15.00	15.00	225.00	3 Nov
Central Region Transport Networks Improvement Sector	–	94.50	94.50	138.00	11 Nov
Greater Mekong Subregion: Kunming–Haiphong Transport Corridor Noi Bai–Lao Cai Highway Technical Assistance	–	6.00	6.00	8.00	19 Dec
Central Region Water Resources	–	74.30	74.30	99.00	19 Dec
Northern Power Transmission Expansion Sector	360.00	–	360.00	452.70	21 Dec

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

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and sub-borrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

Health Contracts Widen Access to Care

A relatively low life expectancy, coupled with high maternal mortality rate and greater vulnerability to contract HIV/AIDS, calls for extensive and innovative efforts to significantly improve the health status of the Cambodian people.

The poor in Cambodia, when in need of medical attention, may self-treat, call traditional healers, and even flee before they ever seek advice from government-run clinics.

"When I saw the health staff come to my village ... I took my little baby with me and hid in the bushes behind the village," says one mother in the Memut district of Kampong Cham province.

A government program that contracts private organizations to run and upgrade public health services is changing that. Wide-spread success since the program was begun in 1996, under a loan now completed, has convinced officials to expand contracting from 5 to 10 of the country's 76 districts. The second phase, ongoing in 2005, was funded with a \$20 million ADB loan under the Health Sector Support project and is due for completion in 2007.

Under the contracting system, use of public services has risen, particularly among the poor. Average out-of-pocket health costs have plunged by over \$30 per person for the bottom half of the population in some project districts.

Under the contracting system, use of public services has risen among the poor; average out-of-pocket health costs have plunged by over \$30 per person

NGOs attract people in need of care with cleaner clinics; predictable, professional, and respectful service; and successful treatment. They use enforceable contracts, financial incentives, user fees, and achievable goals to motivate staff.

Overall care has improved for numerous reasons, says HealthNet International, one of the contracted NGOs. Of critical importance was an end to private practice among public workers. Salaries were so low

in the government clinics—\$10–30 per month—that health workers had to seek other income. Many openly sold their services outside of the health centers and earned 10 times more than their official salaries.

Salaries were raised to levels high enough to get staff to dedicate 100% of their time to the public system. Doctors and district managers settled for salaries between \$120 and \$180 per month.



Maternal care is improving and use of public services is rising in clinics run by NGOs (above); salaries were raised to levels high enough to get staff to dedicate 100% of their time to the public system (below)



(\$18 million) as well as sustainable livelihood in the Tonle Sap Basin (\$15 million). The third project, amounting to \$10 million in an ADF loan, was approved for a financial sector program for the development of a market-based financial system.

The Tonle Sap Initiative has made good progress toward reversing threats to Southeast Asia's largest freshwater lake (see page 65). Cambodians also continued to find better health care in efficient clinics run by NGOs under new funding in a long-running project (see page 68).

The non-lending program (consisting of 14 technical assistance activities), based on resources from the Technical Assistance Special Fund, Japan Special Fund, and other sources, amounted to \$7.62 million during 2005, which included technical assistance for project preparation as well as capacity building.

The 2005–2009 country strategy and program for Cambodia was endorsed by the Board. A notable feature of its preparation was the joint process undertaken with World Bank, United Kingdom's Department for International Development, and United Nations agencies concerned.

LAO PDR: HYDROPOWER

In April 2005, ADB approved a \$20 million public sector loan, a private sector loan of up to \$50 million, and a political risk guarantee of up to \$50 million for the Nam Theun 2 Hydroelectric Project. These were ADB's first private sector loan and first such guarantee in the Lao PDR. It was also the second public-private partnership in the Lao PDR power sector. Approval of the project was a breakthrough in the Mekong subregion, making it a public-private partnership model. It is part of an international effort to supply 1,070 megawatts of power to the Thai and Lao PDR markets.

During 2005, ADB also approved a \$10 million ADF grant for the Lao PDR to help provide safe and reliable water supplies. The quality and reliability of water supply services will be improved in about 12 small towns in the country's northern and central regions by developing new water sources and constructing optimal-sized water supply systems.

Complementing the loans and grants for the Lao PDR are seven technical assistance grants amounting to \$3.0 million, which focused on project preparation and capacity development in priority areas.

MYANMAR

ADB continued to monitor economic development in Myanmar during 2005. An operational strategy will be formulated when appropriate. The last loan and technical



A worker in a factory in the Lao Bao commercial area in the Lao PDR (above); Thailand's economy and relationship with ADB are entering a new era (below)





ADB's work in the Mekong countries focuses on laying the infrastructure needed to boost economic growth and to reduce poverty

assistance projects for Myanmar were approved in 1986 and 1987, respectively.

THAILAND: A NEW ERA

The opening of the Thailand Resident Mission in 2005 marked a new chapter in the country's long-standing relationship with ADB. Discussions with the government on a partnership framework are ongoing to define areas of collaboration on national and regional programs.

As a middle-income country, Thailand recognizes the critical role of infrastructure for sustainable economic growth and increased competitiveness. ADB is prepared to work closely with the government to support its "megaprojects" infrastructure investment program.

Cooperation on Dam Generates Power

Construction of the Nam Theun 2 hydroelectric dam, so far the largest foreign investment in the Lao PDR, has started. It is also one of the largest GMS projects and exemplifies the benefits not only of regional cooperation in the Mekong but also of the potential for tapping private sector strengths through partnership with public sector groups.

Thailand will buy up to 95% of the 1,070 megawatts to be generated, and the Lao PDR government will use the dividends, taxes, and royalties for its development program.

With funding from 27 international institutions—including public and private sector loans and a political risk guarantee from ADB—the Nam Theun 2 Power Company Limited will build the project, the total base cost of which is estimated at \$1.25 billion.

Consultations leading up to the project were broad, deep, and frequent. The people living near the project began providing inputs to planning in 1996, and were consulted in several hundred public meetings and information exchanges throughout the area. Planners also held consultations in Bangkok, Tokyo, Paris, Washington DC, and Vientiane with international groups concerned about the project, whose views were taken into account in the design.



The Nam Theun 2 project illustrates the potential for tapping private sector strengths through partnership with public sector groups

Thailand will buy up to 95% of the 1,070 megawatts to be generated, and the Lao PDR government will use the dividends, taxes, and royalties for its development program

Environmental concerns were also clearly established. For example, with funding from the company, the project will help preserve the Nakai Nam Theun National Protected Area, one of Southeast Asia's few remaining intact tropical rainforests.

It also features a program for transparent monitoring and

evaluation, including the publication of performance evaluations, progress reports, and data monitoring. Furthermore, the obligations of the company relating to social and environmental mitigation or compensatory measures are detailed in the safeguard documents and clearly set out in binding agreements.



Demand for electricity in Viet Nam has grown by at least 15% per year in the last 10 years, but supply has not always kept pace

Consistent with the government's efforts to increase the size, depth, and liquidity of Thailand's capital market, ADB issued a debut 4 billion baht (\$102.5 million), 5-year bond in the country's domestic bond market in May 2005.

Thailand has always been an integral partner of ADB in the GMS Program. Additionally, new opportunities are being explored for expanding Thailand's role as a regional development partner. ADB and Thailand are involved in a number of initiatives to promote further development of Asian bond markets. Collaboration will strengthen cooperation and deepen economic integration across the region.

No new loans have been made to Thailand since 2000. However, seven technical assistance grants amounting to \$3.35 million were approved in 2005. These included three tsunami-related technical assistance operations to assist in post-tsunami support activities. Another technical assistance—Infrastructure Investment Advisory Assistance to the Public Debt Management Office of Thailand—aims to assist the government in evaluating various mechanisms and options for integrating the urban mass rail transport system in Bangkok.

VIET NAM: POWERING UP

In 2005, ADB approved \$577.7 million in loans, \$26.5 million in grants, and \$12.3 million in technical assistance, for a total of \$616.5 million. A \$95.0 million loan and grant package approved in November 2005 will improve 1,200 km of roads and help boost economic growth in the central provinces. It will rehabilitate roads

and, in selected rural districts, raise them to all-weather condition. The improved roads will increase the efficiency with which people can move and goods can be traded, and the project will help improve access to markets, jobs, and social services.

Viet Nam will also be a beneficiary of a loan (\$27.9 million) and grant package (\$10.1 million) totaling \$38.0 million to strengthen the country's preventive health system. Specifically, the project will help combat communicable and emerging lifestyle diseases.

Non-lending assistance in Viet Nam, consisting of 20 technical assistance grants amounting to \$12.3 million for 2005, constituted an important element toward project preparation as well as capacity building.

An OCR loan for \$360 million, approved in December 2005, will construct and expand power transmission lines and substations in the northern part of the country. The project will improve reliability, remove transmission bottlenecks, reduce transmission losses, and promote more efficient use of power plants. Demand for electricity in Viet Nam has grown by about 15% per year in the last 10 years, but supply has not always kept pace.

Demand for electricity in Viet Nam has grown by about 15% per year in the last 10 years, but supply has not always kept pace

Pacific

Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, Vanuatu

Subregional Perspective

The area covered by ADB's Pacific operations is vast. Just one country alone, Kiribati, spans nearly 6,000 km from east to west. Most of the region's island nations are remote, have small populations, and face a peculiar set of developmental challenges as a result.

The economic performance of most Pacific countries has improved in the past 2–3 years, following variable but often weak or negative economic growth in the preceding decade. On average, economic growth in the Pacific countries weakened slightly in 2005 compared with the previous year. Real GDP expanded on average by 2.7%—down from 3.1% in 2004—and was barely enough to keep ahead of regional population growth, which was 2.4% in 2004.

However, the average conceals significant variations among the Pacific countries, including in the key factors affecting growth prospects and performance. High oil prices, for example, continued to weigh heavily on most Pacific economies in 2005, although higher global commodity prices for exports offset these in several countries.

In Papua New Guinea and Timor-Leste, higher oil prices in 2005 were clearly beneficial, given the importance of petroleum exports to both countries. In Papua New Guinea, existing oil projects were expanded, while agreements were secured with an Australian aluminum refinery and a gas wholesaler for a proposed gas pipeline. As of end-December 2005, Timor-Leste government deposits held abroad by the Banking and Payments Authority totaled \$506 million, including \$370 million in the Petroleum Fund.



Economic growth was strong in several Pacific countries, including Samoa, where these schoolgirls live



Pacific: Main Indicators, 2005

Country	Poverty Rate ^a (%)	Real GDP Growth Rate (%)	Average Inflation Rate ^b (%)	Trade Balance ^c (\$ million)
Cook Islands	12.0 ^d	3.0	1.7	32.0
Fiji Islands	39.5 ^e	1.7	2.4	(867.0)
Kiribati	50.0 ^d	0.3	2.5	(43.0)
Marshall Islands	20.0 ^{f,g}	3.5	3.5	(69.0)
Micronesia, Federated States of	27.9 ^d	1.0	2.5	(130.0)
Nauru	—	—	—	—
Palau	23.0 ^h	5.5	3.0	—
Papua New Guinea	53.8	3.0	1.7	1,464.0
Samoa	20.3	5.5	8.0	—
Solomon Islands	—	4.4	6.9	(40.0)
Timor-Leste	39.7 ⁱ	2.5	1.8	(204.0)
Tonga	22.3	2.5	8.0	(90.0)
Tuvalu	29.3 ^j	2.0	2.8	—
Vanuatu	40.0 ^k	3.1	2.6	(86.0)

— no data available, () negative.

^a Data are for 2002, except for the Fiji Islands (2003) and Papua New Guinea (2005); ^b Data are as of March for Tonga and refer to year-end inflation for Fiji Islands, Marshall Islands, Papua New Guinea, and Tuvalu; for Kiribati, 2004; ^c Data for Fiji Islands, Kiribati, Palau, Papua New Guinea, and Solomon Islands are as of 2004; ^d 1998 Household Income and Expenditure Survey (HIES) data; ^e 1990/91 HIES; ^f \$1-a-day benchmark; ^g 1999 census data; ^h 1998 estimate; ⁱ Based on the 2001 Timor-Leste Living Standard Measurement Survey; ^j Based on 1994 HIES data; ^k Calculated from the 1998 HIES \$1-a-day benchmark.

Of the 14 countries, growth in 2005 GDP was strong in Palau (5.5%), Samoa (5.5%), Solomon Islands (4.4%), and Marshall Islands (3.5%). Vanuatu (3.1%), Cook Islands (3%), Timor-Leste (2.5%), and Tonga (2.5%) grew modestly, with Tuvalu expanding by 2%, and Federated States of Micronesia by 1%. Kiribati (0.3%) experienced the region's lowest growth. No figures were available for Nauru.

Papua New Guinea, the region's largest economy with 49.2% of regional GDP, grew by 3% in 2005, similar to 2004's 2.9%. Excluding gold production, all sectors of the economy expanded, with agriculture particularly strong. Palm oil and copra benefited from high world prices. The country's economy has improved greatly in recent years, as reflected in a buildup of foreign reserves, fiscal consolidation, a stable exchange rate, and much lower interest rates and inflation.

GDP growth slowed in the Fiji Islands to 1.7% in 2005 after 4.1% in 2004, as the region's second largest economy faced significant adjustment pressures. Fiscal deficits continue to be moderately large, and the textile and sugar sectors are under considerable pressure, reflecting reductions in preferential trade advantages in Australia and the European Union (see page 79).

In Vanuatu, growth was 3.1% compared with 4.2% in 2004 and -4.7% in 2003, led by agriculture, forestry, and the fishing sectors.

Throughout the region in 2005, tourism remained a significant income source; it has grown substantially in recent years, supported by a consumer shift to safer

destinations, improved country and regional marketing, and structural reforms that are allowing low-cost air carriers to enter the market. In the Fiji Islands, tourist arrivals increased by 6% in the first 8 months of 2005; Palau broke its 2004 visitor arrivals record; and the Cook Islands enjoyed a rise in arrivals, shaking off the destruction of the March cyclones.

Inflation decreased a bit in the region, although it remained slightly high in Samoa, Solomon Islands, and Tonga.

Regional Cooperation

Each Pacific country is unique, but they also face common challenges related to high transport and other transaction costs, limited human resources and weak institutional capacities, governance difficulties, and narrowly based economies vulnerable to natural disasters and external shocks.

Throughout the region in 2005, tourism remained a significant income source; it has grown substantially in recent years, supported by a consumer shift to safer destinations

Regional cooperation and integration can help the Pacific countries minimize constraints and expand economic opportunities. They can gain economies of scale and improve governance, for example, by building regional institutional capacity that complements national strengths. A regional approach can also expand access to labor markets, including to larger neighboring countries, and can be part of an important strategy for increasing economic opportunities.

In 2005, heads of government of the Pacific Islands Forum reinvigorated Pacific regionalism by approving the Pacific Plan for Strengthening Regional Cooperation and Integration. ADB preceded the initiative with the report *Toward a New Pacific Regionalism* and supported the effort with technical assistance. Published jointly by ADB and the Commonwealth Secretariat, the report provided Forum island countries with a timely analysis of major issues and opportunities for Pacific regionalism, and recommended several initiatives that were later adopted under the Pacific Plan.

SAFER SKIES

Aviation safety and security is one area where the benefits of Pacific regional cooperation have been clearly demonstrated. Under an ADB loan and technical assistance grant package totaling \$1.95 million approved in 2005 and the first ever made directly to a regional organization, ADB is helping Cook Islands, Fiji Islands, Kiribati, Papua New Guinea, Samoa, Solomon Islands, and Vanuatu establish the Pacific Aviation Safety Office.



ADB established the Aviation Safety Office under its first-ever loan to a regional organization

The office will help the region meet international aviation requirements by providing safety and security inspections, and technical assistance to airlines, airports, and civil aviation authorities.

The ADB loan will establish the office in its new headquarters in Port Vila, Vanuatu, while the grant will finance regulatory and legislative harmonization and update the certification of airlines. The office will standardize the operating environment across member countries and support implementation of the Pacific Islands Civil Aviation Safety and Security Treaty. The regional approach adopted will reduce costs to

Pacific: Approvals, 2005 (\$ million)

Country	Loans	Grant-Financed Projects			Total
		ADF IX	Other Funds ^a	Technical Assistance	
Cook Islands	2.83	—	—	0.60	3.43
Fiji Islands	25.00	—	—	1.60	26.60
Kiribati	—	—	—	—	—
Marshall Islands	—	—	—	0.30	0.30
Micronesia, Federated States of	—	—	—	—	—
Nauru	—	—	—	0.48	0.48
Palau	—	—	—	—	—
Papua New Guinea	—	0.00	—	2.15	2.15
Samoa	8.06	—	17.20	0.65	25.91
Solomon Islands	—	—	—	1.10	1.10
Timor-Leste	—	10.00	—	1.20	11.20
Tonga	—	—	—	0.70	0.70
Tuvalu	—	—	—	—	—
Vanuatu	—	—	—	—	—
Regional	1.50	8.00	—	6.24	15.74
TOTAL	37.39	18.00	17.20	15.02	87.61

— = nil, ADF = Asian Development Fund.

^a Includes trust funds and externally financed grants.

governments, airlines, and airport operators, and the office will become financially self-sustaining through service fees.

FIGHTING HIV/AIDS

A regional approach can also help better equip the Pacific in the fight against HIV/AIDS. Many small Pacific nations share a vulnerability to the disease because of low condom use, high mobility, and various cultural and sexual taboos. Reported contraceptive use averages around 30–35% in most Pacific countries. At the same time, many of the region's health care systems have trouble ensuring safe blood supplies, have a poor record for treating other sexually transmitted infections, and do not provide adequate counseling or testing for HIV/AIDS.

At the end of 2005, Papua New Guinea was the only Pacific country considered to have an HIV epidemic, with cases estimated between 23,000 and 90,000 in the 15–45 age group, or about 2% prevalence.

In 10 countries in the region—Cook Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru,

Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu—the reported incidence of HIV/AIDS was over 120 cases in 2005, although the real number may be considerably higher because of less than adequate surveillance systems.

Under an \$8 million ADF grant approved in 2005, ADB will help improve the management and delivery of HIV/AIDS programs by strengthening surveillance and supporting community prevention in the 10 countries. The project will help countries develop the skills to identify risk factors and vulnerable sectors of the population, design surveillance programs, and improve laboratory work and data collection.

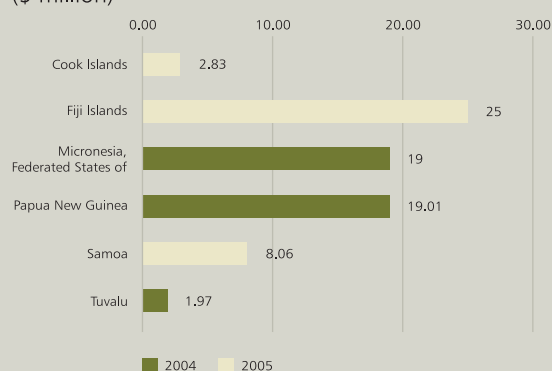
Community assistance will include social marketing programs for condoms, launch events, peer education, and campaigns to influence and change sexual behavior. The project will increase facilities for diagnosing sexual diseases, and will help fund 20 clinics in the 10 countries.

Educational materials on HIV/AIDS and other sexually transmitted infections will be available at drop-in centers to provide information to vulnerable

Pacific: Cumulative ADB Lending as of end-2005 (\$ million)

Cook Islands	29.50
Fiji Islands	249.90
Kiribati	15.14
Marshall Islands	78.13
Micronesia, Federated States of	75.14
Nauru	5.00
Palau	—
Papua New Guinea	873.99
Samoa	129.98
Solomon Islands	79.31
Timor-Leste	—
Tonga	57.79
Tuvalu	7.82
Vanuatu	51.25
Regional	1.50
TOTAL	1,654.45

Pacific: ADB Lending by Country, 2004–2005 (\$ million)



Kiribati, Marshall Islands, Nauru, Palau, Solomon Islands, Timor-Leste, Tonga, and Vanuatu had no loans during the period.

Pacific: Public and Private Sector Loan Approvals, 2005 (\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
COOK ISLANDS					
Cyclone Emergency Assistance	—	2.83	2.83	7.87	30 Jun
FIJI ISLANDS					
Alternative Livelihoods Development	25.00	—	25.00	49.78	28 Mar
SAMOA					
Education Sector II	—	8.06	8.06	30.00	16 Dec
REGIONAL					
Establishment of the Pacific Aviation Safety Office	—	1.50	1.50	2.10	22 Sep

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

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and sub-borrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.



HIV/AIDS programs will be improved by strengthening surveillance and supporting community prevention in 10 Pacific countries (above); vulnerable communities, such as seafarers, will be targeted (right)



communities such as seafarers. There will also be special training on health issues at regional maritime schools as well as for NGOs working with vulnerable groups.

For HIV-positive people, the project will provide skills training for livelihoods and fund antiretroviral drug treatments. Education campaigns will hopefully reduce high-risk behavior.

Papua New Guinea, because of the scale of its HIV challenge, is receiving targeted country-level assistance, with an ADF grant being prepared.

ADB Assistance

ADB provides a range of services to its Pacific DMCs, with lending and grant operations supplemented by extensive technical assistance, analytical work, and policy advice.

Priorities are determined by matching country needs with key result areas identified in ADB's Pacific Strategy for 2005–2009, which began implementation in 2005.

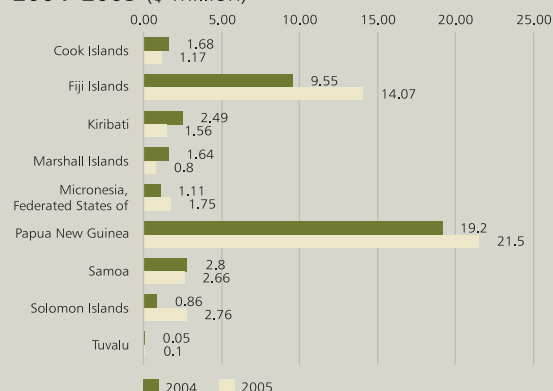
Total ADB assistance to the subregion was \$73.4 million. Four loans and two grant projects approved by ADB for the Pacific in 2005 highlight the diversity of the countries and the challenges facing the subregion. Valued at \$63.1 million, they address the need for agriculture sector restructuring and alternative livelihoods for sugar farmers in the Fiji Islands (see page 79), a multi-donor education sector partnership in Samoa (see page 80), cyclone recovery in Cook Islands, grant financing for national roads in post-conflict Timor-Leste, and regional cooperation for aviation safety and HIV/AIDS prevention.

ADB updated its strategy and program for three countries during 2005: Federated States of Micronesia,

Pacific: Cumulative ADB Disbursements by Country as of end-2005 (\$ million)

Cook Islands	26.15
Fiji Islands	160.56
Kiribati	13.55
Marshall Islands	63.99
Micronesia, Federated States of	36.78
Nauru	2.30
Palau	0.00
Papua New Guinea	634.01
Samoa	102.66
Solomon Islands	57.91
Timor-Leste	0.00
Tonga	52.26
Tuvalu	4.26
Vanuatu	48.99
TOTAL	1,203.42

Pacific: ADB Disbursements by Country 2004–2005 (\$ million)



Nauru, Palau, Timor-Leste, Tonga, and Vanuatu had no disbursements during the period.

Support Holds Back Rising Tides

King tides, storm surges, and severe cyclones are part of life for Pacific islanders, particularly for those living on the region's many thousands of low-lying atolls. Adapting to severe weather is a well-scripted routine learned over the millennia.

However, these normal events are becoming abnormally frequent due to global warming, many scientists now claim.

ADB is helping Asian and Pacific countries prepare for climate

ADB is helping Asian and Pacific countries prepare for climate change through "adaptation"

change through "adaptation" projects under the Renewable Energy, Energy Efficiency, and Climate Change Program.

The Climate Change Adaptation Program in the Pacific, for example, is aiming to climate-proof six infrastructure projects in the Federated States of Micronesia and Cook Islands. The program, funded by the Canadian Cooperation Fund for Climate Change, has designed adaptation measures and helped provide the institutional and human resource capacity to carry them out. The effort addresses economic, financial, technical, and legal issues, plus social and environmental dimensions.

In the Federated States of Micronesia, the project identified cost-effective adaptation measures in the Sapwohn coastal community in Pohnpei. A Kosrae road project was put on hold until funds were made available to climate-proof the

road during construction. Estimates suggested that spending the money early for "climate proofing" would save roughly 11% in costs due to lower maintenance and repair.



Coastal areas are being made safer with climate proofing

Papua New Guinea, and Timor-Leste. ADB also approved \$15 million for 24 technical assistance grants, including significant new regional assistance. Improving ADB's project and technical assistance portfolio performance in the Pacific was a major focus in 2005, with the number of active technical assistance operations substantially decreased to improve focus, and loan projects judged to be "at risk" reviewed and either managed for better performance or closed.

The year 2005 was significant for publishing—in its Pacific Studies Series—the outcomes of ADB's economic, sector, and thematic analytical work. Economic studies included a country economic assessment for the Federated States of Micronesia and studies on the roles of remittances, trust funds, and business development services in the Pacific. Thematic studies published covered Pacific regionalism and "climate proofing"—a risk-based approach for adapting to climate change (see box). An ADB education and training sector strategy was also released, and private sector assessments for the Fiji Islands and Solomon Islands were posted on ADB's website and widely disseminated in those countries.

Strengthening partnerships is increasingly important to ADB's effectiveness in the Pacific. ADB resident missions in the subregion are enhancing dialogue and responsiveness to member countries, while improving coordination and advancing harmonization with development partners are also a high priority. The Samoan education sector offers just one example of the new ways of doing business. In addition, ADB has consciously upgraded its relations with two key Pacific regional organizations: the Pacific Islands Forum Secretariat and the Secretariat of the Pacific Community.

ENCOURAGING THE PRIVATE SECTOR

Improving the environment for the private sector so it can lead to economic growth is one of three main goals of ADB's Pacific Strategy for 2005–2009. Business success stories exist in some Pacific countries, but on the whole policies and institutions for private sector development are unfriendly to business and job creation. In many cases, state activity crowds out private business, exacerbates the problems of geographic isolation, and harms economic growth. Development partners have sometimes unwittingly contributed to this situation.

Loan Sows New Opportunity

The Fiji Islands' sugar industry, at the core of its economy for over a century, is in sharp decline, jeopardizing the livelihoods of many thousands of farmers and workers.

The Fiji Islands' economy floated on high sugar returns for many years, but favored treatment insulated growers from the need for improvements. The industry is now plagued by high costs and low yields that stem from antiquated sugar mills and inefficient infrastructure. These leave it in poor shape to cope with world competition as the European Union reduces long-standing subsidies on much of the country's crop, in accordance with World Trade Organization rules.

This dire situation is exacerbated by the anticipated expiry of some 10,300 farm leases over the next 25 years, which will likely cause hardship both for experienced farmers leaving the sugar industry and for new farmers entering with limited capital and experience.

In anticipation of the difficulties now being faced by the Fiji Islands' sugar farmers, ADB in March 2005 approved a \$25 million loan to help cushion the impact through support of viable livelihood alternatives and by promoting agricultural diversification.

The Alternative Livelihoods Development project targets 8,000 sugarcane farmers as well as cutters, mill workers, and landowners, including women, in the sugarcane belt of the western and northern divisions on the main islands of Viti Levu and Vanua Levu. It will promote

agricultural diversification, better agricultural services, and effective public-private sector partnerships in commercial agriculture communities, offering farm households opportunities for substantially higher incomes. The project will also improve about 600 km of farm roads to provide farming communities with better access to markets.

In addition, it will encourage off-farm livelihoods by promoting the development of small and micro-enterprises and supporting vocational training. It will also strengthen rural financial services in areas poorly served by commercial banks.



"It's very hard for us to manage," says Roshni Chand (middle), whose husband Ramesh earns \$3.50 a day



In anticipation of the difficulties now being faced by the Fiji Islands' sugar farmers, ADB in March 2005 approved a \$25 million loan to help cushion the impact

Improving conditions for private sector development was therefore a major focus of ADB's Pacific operations in 2005, building on the knowledge gained from private sector assessments to better understand the problems of private business in the Pacific. Having consolidated the common issues under a regional assessment—*Swimming Against the Tide: An Assessment of the Private Sector in the Pacific*—which helped shape ADB's new Pacific Strategy,

ADB has sought to raise the profile and elevate the discussion of private sector development issues in individual countries and regionally. Private sector development road maps were formulated and used to sharpen country and strategy program updates and to strengthen ADB's portfolio of private sector development projects, technical assistance, and analytic work.

Private sector assessments have proved to be a

Samoa Builds Its Knowledge Base

ADB is supporting a joint government and development partner program of improvements in the Samoan educational system with an \$8 million ADF loan and a technical assistance grant of \$350,000, approved in 2005.

Although Samoa has high levels of school enrollment and has achieved gender equity, maintaining the quality of education is a critical challenge. More than half of fourth-year Samoan students in 2003 fell short of basic English language standards, and about 71% of 6th-year students were deficient in basic mathematics. Samoa's primary school

curriculum is 25 years old, and many teachers lack in-service training, as well as teaching and learning materials. Samoa also needs a more effective student assessment system.

The ADB loan is integral to a \$30 million program financed by the Australian Agency for International Development, New Zealand Agency for International Development, and government of Samoa to improve the curriculum and student assessments

and to provide better schools, learning materials, and teaching methods. The program will help about 40,000 primary students get better education, targeting schools with many pupils at risk.

Project partners are developing harmonized approaches in support of Samoa's own systems to ease the transaction costs of the program and ensure it remains responsive to Samoan needs and priorities.

**Better schools,
learning materials,
and teaching
methods will help
40,000 students**



An ADB loan is helping Samoa update a 25-year-old school curriculum to raise basic standards of education; maintaining quality is critical

powerful tool for engagement with governments. Increasingly, private sector organizations are using them as a basis for their contributions to policy formulation and policy dialogue with governments.

The financial sector was one key area that passed substantial milestones in 2005. Samoa, for example, has followed up financial sector reforms by establishing a credit reference bureau, a key step in making credit more available to business. In Vanuatu, a national task force on policy, legal, and regulatory frameworks for rural and microfinance was established to build on recent successes in rural microfinance provision. Significant successes were also achieved in microfinance operations in Papua New Guinea, Timor-Leste, and Vanuatu, with Papua New Guinea's recently established Wau Microbank attaining operational financial self-sufficiency in 2005.

While individual countries were the primary focus of ADB's private sector engagement in the Pacific, 2005 also saw substantial progress in regional technical assistance activities to promote reform across countries. One

initiative, Improving the Legal Business Environment in the Pacific Region, is working to promote efficiency and reduce risk, uncertainty, and transaction costs for private businesses through updated companies laws and associated regulations. Diagnostic Studies for Secured Transaction Reforms in the Pacific Region is developing road maps for promoting secured financial transactions, as well as funding selected analytic work on financial sector issues. Improving Delivery of Infrastructure Services, approved in 2005, aims to promote public-private partnerships, regional cooperation, and cost and delivery efficiencies in providing infrastructure services—water, power, telecommunications, and transport.

AT THE MERCY OF NATURE

Between 4 February and 8 March 2005, five cyclones ripped across the Cook Islands. The storms, four of them in the maximum category 5, tore up public infrastructure, businesses, and private homes, with potential long-term harmful effects.



Timor-Leste is rebuilding its roads, port facilities, bridges, and power infrastructure, restoring normalcy to the country—and providing jobs

To help recovery, ADB approved a \$2.83 million loan in June for restoring basic social services and economic activities, covering part of the economic damage, estimated at about \$7.9 million. The governments of Australia and New Zealand will cover 17% of the projected total cost, equivalent to \$1.16 million, while the government of the Cook Islands will take up the rest.

The project includes cleanup efforts, reinstatement of infrastructure and basic services, and restoration of essential materials and supplies related to roads, ports, power and water supply, waste management, and buildings.

These storms are a reminder of the vulnerability of many Pacific countries to severe weather. ADB's work in 2005 identified several successful approaches to preparing for climate change by "climate proofing" Pacific infrastructure under the Climate Change Adaptation Program in the Pacific (see page 78). To help implement this approach, the Cyclone Emergency Assistance project also included a technical assistance grant—Strengthening Disaster Management and Mitigation—to prepare disaster management strategies to cope with severe weather caused by global warming, and a master plan for developing environmentally sustainable infrastructure.

POST-CONFLICT INFRASTRUCTURE

In September 2005, ADB approved the first ADF IX grant to Timor-Leste of \$10 million for the Road Sector Improvement project. The project will rehabilitate about 123 km of important roads in isolated rural areas with insecure food supplies. These roads have the

The Post-Conflict Emergency Rehabilitation project has provided a highly visible peace dividend for the people of two main islands in Solomon Islands

potential for industrial and port development and for international trade.

The project also incorporates gender design features aimed at ensuring women's involvement in project activities, including rehabilitation and maintenance of selected roads, community empowerment initiatives for sustainable rehabilitation, road safety, and prevention of the risks of HIV/AIDS.

At the same time, the Timor-Leste government continued with road sector reforms in 2005 by creating the Road Fund in the National Road Authority to efficiently fund and implement routine maintenance starting in 2006. This reform was possible through ADB's policy dialogue in the sector.

In Solomon Islands in 2005, the Post-Conflict Emergency Rehabilitation project has provided a highly visible peace dividend for the people of two main islands, rehabilitating vital roads, bridges, local administration centers, and water supplies. The goal is to reinstate access to markets and social services affected by years of conflict and political instability. Recognizing the primary importance of this infrastructure to economic and social recovery in Solomon Islands, Australia and New Zealand have recently committed funds for an extension of the project and are working with ADB to prepare a long-term road rehabilitation program.

WEB KIOSK SPREADS ADB'S MESSAGE

In June 2005, ADB celebrated the first anniversary of its South Pacific Subregional Office in Suva, Fiji Islands, by launching a public access information kiosk and website. The new office provides additional ADB capacity and responsiveness to the needs of Pacific clients. It undertakes country programming, economic analysis, and project administration for Cook Islands, Fiji Islands, Samoa, Tonga, and Tuvalu.

Designed to provide better information services to the public, the kiosk will offer users free access to downloads of ADB's website, including the new subregional office web pages, and ADB studies and reports on the Asia and Pacific region.

South Asia

Afghanistan, Bangladesh,
Bhutan, India, Maldives, Nepal,
Pakistan, Sri Lanka

Subregional Perspective


Many South Asian countries have an unparalleled opportunity now to reduce poverty as never before. Buoyant economies combined with policy changes in the region are laying the foundations for sustained growth that can lift millions out of poverty.

The regional economy grew a robust 7.8% in 2005, helped by strong growth in India and Pakistan. South Asia is benefiting from further integration into an expanding global economy, rising consumer spending, generally accommodative monetary policies, and market liberalization. Still, 30% of the subregion's 1.4 billion people live on less than \$1 a day.

Growth in India was impressive at 7.5% in 2004–2005 and reached 8.1% in 2005–2006. The government is initiating several measures to address the constraints to high growth in a comprehensive manner. These measures will help in upgrading infrastructure, providing stronger institutions and better policy, encouraging private investment, and improving agricultural growth.

Meeting the funding needs for infrastructure will require strong participation from the private sector, in partnership with the public sector. Foreign direct investment can be a means of bridging the gap between India's huge investment requirement and domestic savings, but a lot more needs to be done to attract those investors.

Overall, high and volatile oil prices remain a major risk, with India depending on imports for 70% of its oil needs. The rapid rise in international crude prices has not been



India's economy is booming, and with ADB's help, development assistance is also reaching rural areas, particularly through infrastructure projects



South Asia: Main Indicators,^a 2005

Country	Poverty Rate (%)	Real GDP Growth Rate (%)	Average Inflation Rate (%)	Trade Balance (\$ million)	Foreign Direct Investment (\$ million)
Afghanistan	53.0	13.8	10.0	(2,515.0)	253.0
Bangladesh	49.8	5.6	6.5	(3,297.0)	776.0
Bhutan	25.3	8.8	4.8	(225.0)	9.0
India	26.1	8.1	4.5	(59,342.0)	3,240.0
Maldives	21.0	(5.5)	3.3	(494.0)	13.0
Nepal	31.0	2.3	4.5	(978.0)	12.0
Pakistan	32.1	8.4	9.3	(4,515.0)	1,459.0
Sri Lanka	22.6	5.7	11.6	(2,690.0)	261.0

() negative.

^a Where 2005 data are unavailable, data for the latest year have been provided.

completely passed on to consumers, however, and inflation was contained at a moderate 4.5% in 2005.

In Pakistan, GDP expanded by 8.4% in 2005, its highest rate in 3 decades and the third consecutive year of strong growth. Manufacturing surged 12.5%, backed by a 9-year high in agricultural growth, at 7.5%. Good weather, easier credit, and greater access to fertilizer benefited farmers. Inflation rose sharply to 9.3%, however, pushed up by expensive energy and high consumer demand, while the balance-of-payments current account turned into a deficit of \$4.5 billion, ending a 4-year surplus.

In Bangladesh, the economy was buoyant, as GDP expanded by 5.6%, helped by steady expansion in industry and services. However, insufficient pass-through of the increase in international oil prices to domestic consumers resulted in huge losses in the state-owned Bangladesh Petroleum Corporation, amounting to 0.7% of GDP in FY2005. Inflation hit 6.5% in FY2005.

More promisingly, earlier concerns about the adverse effects on the industry sector from the phaseout of the Multi-Fibre Agreement for garment exports proved unfounded.

In Sri Lanka, the effect of the Indian Ocean tsunami was not strong enough to slow economic growth significantly. First-quarter GDP was dragged down in part by weak tourism and fisheries after the disaster, bringing it down to 4.4%, but the country bounced back to full-year growth of 5.7%.

An upsurge in violence at the end of 2005 left the cease-fire with the Liberation Tigers of Tamil Ealam looking fragile. To some extent, Sri Lanka has learned to live with uncertainty and disasters. Its economy has averaged 4% growth in the last 3 decades despite the upheavals of civil war.

Nepal's economy has fared less well amid political instability and conflict. Growth slowed to 2.3% in

To some extent, Sri Lanka has learned to live with uncertainty and disasters; its economy has averaged 4% growth in the last 3 decades despite the upheavals of civil war

FY2005, compared with 3.5% in FY2004, affected also by lower agricultural production due to poor weather and by weaker industry and services sectors. If it is to regain the average growth of 5% in the 1990s, it will need to resolve the conflict and accelerate its reform process.

Faced with security problems, the illicit opium trade, the poor state of infrastructure, and weak institutions, Afghanistan nonetheless leapt ahead to full-year GDP growth of 13.8% in FY2005, helped by continuous international reconstruction efforts, favorable weather conditions for agriculture, and an expanding services sector.

In Bhutan, GDP expanded by 8.8% in 2004/05, well above the medium-term trend of 7.0%. Hydropower remained the economic mainstay, backed up by a 19% spurt in the construction sector.

The Maldives' economy was hit hard by the Indian Ocean tsunami and contracted 5.5% in 2005. Tourist arrivals for 2005 did not meet expectations, while high oil prices have exerted additional pressure.

Regional Cooperation

Regional cooperation gained momentum in South Asia, particularly after the meeting of the South Asian Association for Regional Cooperation in November 2005 in Dhaka. At this landmark meeting, which reinvigorated

cooperation, the leaders affirmed their commitment to a vision of South Asian economic union in a phased manner.

Another regional grouping, the Bay of Bengal Initiatives for Multi-Sectoral Technical and Economic Cooperation, also gained momentum after a summit in July 2004. This grouping joins Bangladesh, Bhutan, India, Nepal, and Sri Lanka with Myanmar and Thailand.

ADB Assistance

Most urgently, assistance was rushed in 2005 to victims of the Indian Ocean tsunami and the massive South Asian earthquake. The late 2004 Indian Ocean tsunami devastated coastal communities in India, Maldives, and Sri Lanka, while the earthquake inflicted suffering and extensive damage in Azad Jammu and Kashmir* and certain districts in North-West Frontier Province in Pakistan and in Jammu and Kashmir** in India. In both cases, ADB assistance concentrated on restoring the infrastructure needed for economic activity to resume, with social service delivery, commerce, and communications either debilitated or destroyed (see page 34).

In 2005, ADB assistance to the South Asian subregion totaled \$4.4 billion. The overall operational approach remained focused on helping the eight countries spur growth by removing infrastructural bottlenecks—in particular roads and highway development, urban development, and energy—and by improving governance. Work also focused on sectors, such as education, and on projects providing basic needs, such as water (see pages 88 and 93).



A man surveys the damage from the October earthquake in Pakistan; ADB rushed aid under the Pakistan Earthquake Fund

NEW FACILITY TO FINANCE ROADS IN PAKISTAN

In Pakistan, total assistance was about \$1.7 billion, including loans of \$776 million. This also includes the new multitranchise financing facility, which is making

The overall operational approach remained focused on helping the eight countries spur growth by removing infrastructural bottlenecks and by improving governance

South Asia: Approvals by Country, 2005 (\$ million)

Country	Loans	Equity and Guarantees	Grant-Financed Projects		Technical Assistance	Total
			Special Funds ^a	Other Funds ^b		
Afghanistan	135.00	5.50	100.00	0.00	8.49	248.99
Bangladesh	474.80	—	10.00	75.99	7.45	568.24
Bhutan	27.30	—	—	0.50	1.70	29.50
India	440.31	20.60	100.00	—	6.33	567.24 ^c
Maldives	7.80	—	20.00	1.00	1.92	30.72
Nepal	—	—	—	—	2.16	2.16
Pakistan	776.30	—	85.00	36.00	15.28	912.58 ^d
Sri Lanka	253.00	—	164.00	63.10	3.11	483.21
TOTAL	2,114.51	26.10	479.00	176.59	46.44	2,842.64

— = nil, ADF = Asian Development Fund.
^a Includes Asian Development Fund IX, Asian Tsunami Fund, and Pakistan Earthquake Fund.
^b Includes trust funds and externally financed grants.
^c This figure does not include the multitranchise financing facility for the Rural Roads II Investment Program (\$750 million).
^d This figure does not include the multitranchise financing facility for the National Highway Development Sector Investment Program (\$770 million).

* Azad Jammu and Kashmir is an area over which India and Pakistan have been in dispute since 1947. The Asian Development Bank does not intend to make any judgment as to the legal or other status of any disputed territories or to prejudice the final determination of the parties' claims.

** Jammu and Kashmir is an area over which India and Pakistan have been in dispute since 1947. The Asian Development Bank does not intend to make any judgment as to the legal or other status of any disputed territories or to prejudice the final determination of the parties' claims.

\$770 million in financing available to support the country's National Highway Development Sector Investment program.

Infrastructure, particularly roads vital to regional trade, remains one of ADB's focal areas. The facility will support the long-term development of the country's national highway network and regional road connections.

Important sections of Pakistan's highway network consist of only narrow roads, often unsuitable for heavy

traffic. In other sections where congestion cripples traffic, double lanes are needed, while cities need bypasses. ADB's investment will target road improvements in three batches: the first comprises three sample projects covering 376 km, the second 460 km, while the third will be determined later. The facility also provides planning and design support, management of construction schedules, social and resettlement assessments, and environmental safeguards.

South Asia: Public and Private Sector Loan Approvals by Country, 2005 (\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
AFGHANISTAN					
Power Transmission and Distribution	–	26.50	26.50	50.00	14 Apr
Fiscal Management and Public Administration Reform Program (Subprogram I)	–	48.00	48.00	55.00	14 Dec
Western Basins Water Resources Management	–	60.50	60.50	87.60	20 Dec
BANGLADESH					
Emergency Flood Damage Rehabilitation	–	152.30	152.30	240.00	20 Jan
Second Urban Primary Health Care	–	30.00	30.00	90.00	31 May
Gas Transmission and Development	225.00	5.00	230.00	413.00	27 Oct
Agribusiness Development	–	42.50	42.50	60.00	27 Oct
Southwest Area Integrated Water Resources Planning and Management	–	20.00	20.00	43.40	23 Nov
BHUTAN					
Road Network	–	27.30	27.30	34.10	30 Sep
INDIA					
Chhattisgarh Irrigation Development	46.11	–	46.11	66.61	29 Mar
Tsunami Emergency Assistance (Sector)	100.00	–	100.00	218.60	14 Apr
Infrastructure Development Finance Company Limited ^b	50.00	–	50.00	50.00	19 Apr
Yes Bank Limited ^b	23.00	–	23.00	23.00	23 Aug
Kerala Sustainable Urban Development	221.20	–	221.20	316.10	20 Dec
MALDIVES					
Tsunami Emergency Assistance	–	1.80	1.80	25.30	31 Mar
Regional Development Project, Phase II—Environmental Infrastructure and Management	–	6.00	6.00	7.50	28 Apr
PAKISTAN					
Agribusiness Development	–	31.00	31.00	49.00	19 May
Infrastructure Development	–	25.00	25.00	33.67	18 Aug
New Bong Escape Hydropower ^b	37.30	–	37.30	149.20	21 Nov
Balochistan Devolved Social Services Program					
–Program Loan	130.00	65.00	195.00	200.00	8 Dec
–TA Loan	–	5.00	5.00	6.25	8 Dec
National Highway Development Sector Investment Program	–	3.00	3.00	3.00	13 Dec
Rawalpindi Environmental Improvement	20.00	40.00	60.00	85.70	13 Dec
Earthquake Emergency Assistance	–	220.00	220.00	374.20	13 Dec
Punjab Resource Management Program—Subprogram 2	200.00	–	200.00	200.00	14 Dec
SRI LANKA					
Tsunami-Affected Areas Rebuilding	0.00	7.00	7.00	249.30	14 Apr
North East Community Restoration and Development II	–	26.00	26.00	55.00	14 Apr
Technical Education Development	–	20.00	20.00	26.70	21 Nov
Local Government Infrastructure Improvement	–	50.00	50.00	66.70	24 Nov
National Highways Sector	150.00	–	150.00	208.00	15 Dec

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

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and sub-borrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions.

^b Private sector loan without government guarantee.

ADB assistance also focused on areas destroyed by the devastating earthquake in October with almost \$400 million approved immediately to support rehabilitation and recovery efforts (see page 34).

Work in Pakistan will shortly begin on the New Bong Escape project, an 80-megawatt power plant downstream from the Mangla dam on the Jhelum River in Azad Jammu and Kashmir, home to some of the areas worst hit by the earthquake. The plant, scheduled to begin generating power in 2009 and to be built by a private entity, is the first large-scale, private sector infrastructure project in Azad Jammu and Kashmir. It is also the first private sector co-financing between ADB and the Islamic Development Bank.

ADB also approved a \$205 million loan for the Balochistan Devolved Social Services Program, which will support policy reforms to improve education, health, and water supply and sanitation, and will also provide resources for local government social services—enabling the private sector to participate—and help develop capacity and strengthen institutions.

INDIA: FOCUS ON INFRASTRUCTURE

Infrastructure development dominates ADB assistance in India as well, and supports the Indian government's own massive plans for such investment.

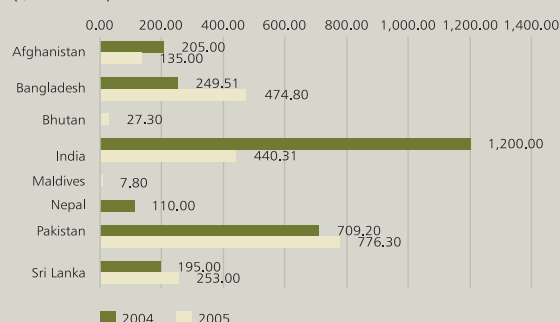


Help for India's rural sector is coming through better roads and improved irrigation under several programs

ADB approved five loan projects in 2005, including two private sector loans (see page 86); the Chhattisgarh Irrigation Development project (\$46.1 million); Kerala Sustainable Urban Development project (\$221.2 million); and Tsunami Emergency Assistance Project, comprising a loan of \$100.0 million and an Asian Tsunami Fund grant of \$100.0 million. Three technical assistance operations were approved in 2005 in support of the government's road program.

In addition to these loans, assistance to the country also included \$750 million for the Rural Roads II Investment Program, setting up a credit facility from

South Asia: ADB Lending by Country, 2004–2005 (\$ million)



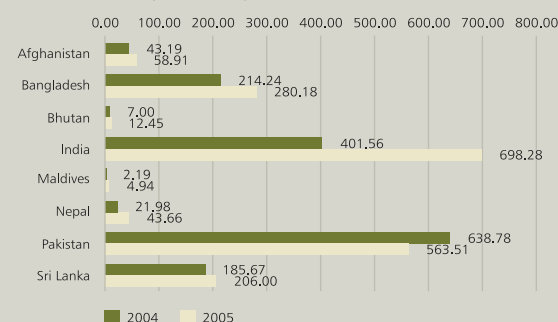
South Asia: Cumulative ADB Disbursements by Country as of end-2005 (\$ million)

Afghanistan	286.65
Bangladesh	5,572.63
Bhutan	98.82
India	8,144.63
Maldives	57.25
Nepal	1,437.19
Pakistan	10,530.69
Sri Lanka	2,573.91
TOTAL	28,701.77

South Asia: Cumulative ADB Lending by Country as of end-2005 (\$ million)

Afghanistan	752.28
Bangladesh	8,044.69
Bhutan	138.46
India	14,936.21
Maldives	91.48
Nepal	2,214.98
Pakistan	15,035.24
Sri Lanka	3,703.25
TOTAL	44,916.59

South Asia: ADB Disbursements by Country 2004–2005 (\$ million)



Gujarat Communities Meet Basic Needs

In many parts of Gujarat, India, villagers struggle to find clean drinking water. Almost 60% of the state's villages have no water source that is assured throughout the year. In Surendranagar district, rural communities face acute water scarcity, especially during summer, when the entire Saurashtra region is parched. The rural women bear the brunt, having to walk long distances to collect drinking water.

The Aga Khan Rural Support Programme is attempting to alleviate this water crisis by mobilizing the local women's federation, Mahila Manch, to operate tankers to supply drinking water at affordable rates to 20 villages in the Chotila and Sayla blocks of Surendranagar. In the summer of 2005, the Manch transported and supplied more than 480,000 liters for nearly 2,000 households. With Aga Khan support, the Manch procured tractors and tankers, trained drivers, and planned water distribution. The Manch covers its operating costs through a nominal charge to the poor. This has forced private suppliers to reduce water prices.

In the drought-prone Poshina area of Sabarkantha district in north Gujarat, nearly 1,000 tribal households have started lining up at the local milk collection center to get their milk weighed, tested, and recorded before it is transported to the Sabarkantha Dairy for process-

ing. Every 10th day, villagers receive cash payments, right in the village.

The Sabarkantha Dairy has organized villagers into eight dairy cooperatives, has helped them purchase livestock, has trained them in basic animal husbandry, and buys their entire milk production. In less than 2 months of operations, the villagers supplied nearly 15,000 liters of milk and generated sales of nearly \$3,500.

Both these projects are funded through a \$3.4 million grant to the government of Gujarat from the ADB-administered Japan Fund for Poverty Reduction. The grant is supporting more than a dozen similar projects in Gujarat, which are being implemented by NGOs and community-based organizations.

The Sabarkantha Dairy has organized villagers into eight dairy cooperatives, has helped them purchase livestock, has trained them in basic animal husbandry, and buys their entire milk production



Villages in Gujarat are mobilizing to address water issues

which loans can be drawn on the new multitranché financing facility, the second facility structure set up in South Asia after Pakistan.

Providing loans from the multitranché financing facility, ADB's assistance will finance investments in the rural roads program of the government, covering 30,000 km and connecting 19,000 villages. To ensure success, the facility will assist in all stages, from planning to maintenance and road safety.

Multiple loans will be provided over 5 years, each financing a clearly defined investment project. Some 3,200 km of rural roads—about 1,000 km each in Assam

and West Bengal and about 1,200 km in Orissa—will be addressed in the first stage. The remaining projects will be prepared by participating states in three annual batches.

ADB's support to the Indian government's development priorities include constructing rural infrastructure, building the highway network, upgrading cities and satellite towns, and strengthening the power sector.

In support of urban development, for example, ADB approved a loan of \$221.2 million. It aims to develop urban living conditions in five municipal governments in India's southernmost Kerala State, including Kochi, Kollam, Kozhikode, Thiruvananthapuram (the state

In Chhattisgarh, ADB will help improve the livelihoods of about 120,000 farm families by improving irrigation services and agricultural practices through a \$46.1 million loan

capital), and Thrissur. In particular, it will rehabilitate and expand urban water supply, sewerage and sanitation, urban drainage, solid waste management, and roads and transportation.

It offers “livelihood enhancement” components focused on the poor communities; makes investments in other smaller urban local bodies in the state; and supports capacity building and project management.

The combined population of the Kerala municipalities covered by the project is 2.5 million and is projected to rise to about 3.6 million by project completion in 2011 and further to 6.2 million by 2021. Kerala has performed considerably better than most Indian states on social development measures, but lingering urban poverty remains a threat to its future growth.

In Chhattisgarh, ADB will help improve the livelihoods of about 120,000 farm families by upgrading irrigation services and agricultural practices through a \$46.1 million loan. The project will help the government of Chhattisgarh’s Water Resources Department better develop and manage the state’s irrigation sector by strengthening its existing capacity, initiating reforms, upgrading procedures, modernizing equipment, and developing new facilities.

It will also redefine and bolster the role of water users associations in managing and maintaining irrigation systems by strengthening the framework for partnership between them and the government. The project will then rehabilitate and upgrade about 200 minor and 20 medium irrigation schemes, especially those with high potential for diversified cropping, serving about 200,000 hectares throughout Chhattisgarh.

Other projects in India included several funded under the Japan Fund for Poverty Reduction, which is administered by ADB and uses extensive support from NGOs to find creative ways to help alleviate the difficulties faced by the poor. In Gujarat, for example, the Japan Fund for Poverty Reduction is funding efforts to provide clean drinking water to villages in the drought-prone state (see page 88).

ADB’s overall loan portfolio to India at the end of 2005 comprised 33 ongoing loans for \$5.7 billion, including \$2.6 billion to transport, \$1.7 billion to urban infrastructure, \$1.1 billion to energy, and \$0.2 billion to the financial sector. Another \$0.05 billion went to agriculture, environmental protection, and natural resources.

BANGLADESH: INFRASTRUCTURE FOR THE POOR

In Bangladesh, ADB approved six new loans in 2005. These included ADF and OCR loans for the Gas Transmission and Development project (total \$230.0 million), Emergency Flood Damage Rehabilitation project (\$152.3 million), Agribusiness Development project (\$42.5 million), Second Urban Primary Health Care project (\$30.0 million loan and \$10.0 million ADF grant), and Southwest Area Integrated Water Resources Planning and Management project (\$20.0 million).

The first project will construct four gas pipelines totaling 353 km for transporting natural gas to the less developed western region, an area with nearly 15 million people. With plans to transport 360 million cubic feet of natural gas per day, this will be the first time the region has had access to a large-scale gas supply.

The Emergency Flood Damage Rehabilitation project will repair public infrastructure in five sectors damaged by major floods in 2004. It will restore access to basic services, increase disaster preparedness and mitigation, and include capacity building and training in infrastructure design and assistance to enhance early warning systems.

ADB also began the second phase of the highly successful Urban Primary Health Care project, which has been contracting NGOs to run primary health services. The project is providing more efficient and affordable care than government-run services, with at least 30% of its



Under the Urban Primary Health Care project, the poor in Bangladesh are finding better health care in government clinics run by NGOs

services targeted at people earning less than 700 taka (about \$10) per month. Nutritional supplements will also be given to severely malnourished women and children. It will be active in six cities—Barisal, Chittagong, Dhaka, Khulna, Rajshahi, and Sylhet—and five municipalities—Bogra, Comilla, Madhabdi, Savar, and Sirajgonj—and support the construction of 64 health facilities, upgrading of 4, and purchase of 12 apartments and/or buildings for primary health care facilities in Dhaka.

Separately, Bangladesh joined Nepal and Bhutan as one of the first batch of countries to adopt a results-based country strategy and program for 2006–2010 (see page 92).

As a landmark harmonization initiative, the new results-based strategy and program was prepared jointly with the United Kingdom's Department for International Development, Government of Japan, and World Bank. The country strategy and program is also aligned with Bangladesh's national poverty reduction strategy, which aims to achieve the MDGs, including halving the number of poor people in the country by 2015 and delivering substantial improvements in almost all aspects of human development. To achieve these aims, the national poverty reduction strategy emphasizes promoting growth, advancing human development, and improving governance.

RECONSTRUCTING AFGHANISTAN

Since resuming operations in Afghanistan in 2002, ADB has approved some \$817.5 million in support, complemented by nearly \$85 million in cofinancing. ADB will provide the country with up to \$200 million per year in

ADF loans and grants over the remainder of the 2005–2008 period, in keeping with its pledge at the 2004 Berlin donors' conference, with up to 50% on a full-grant basis. Another \$10 million a year in grant financing will go toward capacity development and technical assistance.

In 2005, ADB approved a \$50 million loan and grant package to improve the power supply. The project will construct a 110-kilovolt power transmission network, as well as a low-voltage distribution system that will connect 11 rural towns, or more than 900,000 households, to the emerging electricity grid.

Another grant for \$55 million will rehabilitate a final section of Afghanistan's "ring road" as ADB's further contribution to major international efforts to restore the national road system (see page 91).

A \$75 million ADF loan and grant project will support irrigation rehabilitation in Afghanistan's Western Basins region. The project will include extensive capacity development for Afghan authorities and improve community water resource management.

The \$55 million Fiscal Management and Public Administration Reform Program approved in 2005 consisting of loan and grant support will help improve government budgeting, strengthen domestic resource mobilization, improve the civil service, and enhance the monitoring of public finance—all important complements to investments in infrastructure rehabilitation.

ADB's assistance also contributes to improving governance and development skills, national institutions, and major policies—areas that have constrained Afghanistan's reconstruction.



ADB will provide Afghanistan with up to \$200 million per year in ADF loans and grants over the remainder of the 2005–2008 period

In the private sector, a \$35 million loan approved in 2004 to the main telecommunications provider, a company called Roshan, had extraordinary results in 2005. Before the mobile phone network started operations, Afghanistan's nearly 30 million people had to make do with just 25,000 decrepit land-based telephone lines. Roshan quickly drew down the full ADB loan to erect communications towers to reach more remote parts of the country.

TSUNAMI ASSISTANCE FOR SRI LANKA

In Sri Lanka, the industrial sectors of the country were more or less unscathed by the Indian Ocean tsunami

at the end of December 2004. In the coastal regions, however, the tidal waves killed tens of thousands, wiped out whole villages, and destroyed businesses. To help rebuild, ADB provided \$157 million in 2005, of which \$150 million was given as a grant from the Asian Tsunami Fund. Support is going to the reconstruction of roads, community infrastructure, and shelter; rebuilding livelihoods; and coastal protection. Other funding agencies are supporting reconstruction in education, health, and power. The Japan Fund for Poverty Reduction also provided a total of \$4 million in grants for post-tsunami reconstruction.

Gordian Task Reconnects Afghanistan

Fixing Afghanistan's transport network has been an undertaking of Gordian complexity. As a result of conflict, the nation's roads were devastated, with many sections having all but disappeared. An early assessment of Afghanistan's transport sector found that up to 54% of the country's national roads, totaling 6,100 km in length, were in poor condition.

Just getting supplies to construction sites has been a huge logistical challenge. Roadsides remained littered with land mines, freezing winters slowed progress, and remote mountain ranges posed numerous problems. In addition, many areas were still subject to insurgency-related violence, delaying the reconstruction process and augmenting security costs.

Yet through a massive international effort that includes ADB support, work to rebuild the "ring road" that circles the country and links Afghanistan to its neighbors is now well under way. Planners have even begun eyeing Afghanistan's central geo-

graphic position and its potential as a land bridge to boost regional trade.

Rehabilitating the road system is critical for a landlocked country like Afghanistan. In 2005, ADB approved a \$55 million ADF grant to rehabilitate one of the last major unpaved stretches of the ring road. Together with an \$80 million loan approved in late 2004, ADB financing will rehabilitate 300 km from Andkhoy to Bala Murghab, south of the Turkmenistan border, linking this remote part of the country with the city of Herat, about 100 km from Afghanistan's western border with Iran.

The project will include the provision of toll facilities, important for longer-term operation and maintenance of the national road system, and will also support HIV/

AIDS prevention and antihuman trafficking awareness campaigns in areas near the road project.

ADB is also preparing a road development master plan through a \$2 million technical assistance grant that will identify routes linking main markets and production centers. Completion of the full primary road network by 2008, together with major upgrades of adjoining roads in the Central Asian republics, Iran, and Pakistan, will help realize the goal of a regional transport corridor. Afghanistan's opening of its borders has provided new opportunities for landlocked countries in Central Asia to take advantage of the transit corridors to access the Arabian Sea and Persian Gulf through Iranian and Pakistani ports.

Rehabilitating the road system is critical for a landlocked country like Afghanistan



An early assessment of Afghanistan's transport sector found that up to 54% of the country's national roads were in poor condition



Sri Lankans have been reestablishing livelihoods after the Indian Ocean tsunami, with ADB's help (above); throughout the region, ADB focuses on bringing the essentials of life to the poor (right)



In addition to the tsunami assistance project, four other projects were approved in 2005, including the \$150 million National Highways Sector project, \$50 million Local Government Infrastructure Improvement project, \$40 million loan and grant North East Community Restoration and Development II project, and \$20 million loan for the Technical Education Development project.

ADB and the new government are discussing reforms in key sectors, including power; roads; and, in alignment with the International Monetary Fund, fiscal management. The government is striving to improve economic management within existing structures and promote a greater role for the private sector and sector restructuring where necessary for better performance. In Sri Lanka, the lack of investment in infrastructure is one of the biggest obstacles to private sector growth and investment, with power among the most expensive in South Asia, and the road network outside of Colombo in rough condition.

BHUTAN, MALDIVES, AND NEPAL

In Bhutan, total assistance in 2005 came to \$29.5 million, including \$27.3 million for the Road Network project, which will improve national roads and selected secondary roads to better connect rural areas. It will upgrade about 140 km of the 244 km Gelephu–Trongsa national highway, which connects with the Indian border.

As part of the first batch of results-based country strategies and programs, the Bhutan country strategy and program is designed to focus on managing for development results. It will facilitate the achievement of the MDGs in Bhutan as well as specific commitments in each sector, with goals, targets, and indicators to which ADB assistance operations will contribute. It aims to reduce poverty

through economic diversification, broadening the base to better absorb large numbers of young people as they leave the school system. ADB undertook its country strategy and program in consultation with other development partners to ensure that all sectors of the economy were adequately covered.

In the Maldives, the response to the tsunami included a \$20 million Asian Tsunami Fund grant and a loan for \$1.8 million. The Maldives Tsunami Emergency Assistance project aims to boost economic recovery by rebuilding damaged infrastructure and restoring livelihoods, especially of the poor, on the affected islands. The Japan Fund for Poverty Reduction also provided a \$1 million grant for the restoration of livelihoods of the tsunami-affected farmers.

The \$6 million loan for the Regional Development project Phase II—Environmental Infrastructure and Management was approved in April 2005 to raise the standard of living in the central regions of the Maldives by improving environmental and land management.

Total assistance in the year amounted to \$30.7 million, including \$7.8 million in loans, \$21.0 million in grant financing, and technical assistance amounting to \$1.9 million.

In Nepal, political instability and the security situation hampered the 2005 assistance program, although ADB approved a technical assistance for \$2.2 million. It was the first year of implementation of the new Nepal country strategy and program (2005–2009). It is ADB's first pilot results-based country strategy and program and is serving as a model for other DMCs.

Water Projects Take on Rural and Urban Poverty

Across Bangladesh, every year, millions struggle through months of floods, food insecurity, disease, and scarce incomes. In Pakistan's third largest city of Rawalpindi, storm drains turn into sludge canals that seep waste into groundwater and through broken pipes, and contaminate the drinking water.

These stark realities, however, are changing. ADB is supporting governments as they tackle some of the region's toughest water problems. These operations also address an array of poverty issues that are directly and indirectly linked to poor water supplies and lack of sanitation. The impact of these projects is proving that an investment in the water sector is an investment across the poverty board.

Stemming Floods Revitalizes Rural Life

Managing chronic floods in Bangladesh was not the objective, per se, of the Small-Scale Water Resource Development Sector project. Rather, it was an entry into reducing overall poverty. If floods could be managed, drainage improved, and irrigation water made available, then total cropping area and cropping intensity could increase. Essentially, less flooding, more fields, more irrigation, and higher yields could result in greater overall productivity, more farm jobs, and higher income levels.

What the project envisioned, it accomplished—and more. In its first phase (1995–2002), using an intensely participatory approach in the 280 subproject areas in the west, total crop area increased by almost 13% and cropping intensity by 40%. The increased agricultural production in project areas has generated 14.4 million labor-days annually. Fishery production also increased and created an estimated 176,000 labor-days annually.

Local people have formed water management associations to sustain these benefits. According to inspec-

tions undertaken by the Department of Cooperatives, members have effectively used their savings to start micro credit schemes to increase their incomes in new activities, such as purchasing milk cows, sewing machines, and higher producing seeds.

The same approach is being rolled out in 300 more communities during phase 2 of the project (2002–2009). A third phase is planned.

Rawalpindi Project Brings Institutional Reforms

The deplorable conditions of water supply and sanitation in Rawalpindi, near Islamabad, Pakistan, were clear indications that institutions were not in order. Lessons from other projects have shown that the sustainability of water supply and sanitation projects requires the utilities to be in good financial health first.

So the Rawalpindi Urban Water Supply and Sanitation Project went to work on institutional and financial reforms. Unreasonable and unsustainable low tariff levels have been revised, billing systems computerized, several complaint offices established, a disconnection policy for defaulters of bills strictly enforced, and an incentive program initiated among utility employees to improve collection efficiency of utility bills.

At the same time, the project began increasing water supply levels by considerably rehabilitating the distribution system, legalizing illegal connections, and extending the network to new areas.

The institutional reforms are making for a more efficient, reliable system as the project unfolds into phase 2 (the Rawalpindi Environmental Improvement Project), which was approved in December 2005.

Operations Break Down Divisions Guided by ADB's Water for All Policy, which was externally reviewed in 2005, these projects show how ADB's operations in rural and urban water are cutting across sectors in 17 DMCs with ongoing projects.

In 2005, ADB approved a total of

\$1.4 billion in water sector loan components and \$27.5 million in technical assistance grants, which includes the water supply, sanitation, and waste management sector, as well as water subsector components in multi-sector loans, amounting to 20% of ADB total lending and 14% of total grants. In the water supply, sanitation, and waste management sector alone, ADB approved \$618 million in new loans and \$5.1 million in technical assistance grants.

The investments are a considerable contribution to sustaining economic development—laying the groundwork for water's critical role in achieving almost all the MDGs.

In the water supply, sanitation, and waste management sector alone, ADB approved \$618 million in new loans and \$5.1 million in technical assistance grants in 2005



The impact of these projects is proving that an investment in the water sector is an investment across the poverty board

Southeast Asia

Indonesia, Malaysia,
Philippines, Singapore

Subregional Perspective

Southeast Asia has made solid economic progress since the financial crisis of 1997. Overall the subregional economy has bounced back, with strong performance in particular in Malaysia and Singapore, though political uncertainty, weak finances, and governance challenges to varying degrees have clouded the picture in Indonesia and the Philippines. Significant challenges remain in poverty reduction, with a total of more than 60 million people in poverty in Indonesia and the Philippines.

The Philippine economy's challenges are many, as illustrated in the 2005 numbers. GDP growth slowed to 5.1%, from 6.0% in 2004, which ADB economists have said is not enough for rapid progress in reducing the country's deep poverty. In the past, the Philippine economy has been prone to boom and bust, rising and falling with the unstable political climate and inconsistent policies.

It has settled down in recent years, but as the 2005 numbers show, the economy is still struggling to maintain strong enough growth to absorb the rapidly expanding population. Higher growth requires better public resource management and incentives to spur private sector involvement. The key to meeting the government's hoped-for GDP growth of 7–8% by 2010, say ADB economists, is annual investment in capital stock of at least 10% of GDP in net terms, substantially higher than the current rate of 3%.

The government took strong measures in 2005 to avert a fiscal crisis. Expansion of the value-added tax has contributed to a 20% drop in the deficit, an 8%



The economic future of Southeast Asia is improving for people like this prawn farmer in Indonesia



Southeast Asia: Main Indicators,^a 2005

Country	Poverty Rate (%)	Real GDP Growth Rate (%)	Average Inflation Rate (%)	Trade Balance (\$ million)	Foreign Direct Investment (\$ million)
Indonesia	6.5	5.6	10.5	22,784.0	2,258.0
Malaysia	0.2	5.3	3.0	33,391.0	713.0
Philippines	14.1	5.1	7.6	(7,546.0)	970.0
Singapore	—	6.4	0.4	37,953.0	14,562.0

— no data available, () negative.

^a Where 2005 data are unavailable, data for the latest year have been provided.

strengthening of the peso, and a drop of more than 100 basis points in government borrowing costs.

The slower 2005 economy was in part due to a weaker agricultural performance and slower growth in the services sector. Exports also slowed sharply to 3.7%, from 9.8% in 2004.

A revival in investment bolstered Indonesia's economy in 2005, with GDP expanding by 5.6%, compared with 4.9% in 2004, fueled by an 8.1% expansion in fixed capital investment. The pickup follows the relatively seamless transition to a new government after elections in 2004, and expectations of greater regulatory certainty and a recovery in infrastructure spending.

The Indonesian government earned high marks from around the world for its firm measures to avert a fiscal crisis threat caused by surging oil prices, while at the same time the government provided programs to lessen

the impact on the poor (see page 97). By slashing fuel subsidies, it relieved pressure on finances and helped shore up investor trust.

Inflation rose due to the fuel price increases but by year-end, the Bank of Indonesia's aggressive monetary stance had stopped the surge in prices and also led to a rebound in the rupiah, which had lost more than 10% of its value earlier in the year.

Longer term, the private sector will be critical to achieving the government's growth and job creation objectives.

In Malaysia and Singapore, strong exports fueled growth, with GDP expanding by 5.3% in Malaysia and 6.4% in Singapore, the second outstanding year for the city-state.

The year saw the end of the peg of the ringgit to the US dollar and a series of reform steps, including preparation of major consumption-based tax reforms aimed at improving the business environment, further cementing Malaysia's position as one of Asia's strongest emerging economies.

Regional Cooperation

Indonesia, Malaysia, Philippines, and Singapore have been at the forefront of regional cooperation initiatives in Asia for nearly 40 years as core members of ASEAN and as participants in the ASEAN Free Trade Area and the ASEAN Vision 2020, which foresees an integrated

The Indonesian government earned high marks from around the world for its firm measures to avert a fiscal crisis threat caused by surging oil prices



The private sector—and a well-educated population—will be critical for achieving growth and creating jobs

Southeast Asian market by 2020. The countries also take part in other leading international cooperation forums, such as the Asia-Pacific Economic Cooperation.

A series of external and internal crises in recent years has reinforced the need for strengthened cooperation: the financial crisis of the late 1990s, severe acute respiratory syndrome (SARS), HIV/AIDS, avian flu, haze from forest fires, and terrorism and other security threats are all spurring deeper cooperation.

ADB sees opportunities for subregional energy resource sharing, transport, financial sector development, and safeguarding marine and fisheries resources. Consultations have been held in Indonesia, Malaysia, and Philippines.

Separately, in December 2005, the heads of government and state from the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area and Indonesia–Malaysia–Thailand Growth Triangle agreed to meet annually. ADB has been asked to help the two subregional initiatives formulate methods to track

development progress and identify opportunities for private sector investment in the poorer islands of Southeast Asia.

Malaysia is playing a lead role in consultations for cooperation, and participating in several subregional technical assistance activities, including support for strengthening institutions in the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, and for developing Islamic financial services.

In 2005, ADB began preparing a regional cooperation strategy and program for the four nations, which is targeted for completion in 2006.

ADB Assistance

ADB's lending programs in Indonesia and the Philippines were overhauled and revitalized during the year as the organization more than doubled loan approvals and disbursements, reflecting a move toward greater

Cushioning High Fuel Oil Prices

The cost of living for Indonesia's rural poor increased overnight when national fuel oil subsidies were slashed in October 2005 as an essential measure to maintain macroeconomic stability. The price of kerosene, the most widely used fuel in poor households, rose by more than 185%.

To help lessen the impact, the government launched programs to bring in more investment into rural infrastructure, health, and education. ADB was asked to step in and quickly approved a \$50 million, 3-year loan to support the government's Fuel Subsidy Reduction Compensation program in eastern provinces, where vulnerability to the shock was greatest.

The loan finances community-driven construction and repair of village roads, bridges, culverts, irrigation systems, water supply and sanitation, and drainage works. About 1,800 mostly isolated villages in East Java, East Nusa Tenggara, Southeast Sulawesi, and South Sulawesi provinces will benefit.



The rural poor were hard hit by the sudden increase in the price of kerosene

To soften the impact of reduced fuel oil subsidies, ADB approved a \$50 million loan to support the Indonesian government's Fuel Subsidy Reduction Compensation program



Improving rural infrastructure is key to reducing poverty

responsiveness and relevance in its operations. Total ADB assistance in 2005 was about \$1.7 billion.

Highlights included approval of \$1.3 billion for nine loan projects, including the private sector, well up from \$671 million in 2004; and \$1.3 billion in disbursements, a 122% increase over 2004. ADB also provided a \$300 million Asian Tsunami Fund grant to Aceh for reconstruction after the tsunami (see page 34).

In the Philippines, the expanded assistance included \$180 million in loans to support the development of small- and medium-sized enterprises and microfinance.

ADB has improved management of its active loan portfolio, and is breaking with the past under a new

The new Philippines country strategy and program is part of a batch of country guides that place acute focus on results, in particular through identifying clear measures that can be monitored and evaluated

country strategy and program for 2005–2007 that changes ADB's operating partnership with the Philippines. Specific annual lending targets have not been included in ADB's overall 3-year envelope of \$1.5 billion of possible financial support. This provides the flexibility to respond to changes in the lending environment.

The new Philippines country strategy and program is part of a batch of country guides that place acute focus on results, in particular, through identifying clear measures that can be monitored and evaluated.

In Indonesia, two major loans made up the bulk of lending: one to support local government finance and governance reforms, and the other for the country's medium-term growth and poverty reduction program. ADB also backed the government's program for improving rural infrastructure with a \$50 million loan in 2005.

ADB took steps to draw the private sector into its development efforts. A major loan will back the \$6.3 billion Tangguh Gas Project in West Papua, ADB's first private sector project in Indonesia's oil and gas sector, as well as ADB's first private sector operation in Indonesia since the 1997 financial crisis. In the Philippines, a \$25 million public-private sector loan will help boost development of small- and medium-sized enterprises.

In Malaysia, ADB continues to expand its private sector operations, with equity positions taken in new funds such as the Flagship Capital Corporation.

Southeast Asia: Approvals by Country, 2005 (\$ million)

Country	Loans	Equity and Guarantees	Grant-Financed Projects			
			ATF	Other Funds ^a	Technical Assistance	Total
Indonesia	1,145.69	—	300.00	30.48	10.33	1,486.50
Philippines	180.00	19.40	—	0.70	4.62	204.72
TOTAL	1,325.69	19.40	300.00	31.18	14.95	1,691.22

— = nil, ATF = Asian Tsunami Fund.

^a Includes trust funds.

INDONESIA

Strengthening Governance

Loan approvals in 2005 reached \$1.1 billion in Indonesia, including a private sector loan, with particularly strong focus on governance and infrastructure.

In November, ADB approved a \$300 million loan to the country to strengthen and rationalize the policy, legal, and regulatory frameworks for decentralization, and to establish a more effective mechanism for coordination among different levels of government. Local governments are assigned responsibilities for most public functions including service delivery under Indonesia's decentralization laws, which were approved in 1999 and amended in 2004, but inconsistencies in the legal and regulatory frameworks and undeveloped local level capacity have made implementation of their responsibilities extremely challenging.

The loan supports revisions to the original decentralization framework and adoption of related rules and regulations to streamline and clarify responsibilities among different levels of government to ensure greater transparency and accountability in the flow of funds to

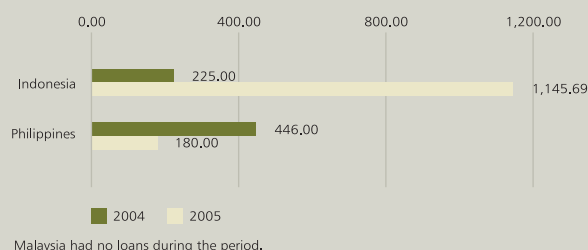


An ADB loan is financing the provision of public services by local governments in Indonesia

Southeast Asia: Cumulative ADB Lending by Country as of end-2005 (\$ million)

Indonesia	20,728.50
Malaysia	1,987.54
Philippines	8,799.03
TOTAL	31,515.07

Southeast Asia: ADB Lending by Country 2004–2005 (\$ million)



Southeast Asia: Public and Private Sector Loan Approvals by Country, 2005 (\$ million)

Country	OCR	ADF	Total	Total Project Cost ^a	Date Approved
INDONESIA					
Community Water Services and Health	34.10	30.59	64.69	92.38	7 Apr
Road Rehabilitation-2	151.00	0.00	151.00	215.80	29 Sep
Local Government Finance and Governance Reform Sector Development Program					
- Program Loan	300.00	–	300.00	300.00	3 Nov
- Project Loan	–	30.00	30.00	42.90	3 Nov
Tangguh Liquefied Natural Gas ^b	350.00	–	350.00	6,303.00	14 Dec
Rural Infrastructure Support	–	50.00	50.00	60.81	19 Dec
Development Policy Support Program	200.00	–	200.00	200.80	21 Dec
PHILIPPINES					
Purchase and Resolution of Equitable PCI Bank's Portfolio of Nonperforming Loans and Assets ^b	5.00	–	5.00	10.00	24 Jun
Small and Medium Enterprise Development Support	25.00	–	25.00	26.00	29 Sep
Microfinance Development Program	150.00	–	150.00	150.00	22 Nov

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

^a Total project cost includes financing by ADB, governments, borrowers, beneficiaries, and sub-borrowers; cofinancing from official, export credit, and commercial sources; equity sponsors; and local participating private companies and financial institutions

^b Private sector loan without government guarantee.



According to its medium-term development plan, Indonesia needs to invest about \$145 billion in infrastructure projects to sustain an annual GDP growth of 6% through 2009

finance the provision of public services by local governments. A national action plan for next steps in fiscal decentralization is also supported. These reforms promote development of a clear mandate for the delivery of education, health services, and public works.

A separate \$30 million loan will develop integrated regional systems to support preparation of more reliable and consistent financial statements by 71 local governments and provide access to an integrated regional financial information system to these local governments as well as to 100 more, supporting the devolution of funding to address regional inequities in basic public services and strengthening the framework for local government borrowing.

ADB also supported the Indonesian government's efforts to improve macroeconomic management. Under its medium-term development plan for 2005–2009, Indonesia aims to boost sustainable economic growth to 7% by 2009, from about 4% in the years before 2004. It is also a government target to halve the poverty rate to 8.2% by 2009, from 16.6% in 2004.

A \$200 million loan for the Development Policy Support Program is being provided in conjunction with World Bank assistance of \$400 million, and further

Southeast Asia: Cumulative ADB Disbursements by Country as of end-2005 (\$ million)

Indonesia	15,112.95
Malaysia	1,403.28
Philippines	6,280.29
TOTAL	22,796.52



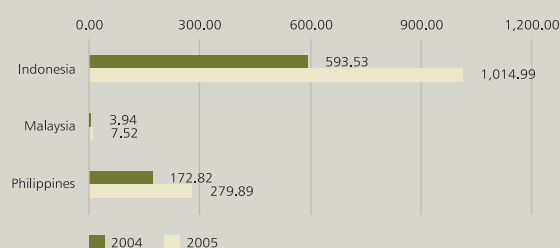
assistance is planned from the government of Japan. The harmonized assistance focuses on sound public financial management and more effective use of fiscal resources through measures to improve governance and combat corruption with an eye at enhancing the efficiency of public expenditures, improving the investment climate, and strengthening the financial sector.

Infrastructure for Growth

Investment in public infrastructure in Indonesia collapsed after the Asian financial crisis, slumping to \$1.5 billion by 2002 from \$16 billion in 1996. In a recent study, Indonesia's infrastructural investments ranked last among countries with populations of more than 20 million.

The rural areas are particularly poorly served: a recent study found that only 15% of rural households had access to piped or pumped drinking water, and just 21% had septic tanks. More than half of rural villages were not connected by paved roads, and a third lacked year-round access. The number of rural poor in Indonesia in 2004 was

Southeast Asia: ADB Disbursements by Country 2004–2005 (\$ million)



Upgrading Neighborhoods in Indonesia and the Philippines

Half the urban population of the Philippines lives in makeshift housing in informal settlements, where drinking water, sanitation, and drainage systems are grossly inadequate, according to official figures.

In Indonesia, where about 91 million people live in cities, the housing and land markets have also not kept pace with rapid urban growth.

Recent initiatives challenged shortcomings in urban upgrading projects and opened new areas of microfinance. The Philippines' Development of Poor Urban Communities Sector project and the Indonesian Neighborhood Upgrading and Shelter Sector project work with local governments and NGOs to make affordable plots available and to ensure access to loans.

The Indonesian project is helping 180,000 households secure tenure.

In the Philippines, as well as helping over 20,000 poor urban households secure accommodation, microfinance for small enterprises provided through 10,000 loan packages has benefited about 100,000 poor urban residents.

A \$100 million Metro Manila Urban Services for the Poor project, now under preparation, will include a long-term metro-wide strategy for upgrading slums in the National Capital Region.

The Strategic Private Sector Partnerships for Urban Poverty Reduction project has harnessed the power of the private sector to help the poor in Metro Manila. It brings together the Philippine Business for Social Progress and ADB. Homes are being built, day-care facilities set up, flood-prone streets paved, and water systems and proper drainage installed. With a \$3.6 million grant from the Japan Fund for Poverty Reduction and \$3.6 million from the Philippine Business for Social Progress, it covers

26 communities in eight metro area cities.

Further afield, a 3-year project in Mindanao, run by the Notre Dame Foundation for Charitable Activities, Inc.—Women in Enterprise Development—with a \$1 million grant from the fund—is providing social safety nets for poor female market vendors in eight cities.

The Indonesian housing project is helping 180,000 households secure tenure



Housing and land markets in Indonesia have not kept pace with rapid urban growth (above); a grant fund is providing social safety nets to female vendors in Mindanao, Philippines (left)

about 24.7 million, or one fifth of the rural population.

According to its medium-term development plan, Indonesia needs to invest about \$145 billion in infrastructure projects to sustain an annual GDP growth of 6% through 2009.

ADB approved three infrastructure-related loans last year: Road Rehabilitation 2, Community Water Services

and Health Project, and Rural Infrastructure Support Program.

Road Rehabilitation 2, the second phase of an earlier project, focuses on restoring and improving safety in key sections of national roads in Sumatra and Kalimantan islands. It will provide farmers and local entrepreneurs with better access to markets; reduce transport costs; make it

easier for governments to deliver administrative and social services; and create other income-earning opportunities, including the operation of *ojek* or motorcycle taxis. HIV/AIDS awareness campaigns will also run parallel with road construction activities in Kalimantan and Sumatra.

As part of its efforts to obtain private sector support for major infrastructure projects, ADB approved a \$350 million loan for the Tangguh Liquefied Natural Gas Project in West Papua, which will extract gas from fields in the Berau and Bintuni Bay areas, a big step in the revival of ADB's private sector operations in Indonesia.

PHILIPPINES

A Boost for Enterprise

The \$180 million in loans approved in 2005 for the Philippines included support for financial sector development, with a focus on microfinance and small- and medium-sized enterprises. In addition is a loan for \$5 million, without government guarantee, for the purchase and resolution of nonperforming loans and assets of Equitable PCI Bank.

The lending program is also closely linked to and supports the fiscal consolidation agenda to which the authorities have demonstrated a strong commitment.

The budget deficit, the primary indicator of national fiscal health, fell from 3.9% of GDP in 2004 to 2.7% in 2005. The expansion of the value-added tax removed formerly exempted transactions in November 2005 and set the rate at 10%. (In February 2006, the expanded value-added tax was raised to 12%.) Administration of the tax system is being strengthened, and the challenge now is to implement hard-won policy changes to ensure that incremental revenues are collected.

A new \$150 million loan for the Microfinance Development Program aims to improve the access of the poor to financial services. The loan supports the

government's program to encourage private sector participation in the delivery of microfinance services, address systemic weaknesses, and promote competitively priced financial services for the poor and their enterprises.

Microfinance is central to the government's strategy for reducing poverty under the Social Reform and Poverty Alleviation Act, and the Philippines has made good progress. More than two thirds of the country's poor, or 17 million people, do not have access to microfinance services and rely on costly informal sources. Access to microfinance gives poor people the chance to build viable businesses and livelihoods.

Among its many features, the new ADB loan will help remove restrictions on competition for microfinance services, improve governance, and promote efficient operations and the expansion of private sector-led microfinance institutions. It will make borrowing costs clearer by introducing greater transparency and "truth in lending" to all types of microfinance institutions. Also, it will clarify the tax regime governing the institutions.

In September, ADB approved the loan for small- and medium-sized enterprise development, a project that includes a \$25 million loan that will support the Small Business Guarantee and Finance Corporation to expand



Making microfinance loans available helps provide income-generating opportunities for women such as this basketmaker (above) and general store owner (left)

its portfolio of loans to small- and medium-sized enterprises. The project also includes a partial credit guarantee facility of about \$18.4 million, and an equity investment of up to \$1 million.

By 2010, the government wants the enterprises to contribute about 40% of value-added to the economy, up from about 32% now, but it faces constraints in unsupportive policies, cumbersome and costly registration and licensing processes, and the lack of a national business and collateral registry.

The partial credit guarantee, equivalent to about 1 billion Philippine pesos (\$19.5 million), will be offered to encourage selected private sector financial institutions to also expand their portfolios for small- and medium-sized enterprises, particularly to medium-sized enterprises outside the corporation's target group. The facility will cover up to 50% of well-defined loan portfolios. The equity investment will help establish a comprehensive and credible credit information system, one of the factors constraining development of the sector.

Improving Housing Finance and Upgrading Slums

ADB assisted the Philippine National Home Mortgage Finance Corporation in resolving its portfolio of highly delinquent mortgage loans through a P1.6 billion loan approved in December 2004, which reached financial closure in November 2005. The loan to Balikatan Housing, Inc., a special purpose company, financed its purchase of the portfolio of nonperforming loans from the National Home Mortgage Finance Corporation. The sale of the troubled housing portfolio through this transaction will allow the corporation to more effectively allocate its resources to developing and providing a secondary market for home mortgages to low- and middle-income households.

ADB is also taking a 10% equity stake in Bahay Financial Services, Inc., a new loan servicing company that will restructure and service the nonperforming loans on behalf of Balikatan Housing, Inc. A major portion of the funding for the peso-denominated loan came from

In 2005, ADB continued work to strengthen the Philippines' Energy Regulatory Commission and to advise the Power Sector Assets and Liabilities Management Corporation on the privatization of assets



Urban housing is being improved in the Philippines through a program that promotes the development of low-income housing units by the private sector

an ADB Philippine peso-denominated bond priced in October 2005.

To help alleviate the worst effects of poverty, the Strategic Public-Private Partnerships for Urban Poverty Reduction project, with funding from the Japan Fund for Poverty Reduction, continued in 2005 to combine the business sector, local government units, and NGOs in the Philippines to address the delivery of basic services and livelihood programs. Operating in 26 marginalized communities in eight cities of Metro Manila—Caloocan, Malabon, Marikina, Muntinlupa, Navotas, Pasig, Quezon City, and Taguig—its many achievements have financed construction of better homes and local infrastructure for 894 households, given micro loans for businesses, and provided hundreds of individuals with scholarships, business training, and skills enhancement.

Energy Restructuring

In 2005, ADB continued work to strengthen the Philippines' Energy Regulatory Commission and to advise the Power Sector Assets and Liabilities Management Corporation on the privatization of assets of the National Power Corporation under a technical assistance grant approved in 2004.

Restructuring the power sector has reached a crucial juncture. While the new legal and regulatory framework for introducing competition is largely in place, privatizing generation and transmission assets has been slow.

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List of Abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
ASEAN	Association of Southeast Asian Nations
DMC	developing member country
GDP	gross domestic product
GMS	Greater Mekong Subregion
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome
Lao PDR	Lao People's Democratic Republic
MDG	Millennium Development Goal
NGO	nongovernment organization
OCR	ordinary capital resources
PRC	People's Republic of China
SARS	severe acute respiratory syndrome
km	kilometer

APPENDIX 1

Members, Capital Stock, and Voting Power

(as of 31 December 2005)

	Year of Membership	Subscribed Capital ^a (% of total)	Voting Power ^b (% of total)
REGIONAL			
Afghanistan	1966	0.034	0.340
Armenia	2005	0.301	0.553
Australia	1966	5.834	4.979
Azerbaijan	1999	0.448	0.671
Bangladesh	1973	1.029	1.136
Bhutan	1982	0.006	0.317
Cambodia	1966	0.050	0.352
China, People's Republic of	1986	6.496	5.510
Cook Islands	1976	0.003	0.315
Fiji Islands	1970	0.069	0.367
Hong Kong, China	1969	0.549	0.752
India	1966	6.383	5.419
Indonesia	1966	5.490	4.705
Japan	1966	15.734	12.900
Kazakhstan	1994	0.813	0.963
Kiribati	1974	0.004	0.316
Korea, Republic of	1966	5.079	4.375
Kyrgyz Republic	1994	0.302	0.554
Lao, People's Democratic Republic	1966	0.014	0.324
Malaysia	1966	2.745	2.509
Maldives	1978	0.004	0.316
Marshall Islands	1990	0.003	0.315
Micronesia, Federated States of	1990	0.004	0.316
Mongolia	1991	0.015	0.325
Myanmar	1973	0.549	0.752
Nauru	1991	0.004	0.316
Nepal	1966	0.148	0.431
New Zealand	1966	1.548	1.551
Pakistan	1966	2.196	2.069
Palau	2003	0.003	0.315
Papua New Guinea	1971	0.095	0.388
Philippines	1966	2.402	2.234
Samoa	1966	0.003	0.315
Singapore	1966	0.343	0.587
Solomon Islands	1973	0.007	0.318
Sri Lanka	1966	0.585	0.780
Taipei, China	1966	1.098	1.191
Tajikistan	1998	0.289	0.543
Thailand	1966	1.373	1.411
Timor-Leste	2002	0.010	0.320
Tonga	1972	0.004	0.316
Turkmenistan	2000	0.255	0.517
Tuvalu	1993	0.001	0.314
Uzbekistan	1995	0.679	0.856
Vanuatu	1981	0.007	0.318
Viet Nam	1966	0.344	0.588
Subtotal Regional		63.351	65.056

	Year of Membership	Subscribed Capital ^a (% of total)	Voting Power ^b (% of total)
NONREGIONAL			
Austria	1966	0.343	0.587
Belgium	1966	0.343	0.587
Canada	1966	5.274	4.531
Denmark	1966	0.343	0.587
Finland	1966	0.343	0.587
France	1970	2.347	2.190
Germany	1966	4.361	3.802
Italy	1966	1.822	1.770
Luxembourg	2003	0.343	0.587
The Netherlands	1966	1.034	1.140
Norway	1966	0.343	0.587
Portugal	2002	0.343	0.587
Spain	1986	0.343	0.587
Sweden	1966	0.343	0.587
Switzerland	1967	0.588	0.783
Turkey	1991	0.343	0.587
United Kingdom	1966	2.059	1.960
United States	1966	15.734	12.900
Subtotal Nonregional		36.649	34.944
TOTAL		100.000	100.000

Note: Figures may not add due to rounding. For other details, see tables on pages 34 and 35, Volume 2.

a Subscribed capital refers to a member's subscription to shares of the capital stock of ADB.

b The total voting power of each member consists of the sum of its basic votes and proportional votes. The basic votes of each member consist of such number of votes as results from the equal distribution among all members of 20% of the aggregate sum of the basic votes and proportional votes of all members. The number of proportional votes of each member is equal to the number of shares of the capital stock of ADB held by that member.

APPENDIX 2

Resolutions of the Board of Governors Adopted in 2005

RESOLUTION NO.	SUBJECT	DATE ADOPTED
303	Decisions Relating to Section 5 of the By-Laws	21 January 2005
304	Amendment to Section 7(B)(a) of the By-Laws	21 January 2005
305	Transfer of OCR Surplus to the Asian Tsunami Fund	4 March 2005
306	Place and Date of Fortieth Annual Meeting (2007)	5 May 2005
307	Financial Statements and Independent Auditors' Reports	6 May 2005
308	Allocation of Net Income	6 May 2005
309	Procedures for the Election of Directors	26 May 2005
310	Transfer of Ordinary Capital Resources Surplus to the Pakistan Earthquake Fund	25 November 2005
311	Conversion of ADF Resources into Other Currencies	28 November 2005
312	Development Status of the Republic of Palau	16 December 2005

APPENDIX 3

Selected Policy, Financial, and Administrative Papers Considered by the Board in 2005

SUBJECT	DATE
Proposed Revision of the Water Policy of the Asian Development Bank	28 January 2005
Proposed Revisions to the Asian Development Fund Regulations and Adoption of Special Operations Grant Regulations	7 February 2005
Asian Tsunami Fund	17 February 2005
Review of the Asian Development Bank's Loan Charges and Allocation of 2004 Net Income	12 April 2005
The Public Communications Policy of the Asian Development Bank	22 April 2005
Enhanced Separation Program	19 May 2005
Organizational Adjustments for Enhanced Operational Effectiveness	19 May 2005
Local Currency Lending	15 June 2005
Implementation of Disclosure Provisions of ADB's Public Communications Policy Pertaining to Chair Summaries and Minutes of Board of Directors' Discussions, and Operations Evaluation Reports	12 July 2005
Eligibility of ADF Grant Projects for the Summary Procedure	10 August 2005
Policies and Procedures on the Use of Consultants by the Asian Development Bank and Its Borrowers	19 August 2005
Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach	25 August 2005
Introducing the Local Currency Loan Product	25 August 2005
Pilot Financing Instruments and Modalities	25 August 2005
Revising the Procurement Guidelines	20 September 2005
Work Program and Budget Framework (2006–2008)	11 October 2005
Special Capital Budget Proposal—The Business Continuity Facility	13 October 2005
A Review of Accounting Policy on Currency Exchange Rates Used for Financial Reporting and Transactions	13 October 2005
Japan Fund for Public Policy Training Modified Implementation Arrangements	14 October 2005
Revision of the Summary Procedure	14 October 2005
Asian Development Fund Currency Management Proposal	27 October 2005
Comprehensive Review of Compensation and Benefits for Professional Staff	3 November 2005
Pakistan Earthquake Fund	14 November 2005
Proposed Change in Asian Tsunami Fund Implementation Arrangements and Transfer of Unutilized Amounts from the Asian Tsunami Fund and Ordinary Capital Resources Surplus, Both to the Pakistan Earthquake Fund	14 November 2005
A Review of the Policy on Supplementary Financing: Addressing Challenges and Broader Needs	28 November 2005
Borrowing Program for 2006	06 December 2005
Budget of the Asian Development Bank for 2006	16 December 2005
Proposed Revisions to the Regulations of the Asian Development Fund and the Special Operations Loan Regulations	19 December 2005

APPENDIX 4
Board of Governors
(as of 31 March 2006)

P. Chidambaram
(India)
(Chair)

Elbuchel Sadang
(Palau)
(Vice-Chair)

Jean-Louis Schiltz
(Luxembourg)
(Vice-Chair)

MEMBER	GOVERNOR	ALTERNATE GOVERNOR
Afghanistan	Anwar Ul-Haq Ahady	Wahidullah Shahrani
Armenia	Vardan Khachatryan ¹	David Avetissian ¹
Australia	Peter Costello	Teresa Gambaro ²
Austria	Karl-Heinz Grasser	Marcus Heinz ³
Azerbaijan	Heydar Babayev ⁴	Avaz Alekperov
Bangladesh	M. Saifur Rahman	Md. Ismail Zabihullah
Belgium	Didier Reynders	Gino Alzetta
Bhutan	Lyonpo Wangdi Norbu	Daw Tenzin
Cambodia	Keat Chhon	Aun Porn Moniroth
Canada	Peter MacKay ⁵	Alister M. Smith
China, People's Republic of	Jin Renqing	Li Yong
Cook Islands	Terepai Maoate ⁶	Kevin Carr
Denmark	Ole E. Moesby	Sus Ulbæk
Fiji Islands	Jone Yavala Kubuabola	Savenaca Narube
Finland	Marjatta Rasi ⁷	Anneli Vuorinen ⁸
France	Thierry Breton	Xavier Musca
Germany	Karin Kortmann ⁹	Rolf Wenzel
Hong Kong, China	Henry Tang	Joseph Yam
India	P. Chidambaram	A. K. Jha ¹⁰
Indonesia	Sri Mulyani Indrawati ¹¹	Burhanuddin Abdullah
Italy	Mario Draghi ¹²	Ignazio Angeloni ¹³
Japan	Sadakazu Tanigaki	Toshihiko Fukui
Kazakhstan	Natalya Artemovna Korzhova ¹⁴	Marat Apsemetovich Kusainov ¹⁵
Kiribati	Nabuti Mwemwenikarawa	Taneti Maamau
Korea, Republic of	Duck-Soo Han	Seung Park
Kyrgyz Republic	Akylbek Japarov	Sabyrbek A. Moldokulov
Lao People's Democratic Republic	Chansy Phosikham	Phouphet Khamphounvong
Luxembourg	Jean-Louis Schiltz	Arsene Jacoby ¹⁶
Malaysia	Dato' Seri Abdullah Haji Ahmad Badawi	Dato' Izzuddin bin Dali

¹ Appointed in December 2005.

² Succeeded Bruce Wilson in March 2006.

³ Succeeded Thomas Wieser in March 2005.

⁴ Succeeded Farhad Aliyev in October 2005.

⁵ Succeeded Pierre Pettigrew in February 2006.

⁶ Succeeded Geoffrey Henry in August 2005.

⁷ Succeeded Pertti Majanen in September 2005.

⁸ Succeeded Taisto Huimasalo in September 2005.

⁹ Succeeded Uschi Eid in December 2005.

¹⁰ Succeeded Rakesh Mohan in July 2005.

¹¹ Succeeded Jusuf Anwar in December 2005.

¹² Succeeded Antonio Fazio in February 2006.

¹³ Succeeded Lorenzo Bini Smaghi in June 2005.

¹⁴ Succeeded Arman Galiaskarovich Dunayev in March 2006.

¹⁵ Succeeded Batyrkhan Arysbekovich Issayev in March 2006.

¹⁶ Succeeded Georges Heinen in September 2005.

MEMBER	GOVERNOR	ALTERNATE GOVERNOR
Maldives	Ismail Shafeeu	Riluwan Shareef
Marshall Islands	Brenson S. Wase	Amon Tibon
Micronesia, Fed. States of	Nick L. Andon	Lorin Robert
Mongolia	N. Altankhuyag	Ochirbat Chuluunbat
Myanmar	Hla Tun	Daw Myo Nwe
Nauru	David Adeang	Jonathon Kirkby ¹⁷
Nepal	Roop Jyoti ¹⁸	Bhanu Prasad Acharya
The Netherlands	Gerrit Zalm	Agnes van Ardenne-van der Hoeven
New Zealand	Michael Cullen	John Whitehead
Norway	Anne Margareth Fagertun Stenhammer ¹⁹	Nils Haugstveit
Pakistan	Omar Ayub Khan	Khalid Saeed ²⁰
Palau	Elbuchel Sadang	Marino Rechesengel
Papua New Guinea	Bart Philemon	Simon Tosali
Philippines	Margarito B. Teves ²¹	Amando M. Tetangco, Jr. ²²
Portugal	Fernando Teixeira dos Santos ²³	Carlos Costa Pina ²⁴
Samoa	Misa Telefoni Retzlaff	Hinauri Petana
Singapore	Raymond Lim Siang Keat	Lim Siong Guan
Solomon Islands	Peter Boyers	Shadrach Fanega
Spain	Pedro Solbes Mira	David Vergara Figueras
Sri Lanka	Mahinda Rajapaksa ²⁵	P. B. Jayasundara
Sweden	Annika Soder	Anders Oljelund
Switzerland	Oscar Knapp	Adrian Schlaepfer
Taipei, China	Fai-nan Perng	Shuh Chen
Tajikistan	Matlubkhon S. Davlatov ²⁶	Nagmatjon Kh. Buriev
Thailand	Thanong Bidaya ²⁷	Suparut Kawatkul
Timor-Leste	Maria Madalena Brites Boavida	Aicha Bassarewan
Tonga	Siosua T.T. 'Utoikamanu	Aisake Eke
Turkey	Ali Babacan ²⁸	Ibrahim H. Çanakçı ²⁹
Turkmenistan	Geldymurat Abilov ³⁰	(vacant)
Tuvalu	Bikenibeu Paeniu	Aunese Makoi Simati ³¹
United Kingdom	Hilary Benn	Gareth Thomas
United States	John W. Snow	Josette S. Shiner ³²
Uzbekistan	Saidakhmat Rakhimov ³³	Ulugbek Rozukulov ³⁴
Vanuatu	Willie Jimmy Tapangararua ³⁵	Simeon Athy
Viet Nam	Le Duc Thuy	Phung Khac Ke

17 Succeeded Peter Depta in February 2006.

18 Succeeded Shumshere J.B. Rana in December 2005.

19 Succeeded Leiv Lunde in October 2005.

20 Succeeded Shuja Shah in June 2005.

21 Succeeded Cesar V. Purisima in July 2005.

22 Succeeded Rafael Buenaventura in July 2005.

23 Succeeded Luis Campos e Cunha in July 2005.

24 Succeeded Maria Dos Anjos Nunes Capote in July 2005.

25 Succeeded Sarath Amunugama in December 2005.

26 Succeeded F.S. Kholbobeov in March 2006.

27 Succeeded Somkid Jatusripitak in August 2005.

28 Succeeded Ibrahim H. Çanakçı in March 2006.

29 Succeeded Cavit Dagdas in March 2006.

30 Appointed in March 2006.

31 Succeeded Seve Paeniu in March 2006.

32 Appointed in October 2005.

33 Succeeded Rustam S. Azimov in August 2005.

34 Succeeded Mamarizo Nurmuratov in August 2005.

35 Succeeded Moana Carcasses Kalosil in November 2005.

APPENDIX 5
Board of Directors and Voting Groups
(as of 20 January 2006)

DIRECTOR	ALTERNATE DIRECTOR	MEMBERS REPRESENTED
Volker Ducklau ¹	David Taylor	Austria; Germany; Luxembourg; Turkey; United Kingdom
Emile Gauvreau	Pasi Hellman ²	Canada; Denmark; Finland; The Netherlands; Norway; Sweden
Sibtain Fazal Halim ³	Marita Magpili-Jimenez ⁴	Kazakhstan; Maldives; Marshall Islands; Mongolia; Pakistan; Philippines; Timor-Leste
Agus Haryanto	Richard Stanley	Cook Islands; Fiji Islands; Indonesia; Kyrgyz Republic; New Zealand; Samoa; Tonga
Chol-Hwi Lee	Batir Mirbabayev	Republic of Korea; Papua New Guinea; Sri Lanka; Taipei, China; Uzbekistan; Vanuatu; Viet Nam
Masaki Omura	Atsushi Mizuno ⁵	Japan
Patrick Pillon ⁶	Niklaus Zingg	Belgium; France; Italy; Portugal; Spain; Switzerland
Ashok Saikia	Nima Wangdi ⁷	Afghanistan; Bangladesh; Bhutan; India; Lao People's Democratic Republic; Tajikistan
Stephen Sedgwick	Richard Moore	Australia; Azerbaijan; Cambodia; Federated States of Micronesia; Hong Kong, China; Kiribati; Nauru; Palau; Solomon Islands; Tuvalu
Paul W. Speltz	Paul W. Curry ⁸	United States
Chaiyuth Sudthitanakorn	Sein Tin	Malaysia; Myanmar; Nepal; Singapore; Thailand
Xiaosong Zheng ⁹	Xiaolong Mo ¹⁰	People's Republic of China

- 1 Succeeded Rolf Eckermann on 1 July 2005.
2 Succeeded Geert Jan Engelsman on 1 September 2005.
3 Succeeded M. Akram Malik on 16 November 2005.
4 Succeeded M. Akram Malik on 1 July 2005.
5 Succeeded Masaichiro Yamanishi on 24 August 2005.
6 Succeeded Michele Miari Fulcis on 1 October 2005.
7 Succeeded M. Saiful Islam on 1 June 2005.
8 Succeeded Troy Wray on 20 January 2006.
9 Succeeded Ju Kuilin on 1 February 2005.
10 Succeeded Shaolin Yang on 1 February 2005.

APPENDIX 6

Committees of the Board of Directors

(as of 23 January 2006)

STANDING COMMITTEES

AUDIT COMMITTEE	BUDGET REVIEW COMMITTEE
Patrick Pillon (<i>Chair</i>)	Ashok Saikia (<i>Chair</i>)
Batir Mirbabayev	Paul Curry
Atsushi Mizuno	Sibtain Fazal Halim
Paul W. Speltz	Pasi Hellman
Richard Stanley	Xiaolong Mo
Chaiyuth Sudthitanakorn	Masaki Omura
COMPLIANCE REVIEW COMMITTEE	DEVELOPMENT EFFECTIVENESS COMMITTEE
Stephen Sedgwick (<i>Chair</i>)	Agus Haryanto (<i>Chair</i>)
Volker Ducklau	Emile Gauvreau
Chol-Hwi Lee	Richard Moore
Marita Magpili-Jimenez	David Taylor
Sein Tin	Nima Wangdi
Niklaus Zingg	Xiaosong Zheng

WORKING COMMITTEE

WORKING GROUP ON THE ANNUAL REPORT FOR 2005

David Taylor (*Chair*)
Pasi Hellman
Batir Mirbabayev
Xiaolong Mo
Sein Tin
Nima Wangdi

APPENDIX 7

ADB Institute Advisory Council

(as of 31 December 2005)

Masahiko Aoki	Japan
William P. Fuller	United States
Eric Girardin	France
Li Yong	People's Republic of China
Corattiyil Ramachandran	India
Kanit Sangsubhan	Thailand
Ifzal Ali	ADB Chief Economist

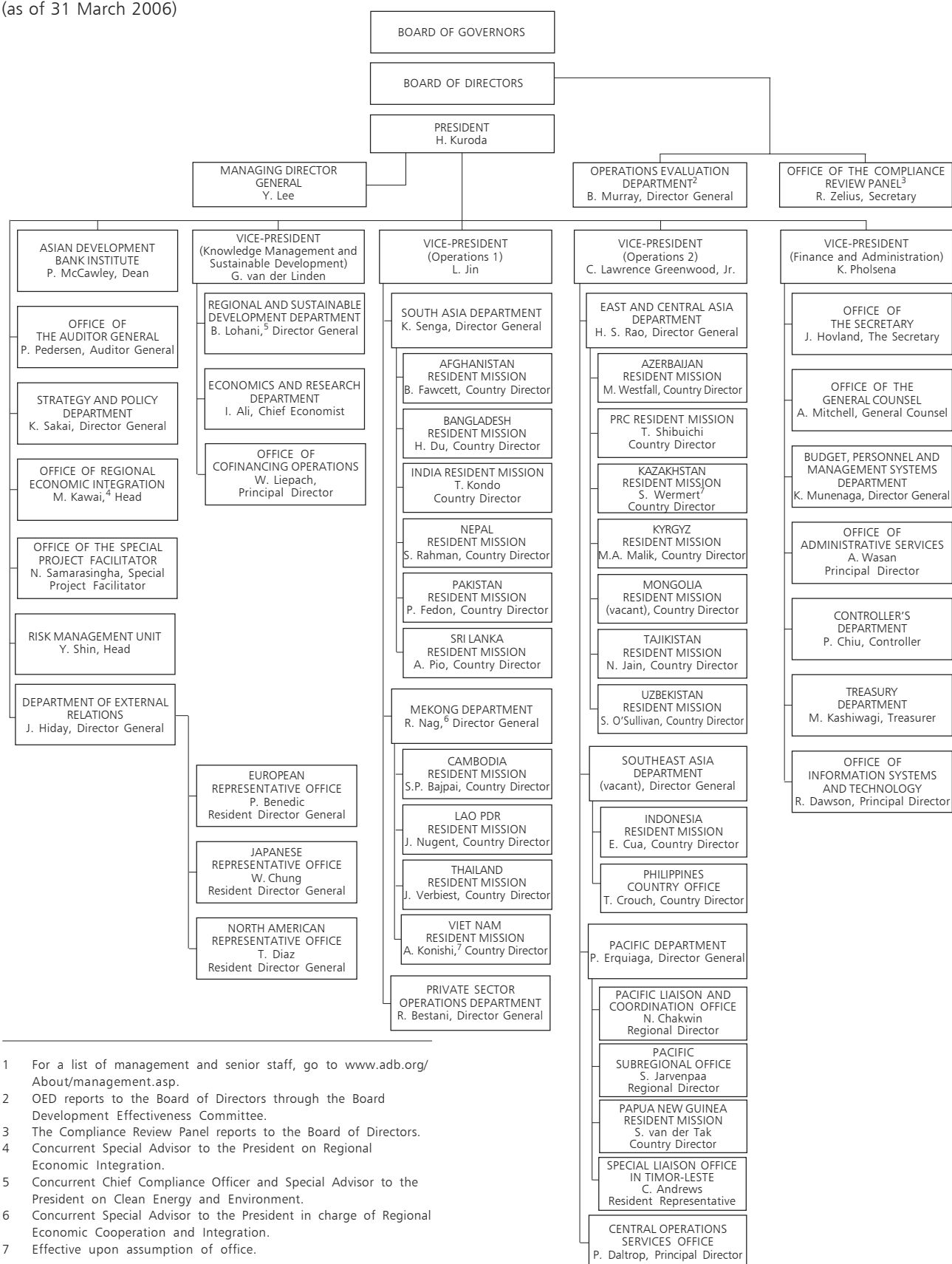
ADB Institute Dean

Peter McCawley

APPENDIX 8

Organizational Structure¹

(as of 31 March 2006)



- 1 For a list of management and senior staff, go to www.adb.org/About/management.asp.
- 2 OED reports to the Board of Directors through the Board Development Effectiveness Committee.
- 3 The Compliance Review Panel reports to the Board of Directors.
- 4 Concurrent Special Advisor to the President on Regional Economic Integration.
- 5 Concurrent Chief Compliance Officer and Special Advisor to the President on Clean Energy and Environment.
- 6 Concurrent Special Advisor to the President in charge of Regional Economic Cooperation and Integration.
- 7 Effective upon assumption of office.

APPENDIX 9

Former ADB Presidents and Vice Presidents

(as of January 2006)

President

Takeshi Watanabe	24 November 1966–24 November 1972
Shiro Inoue	25 November 1972–23 November 1976
Taroichi Yoshida	24 November 1976–23 November 1981
Masao Fujioka	24 November 1981–23 November 1989
Kimimasa Tarumizu	24 November 1989–23 November 1993
Mitsuo Sato	24 November 1993–15 January 1999
Tadao Chino	16 January 1999–31 January 2005

Vice President

C. S. Krishna Moorthi	19 December 1966–31 March 1978
A. T. Bambawale	1 April 1978–28 October 1985
M. Narasimham	1 November 1985–31 July 1988
S. Stanley Katz	1 April 1978–28 September 1990
In Yong Chung	1 August 1988–31 July 1993
William R. Thomson	1 October 1990–30 June 1994
Günther G. Schulz	1 April 1983–30 June 1995
Bong-Suh Lee	1 August 1993–31 July 1998
Pierre Uhel	1 July 1995–24 November 1998
Peter H. Sullivan	6 July 1994–20 September 2000
Myoung-Ho Shin	1 August 1998–31 July 2003
John Lintjer	18 January 1999–16 January 2004
Joseph B. Eichenberger	15 December 2000–23 December 2005

APPENDIX 10
Summary of Budget for 2006
Internal Administrative Expenses
(\$ thousand)

	2005			2006 Budget ^b
	Budget	After Transfers ^a	Actual	
I. BOARD OF GOVERNORS	975	975	920	1,350
II. BOARD OF DIRECTORS	19,477	20,137	20,030	19,540
III. OPERATIONAL EXPENSES	222,537	222,537	221,916	236,123
Salaries	115,178	113,728	113,728	123,606
Benefits	61,799	63,919	63,919	65,008
Staff Development	3,267	2,369	1,894	3,697
Relocation	3,769	3,997	3,997	4,848
Consultants	18,906	20,303	20,303	19,327
Business Travel	19,246	17,849	17,735	19,259
Representation	372	372	340	378
IV. ADMINISTRATIVE EXPENSES	53,870	53,870	51,398	56,566
Communications	6,962	7,053	7,053	6,540
Office Occupancy	11,355	12,281	12,281	11,945
Library	925	937	937	694
Office Supplies	1,934	1,934	1,825	1,771
Office Equipment	6,288	6,288	5,518	5,518
Contractual Services	10,243	10,243	9,536	10,941
Insurance	837	837	747	3,483
Depreciation	14,839	13,810	13,019	15,271
Miscellaneous	487	487	482	403
V. TOTAL BEFORE GENERAL CONTINGENCY	296,859	297,519	294,264	313,579
VI. GENERAL CONTINGENCY	2,969	2,309	—	3,136
VII. Less: Fee Reimbursements from Trust Funds ^c				(3,818)
TOTAL	299,828	299,828	294,264^d	312,897

- a Transfers were made between budget items without exceeding the original amount of each category. An amount of \$660,000 was transferred from the General Contingency to meet overruns in the budget category Board of Directors.
- b Effective from 2006 Budget, all expenses to fund ADB's annual meeting are centralized in the budget category Board of Governors. In addition, the subsidized premium of the postretirement group medical insurance plan will be reclassified from the Operational Expenses category (Benefits) to Administrative Expenses category (Insurance).
- c The fee reimbursement received by ADB from administering trust funds of multilateral and bilateral institutions is netted off to derive the net Internal Administrative Expenses budget starting with the 2006 Budget.
- d Excludes the following items reconciling with financial statements in compliance with generally accepted accounting principles: (i) provisions for future liabilities with respect to severance pay (-\$1,131,000), accumulated compensated absences (\$1,151,000), and accrued resettlement/repatriation allowances (\$4,284,000); (ii) adjustments of actuarially determined assessment of benefit obligations with respect to pension costs (\$13,967,000) and postretirement medical benefits (\$20,349,000); and (iii) expenses related to the enhanced separation program (\$4,661,000); and (iv) adjustments related to the Afghanistan Resident Mission Guest House (-\$67,000). Total administrative expenses, as shown in the financial statements, amounted to \$337,478,000. This amount, after deducting \$522,000 directly charged to the Japan Scholarship Program (\$69,000) and Japan Fund for Poverty Reduction (\$453,000), has been distributed as follows: OCR—\$135,689,000 (Ref. OCR-2) net of \$24,481,000 as front-end fee offset against loan origination costs and recognized as a reduction in administrative expenses; ADF—\$175,751,000 (Ref. ADF-2), and Japan Special Fund—\$1,035,000 (Ref. JSF-2).

ADB Contact Addresses

(as of 31 March 2006)

Afghanistan Resident Mission

House No. 126, Street 2
Yaqoub, Roundabout
Shar-e-now,
Nest to District 10 Police Department
Kabul, Afghanistan
Tel +93 020 210 3602

Azerbaijan Resident Mission

96 Nizami St. 4th Floor
Landmark Building
Baku AZ1000, Azerbaijan
Tel +994 12 496 5800
Fax +994 12 465 9990
adbazrm@adb.org
www.adb.org/azrm

Bangladesh Resident Mission

Plot E-31, Sher-e-Bangla Nagar
Dhaka-1207, Bangladesh
Tel +880 2 815 6000 to 6016
Fax +880 2 815 6018/6019
adbbrm@adb.org
www.adb.org/brm

Cambodia Resident Mission

29 Suramarit Boulevard (268/19)
Sangkat Chaktomok
Khan Daun Penh
Phnom Penh, Cambodia
P.O. Box 2436
Tel +855 23 215805/215806/
216417
Fax +855 23 215807
adbcarcm@adb.org
www.adb.org/carm

People's Republic of China Resident Mission

7th Floor, Block D
Beijing Merchants International
Financial Center
156 Fuxingmennei Avenue
Xicheng District
Beijing 100031, PRC
Tel +86 10 6642 6601
Fax +86 10 6642 6606
adbprcm@adb.org
www.adb.org/prcm

European Representative Office

Rahmhofstrasse 2
60313 Frankfurt am Main
Germany
Tel +49 69 2193 6400
Fax +49 69 2193 6444
adbero@adb.org
www.adb.org/ero

India Resident Mission

4, San Martin Marg
Chanakyapuri
New Delhi 110 021
India
P.O. Box 5331, Chanakyapuri HPO
Tel +91 11 2410 7200
Fax +91 11 2687 0955
adbinrm@adb.org
www.adb.org/inrm

Indonesia Resident Mission

Gedung BRIL, 7th Floor
Jl. Jend Sudirman Kav. 44-46
Jakarta 10210, Indonesia
P.O. Box 99 JKPSA
Jakarta 10350A
Indonesia
Tel +62 21 251 2721
Fax +62 21 251 2749
adbirm@adb.org
www.adb.org/irm

Japanese Representative Office

Yamato Seimei Building 2nd Floor
1-7 Uchisaiwaicho 1-Chome
Chiyoda-ku, Tokyo 100-0011
Japan
Tel +81 3 3504 3160
Fax +81 3 3504 3165
adbjro@adb.org
www.adb.org/jro

Kazakhstan Resident Mission

12 Samal
Astana Tower Business Center
10th Floor, Astana 010000
Kazakhstan
Tel +7 3172 325053/325054
Fax +7 3172 328343

20A Kazybek bi Street, Arai Building

4th Floor, Almaty 050010
Kazakhstan
Tel +7 3272 582223/917344
Fax +7 3272 918670
adbkarm@adb.org
www.adb.org/karm

Kyrgyz Resident Mission

52-54, Orosbekov Street
Bishkek, 720040, Kyrgyz Republic
Tel +996 312 627343/612 900445
Fax +996 312 627344
adbkyrm@adb.org
www.adb.org/kyrm

Lao PDR Resident Mission

Corner of Lanexang Avenue and
Samsenthai Road
P.O. Box 9724, Vientiane
Lao People's Democratic Republic
Tel +856 21 250444
Fax +856 21 250333
adblrm@adb.org
www.adb.org/lrm

Mongolia Resident Mission

MCS Plaza, 2nd Floor
4 Natsagdorj Street
Ulaanbaatar, Mongolia
P.O. Box 1083, Central Post Office
Ulaanbaatar-13, Mongolia
Tel +976 11 313440/323507/
329836
Fax +976 11 311795
adbmnrm@adb.org
www.adb.org/mnrm

Nepal Resident Mission

Srikunj, Kamaladi, Ward No. 31
P.O. Box 5017
Kathmandu, Nepal
Tel +977 1 422 7779
Fax +977 1 422 5063
adbnrm@adb.org
www.adb.org/nrm

North American Representative Office

815 Connecticut Avenue, NW
Suite 325
Washington DC 20006, USA
Tel +1 202 728 1500
Fax +1 202 728 1505
naro@adb.org
www.adb.org/naro

Pacific Liaison Coordination Office

Level 18, 1 Margaret Street
(corner of Clarence and Margaret
Streets)
Sydney, New South Wales 2000
Australia
Tel +61 2 8270 9444
Fax +61 2 8270 9445
adbplco@adb.org
www.adb.org/plco

Pakistan Resident Mission

Overseas Pakistanis Foundation
Building
Sharah-e-Jamhuriyat
G-5/2, Islamabad
GPO Box 1863, Islamabad, Pakistan
Tel +92 51 282 5011 to 5016/
208 7300
Fax +92 51 282 3324/227 4718
adbpmrm@adb.org
www.adb.org/prm

Papua New Guinea Resident Mission

Deloitte Tower, Level 13
P.O. Box 1992
Port Moresby, NCD
Papua New Guinea
Tel +675 321 0408
Fax +675 321 0407
adbpmrm@adb.org
www.adb.org/pnrm

Philippines Country Office

6 ADB Ave., Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 683 1000
Fax +63 2 683 3300
phco-mailbox@adb.org
www.adb.org/phco

Special Office in Timor-Leste

ADB-World Bank-IMF Building
Avenida Dos Direitos Humanos
P.O. Box 62, Dili, Timor-Leste
Tel +670 332 4801
Fax +670 332 4132
www.adb.org

South Pacific Subregional Office

Level 5, Ra Marama Building
91 Gordon Street
Private Mail Bag, Suva, Fiji Islands
Tel +679 331 8101
Fax +679 331 8074
adbpspo@adb.org
www.adb.org/spso

Sri Lanka Resident Mission

49/14-15 Galle Road
Colombo 3, Sri Lanka
Tel +94 11 238 7055/533 1111
Fax +94 11 238 6527
adbslrm@adb.org
www.adb.org

Tajikistan Resident Mission

107 Nozim Khikmat Street
Dushanbe, 734001, Tajikistan
Tel +992 372 235314/235315/
210558
Fax +992 372 244900
adbtjrm@adb.org
www.adb.org/tjrm

Thailand Resident Mission

23rd Floor
The Offices at Central World
999/9 Rama I Road, Pathumwan
Bangkok 10330, Thailand
Tel +66 2263 5300
Fax +66 2263 5301
jpverbiest@adb.org
www.adb.org

Uzbekistan Resident Mission

1 A. Khodjaev Street
Tashkent 700027, Uzbekistan
Tel +998 71 120 7921/7922/7925
Fax +998 71 120 7923
adburm@adb.org
www.adb.org/urm

Viet Nam Resident Mission

Units 701-706
Sun Red River Building
23 Phan Chu Trinh Street
Hoan Kiem District
Hanoi, Viet Nam
Tel +84 4 933 1374
Fax +84 4 933 1373
adbvrm@adb.org
www.adb.org/vrm

Asian Development Bank Institute

8th Floor, Kasumigaseki Bldg.
2-5 Kasumigaseki 3 Chome
Chiyoda-ku, Tokyo 100, Japan
Tel +81 3 3593 5500
Fax +81 3 3593 5571
info@adbi.org
www.adbi.org