In 1999, the Asian Development Bank (ADB) worked in a far brighter Asian economic environment than had been expected. Economic indicators mostly moved favorably, and confidence grew that the unprecedented events of 1997–1998 had been left behind. Most of ADB’s developing member countries (DMCs) had better growth rates in 1999 than in 1998 and higher than forecast. Some progress was made in the necessary restructuring and reform of banks, capital markets, and regulatory regimes in the main crisis-affected countries, but financial recovery has largely preceded reform.

Although markets recovered, the social costs of the crisis continued to mount in 1999, with aftershocks being felt throughout the year and millions of people in the region being thrown back into poverty. ADB responded in a fundamental way to the year’s harsh reminders of the poor’s fragile hold on economic well-being and the weakness of the region’s social safety nets: by rededicating itself to the goal of eliminating poverty from the region.

Poverty reduction strategy

In adopting the poverty reduction strategy, the Board of Directors ensured the primacy of the attack on poverty in ADB’s work. Its other strategic objectives—promoting economic growth, developing human resources, improving the status of women, and protecting the environment—will still be pursued, but in ways that serve to enhance poverty reduction: So, too, will ADB’s encouragement of the private sector and its support of regional development initiatives.

To implement this pro-poor strategy, the Poverty Reduction Unit was created in an upgraded Strategy and Policy Department. A Presidential Commission on Poverty Reduction was formed, comprising the heads of key departments and offices. The Regional Economic Monitoring Unit and the Asia Recovery Information Center, both established in 1999, expanded ADB’s efforts to monitor the impact of the crisis and the pattern of recovery.

Policy developments

Within the framework of the emerging pro-poor orientation of ADB, the Board of Directors in 1999 approved several major policy initiatives designed to broaden the development impact of ADB’s work in its DMCs. In addition to the poverty reduction strategy, the Board of Directors approved a health sector policy, began reviews of the private sector strategy and ADB’s resident missions, assessed ADB’s program and guarantee operations, and examined its sector lending.

In the health sector, the Board of Directors approved a policy that focuses ADB clearly on improving primary health care for the poor, women, and indigenous peoples. It reaffirmed that the overall approach is to assist DMC governments in ensuring broad access to basic primary health care that is cost-effective and affordable.

The review of the private sector strategy entails assessing an important premise: that the growth of the private sector and the extent of poverty are inversely related. The review of the resident missions is being undertaken to ensure that they provide value for money. Both reviews will be completed in 2000.

The review of program lending identified gaps in both the policy framework and implementation. As a result, two new program lending modalities were created: a special program loan (SPL) that can provide, on an exceptional basis, large-scale support as part...
of an international rescue package to crisis-affected countries eligible for ordinary capital resources (OCR), and a cluster approach that can enhance flexibility and extend the time frame for program implementation. The former policy initiative allows higher pricing of SPLs to protect ADB's financial strength and risk-bearing capacity and exemption of SPLs from the regular program lending ceiling. The Board of Directors also approved a higher ceiling on total regular program lending: 20 percent of total ADB public sector lending rather than 15 percent.

The review of ADB's guarantee operations, since they were introduced in 1988, confirmed that they are an important instrument that can mobilize resources to support DMC reform programs and catalyze private financing for infrastructure projects. The Board of Directors recommended and changed certain key provisions in the current policy involving discount rates, country eligibility, mainstreaming of guarantees, staff training, technical assistance, and the Asian Currency Crisis Support Facility guarantees to ensure the instrument's continued usefulness and flexibility.

As for sector lending, the Board of Directors noted some occasional shortcomings in focus but concluded that addressing them required no changes in ADB policies and procedures. Rather, the need is for more dedicated attention to DMC policy frameworks and institutional capacities, keeping in mind that the sector loan is best used in the overall context of ADB assistance.

General operations

The Board of Directors met formally on 59 occasions, including executive sessions, and held 18 informal discussions and 4 informal seminars during the year. During the formal meetings, the Directors approved $5 billion for 66 loans for 52 projects. Of this, $4 billion was from ADB's OCR and $1 billion from the Asian Development Fund (ADF). Nearly 40 percent of project approvals by the Board of Directors, excluding private sector and technical assistance loans, had poverty reduction as their primary or secondary objective. In addition to loans, the Board of Directors, either directly or through the delegated authority vested in the President by the Board, approved 315 technical assistance grants amounting to $173 million.

During the informal discussions, the Directors examined a broad agenda of items, including ADB's resource position, investment strategy and investment authority, three-year

The Boards and Their Functions

ADB is governed by a Board of Governors, which, at the end of 1999, consisted of 58 members (42 regional and 16 nonregional). Under Article 28 of ADB's Charter, the Board of Governors is vested with all the powers of ADB. In turn, the Governors delegate their authority to the Board of Directors, except for certain powers reserved to them under the Charter.

The Board of Governors meets formally once a year for ADB's Annual Meeting. The resolutions approved by the Board of Governors in 1999 and its membership are shown in Appendixes 1 and 2.

Also under Article 28, the Board of Governors elects a 12-member Board of Directors, eight elected by regional members and four by nonregional members (see Appendix 3). Each Director appoints an Alternate. The President of ADB is the Chairperson of the Board of Directors.

The Board of Directors performs its duties on a full-time basis at ADB's headquarters in Manila, Philippines, and meets in regular formal and executive sessions. The Directors exercise their authority and functions through their supervision of ADB's financial statements, their approval of ADB's administrative budget, and their continuous review and approval of policy documents and all loan, equity, and technical assistance operations.
rolling work program and budget framework, operations in East Timor, and country assistance plans for 2000–2002. During the informal seminars, the Directors examined advance procurement action, retroactive financing, and various country operational strategy studies.

The 32nd Annual Meeting of the Board of Governors was held in Manila, Philippines, from 29 April to 2 May 1999.

**Membership**

Azerbaijan joined ADB in 1999, bringing ADB’s membership to 58.

**Board committees**

**Audit Committee**

In its 1998–1999 report to the Board of Directors, the Audit Committee continued to emphasize the importance of good governance, accountability, and transparency in all aspects of ADB operations, and also the need for objective monitoring and evaluation of ADB’s portfolio performance and prompt implementation of audit recommendations.

The Committee held 17 formal meetings in 1999 and several informal meetings. It reviewed ADB’s draft Financial Statements for 1998 with the external auditors (Pricewaterhouse-Coopers LLP) and recommended to the President that the draft Financial Statements for 1998 be approved by the Board of Governors. It recommended that reviews be undertaken of loan-loss provisioning and the delineation of the ADF and OCR policies. It also endorsed ADB’s approach to accounting for costs incurred by the ADB Institute.

The Committee noted the achievements of the Office of the General Auditor (OGA) and endorsed its work program for 1999. It requested that target dates for deferred audit recommendations be provided and a mechanism be set up to ensure implementation of recommendations. It also endorsed the work program of the Operations Evaluation Office (OEO).

The Committee reviewed in detail four project performance audit reports, two impact evaluation studies, and three special studies. It cited the special studies on road facilities and the country assistance program evaluation and recommended that similar studies be included in OEO’s work program for 2000.

The Committee noted the close coordination between the evaluation units of multilateral finance institutions (MFIs) and recommended harmonization of ADB’s project performance ratings with those of other MFIs. It drew attention to the outstanding issues of systems not supported by the Office of Information Systems and Technology, and

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**Postevaluation Reports Discussed by the Audit Committee**

**Project Performance Audit Reports**

- Fauji Fertilizer Expansion Project (Pakistan) 24 March 1999
- Fourth Road Improvement Sector Project (Papua New Guinea) 27 October 1999
- Second Health and Population Project (Pakistan) 27 October 1999
- Agricultural Technology Education Project (Philippines) 27 October 1999

**Impact Evaluation Studies**

- Impact of Project Preparatory Technical Assistance for Agricultural Projects in Bangladesh 27 January 1999

**Special Studies**

- Reevaluation Study of the Palawan Integrated Area Development Project (Philippines) 24 March 1999
- Operation and Maintenance of Road Facilities and Their Impact on Project Sustainability 24 March 1999
- Environmental Mitigation Measures in Selected ADB-Financed Projects 14 April 1999
- Review of Country Assistance Program Evaluation (People's Republic of China) 19 May 1999
systems used by DMCs and other institutions that link up with ADB’s computer systems. It also noted that the final cost to ADB of complying with year 2000 requirements was within the regular maintenance budget. It recommended an interdepartmental review to consider the selection evaluation of consultants to increase transparency.

The Committee reviewed its own terms of reference, taking into account the comments of the General Auditor and the advice of the independent auditors. It recommended an update in its terms of reference, including greater clarification of its responsibilities, and its recommendations were adopted.

The membership of the Audit Committee is shown in Appendix 4.

**Budget Review Committee**

The Budget Review Committee was convened in November 1999 to review ADB’s operations during the year and Management’s budget proposal for 2000. It discussed the work achievements for 1999 and the work plans for 2000 of ADB’s departments and offices, and of the ADB Institute. It concluded that ADB uses its resources efficiently.

The Committee recognized that the long-term strategic framework will need to incorporate poverty reduction as ADB’s main objective and that increased consultation with member countries would sharpen ADB’s vision. New approaches for implementing the pro-poor strategy will be required, and the aim should be achievable program and lending targets with clear, practical poverty interventions.

The Committee also said country programming should reflect the priorities emerging from the poverty analysis, the high-level forum, and the partnership agreements between DMCs and ADB. It noted that the country assistance plans will translate partnership agreements into specific programs of loan and technical assistance projects. It stressed the need to implement the poverty reduction strategy with clear country foci. The Committee noted that collaboration with other MFIs and the International Monetary Fund would be useful in shaping ADB’s future role in poverty reduction. It appreciated the concerted media campaign to publicize the poverty reduction strategy.

The Committee also noted ADB’s increased emphasis on corporate governance and anticorruption, with the establishment of the new Anticorruption Unit, and OGA’s continued efforts in promoting internal governance through training materials and fraud awareness seminars. It noted the recent task force approval of measures for implementing the anticorruption policy and for dealing with allegations of fraud and corruption. It appreciated the efforts to update ADB’s guidelines for procurement and guidelines on the use of consultants to incorporate anticorruption provisions.

The Committee reviewed ADB’s resources and recommended that key financial indicators be updated. It emphasized the importance of prudent management of cash and

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**Policy Papers and Reports Discussed by the Board of Directors**

**Approved Papers**

- Policy for the Health Sector 25 February 1999
- The Resource Position of the Bank 9 March 1999
- Establishment of a New Facility in the Existing Japan Special Fund to Assist Currency Crisis-Affected Member Countries 23 March 1999
- Review of the Bank’s Income Outlook and Allocation of Net Income 31 March 1999
- Review of the Bank’s Guarantee Operations 8 October 1999
- A Review of OCR Loan Charges 3 December 1999
- Review of the Bank’s Program Lending Policies 13 December 1999
- Review of the Bank’s Income Outlook and Allocation of Net Income 31 March 1999
- Review of the Bank’s Guarantee Operations 8 October 1999

**Working Papers**

- ADF VII: Progress Report 31 March 1999
- Resident Mission Policy 1 December 1999
liquidity, and it expects to assess the impact on ADB’s income when the new Investment Authority and strategy becomes operational by the end of 2000. It noted that the implementation of the treasury risk management software was scheduled for early 2001. It welcomed the review of OCR loan products and suggested that new products would need to support the poverty reduction strategy.

The Committee noted the effective use of budget resources. It noted, too, ADB’s continuing efforts to redeploy staff, resulting in the identification of 19 positions for redeployment and the provision of 30 new positions.

The Committee recommended the approval of the budget for 2000.

The membership of the Budget Review Committee is shown in Appendix 4.

**Board Inspection Committee**

The Committee dealt with one request, a second request for review of the Korangi Wastewater Management Project in Pakistan, but from a different organization.

A review of the inspection function, started in 1998, continued in 1999, and a working paper was discussed by the Board of Directors in September 1999. The central issue was whether the inspection policy should be applied to ADB’s private sector operations.

The Committee welcomed the continuing efforts of the inspection function to improve its outreach, including the intention to appoint an additional staff member.

Information on the inspection policy and procedures can be found in ADB’s Inspection Policy: A Guidebook. Information on the inspection policy, including the Inspection Committee’s annual report, is available on ADB’s web site (http://www.adb.org).

Appendix 4 lists the members of the Inspection Committee.

**Directors’ visits**

The Directors made three visits to DMCs in 1999: the first to Fiji Islands, Samoa, and Vanuatu from 20 February to 6 March; the second to Palawan, Philippines from 13 to 16 May; and the third to the People’s Republic of China (PRC) and Mongolia from 27 August to 12 September. During the first and third visits, the Directors held wide-ranging policy discussions with government ministers and senior officials and inspected several ADB-financed projects. The visit to Palawan provided the Directors with an appreciation of the planning process of local government authorities, the experiences of implementing agencies in carrying out projects, and the concerns of project beneficiaries in availing of and using development assistance.

Following the visits, a recommendation was made to establish resident missions in the PRC and Mongolia.