SUMMARY OF PROCEEDINGS

39th ANNUAL MEETING
BOARD OF GOVERNORS
ASIAN DEVELOPMENT BANK

Hyderabad, India
4–6 May 2006

Asian Development Bank
INTRODUCTORY NOTE

The Thirty-Ninth Annual Meeting of the Board of Governors of the Asian Development Bank was held in Hyderabad, India, from 4 to 6 May 2006.

This Summary of Proceedings of the Meeting is presented in accordance with the provisions of Section 9 of the Rules of Procedure of the Board of Governors.

JEREMY H. HOVLAND
The Secretary
Asian Development Bank
June 2006
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Summary of Proceedings of the
Thirty-Ninth Annual Meeting of the Board of Governors

The Thirty-Ninth Annual Meeting of the Board of Governors was held in the
Hyderabad International Convention Center, Hyderabad, India, from 4 to 6
May 2006.

The Prime Minister of India, the Honorable Manmohan Singh addressed
the opening session on 5 May 2006, followed by the Honorable P. Chidambaram,
Minister of Finance of India, and the President of the Asian Development Bank
(ADB), Mr. Haruhiko Kuroda.

The Governor for India, by the Honorable P. Chidambaram, chaired the Meeting.
The Governor for Palau, the Honorable Elbuchel Sadang, and the Alternate
Governor for Luxembourg, Mr. Arsene Jacoby, served as Vice-Chairs.

Procedures Committee for 2005/2006

The Procedures Committee for 2005/2006 met on 4 May 2006 and submitted
its Report on the Schedule of the Meeting, the Provisions Relating to Conduct
of Meeting, the Draft Agenda, and other matters in its terms of reference,
including the composition of the Procedures Committee for 2006/2007. The
Board approved the Report.

Agenda

The Board adopted the Agenda, as circulated.

Annual Report for 2004


Financial Statements and Independent Auditors’ Reports

The Board approved the audited Financial Statements of ADB for 2005, which
included separate financial statements for the operations of Special Funds
(Resolution No. 317).

Allocation of Net Income

The Board adopted Resolution No. 318 and resolved that, of the net income of
ADB from its ordinary capital resources for the year ended 31 December 2005
after appropriation of guarantee fees of $4,092,291 to the Special Reserve amounting
to $105,201,927, (a) $308,743,207, representing the FAS 133 adjustment at
31 December 2005, be added from the Cumulative Revaluation Adjustments
account; (b) $36,900,000 be added from Loan Loss Reserve; (c) $70,845,134
be allocated to Ordinary Reserve; (d) $320,000,000 be allocated to Surplus; (e) $20,000,000 be allocated to the Technical Assistance Special Fund; and (f) $40,000,000 be allocated to the Asian Development Fund.

**Budget for 2006**


**Resources of ADB**

The Board noted the report of the Board of Directors on the resources of ADB.

**Review of Rules and Regulations**

The Board noted a report of the Board of Directors on the Review of Rules and Regulations, which highlighted (i) Amendments to the Regulations of the Asian Development Fund and the Special Operations Loan Regulations, and (ii) Adoption of the Pakistan Earthquake Fund Technical Assistance Grant Regulations and the Pakistan Earthquake Fund Grant Regulations.

**Election of Chair and Vice-Chairs of the Board of Governors**

The Board elected the Governor for Japan as Chair of the Board of Governors and the Governors for Samoa and Spain as Vice-Chairs, to hold office until the close of the Fortieth Annual Meeting.

**Procedures Committee for 2006/2007**

The Board appointed the Procedures Committee for 2006/2007 composed of the Governors for:

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<th>Afghanistan</th>
<th>Japan</th>
<th>Solomon Islands</th>
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<td>Belgium</td>
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<td>People’s Republic of China</td>
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<td>Germany</td>
<td>Philippines</td>
<td>United States</td>
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The Board appointed the Governor for Japan as Chair of the Procedures Committee for 2006/2007.

**Appreciation**

Governors expressed their appreciation for the warm hospitality extended by the Government and the people of India on the occasion of the Thirty-Ninth Annual Meeting.
### Schedule of Meeting*

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<tr>
<th>Day</th>
<th>Time</th>
<th>Event</th>
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<tr>
<td>Thursday</td>
<td>6:15 p.m.</td>
<td>Procedures Committee Meeting</td>
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<td>4 May</td>
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<td>Friday</td>
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<td>Opening Event</td>
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<td>5 May</td>
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<td>Opening Address</td>
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<td>Address by the Chair</td>
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<td>Address by the President of ADB</td>
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<td>12:00 noon</td>
<td>Adjournment</td>
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<td>2:30 p.m.</td>
<td>Report of the Procedures Committee</td>
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<td>Statements by Governors</td>
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<td>5:00 p.m.</td>
<td>Adjournment</td>
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<td>Saturday</td>
<td>9:30 a.m.</td>
<td>Statements by Governors</td>
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<td>6 May</td>
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<td>11:30 a.m.</td>
<td>Adjournment</td>
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<td>2:30 p.m.</td>
<td>Statements by Governors</td>
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<td>Report of the Procedures Committee</td>
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<td>Remarks by the Chair-Elect</td>
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<td>Closing Remarks</td>
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<td></td>
<td>4:30 p.m.</td>
<td>Closure</td>
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*Seminars and other activities were be held throughout the day from 3 to 6 May.*
Provisions Relating to Conduct of Meeting

Admission

1. Sessions of the Board of Governors of ADB will ordinarily be open to advisers of member delegations, accredited observers, guests, media, nongovernment organizations, the Meeting secretariat and ADB staff.
2. Meetings of the Procedures Committee shall be open to Governors who are members of the Committee and their advisers, and others as may be considered necessary by the Chair of the Committee.

Order of Speaking and Records

3. The Chair of the Board of Governors will establish the order of speaking at each session. Governors desiring to speak will generally be recognized in the established order of speaking.
4. To give all Governors the opportunity to speak in the limited time available, Governors are expected to keep their oral statements short. In cases where a longer statement is considered necessary, Governors may provide The Secretary with the full text for the record and for distribution to all participants.
5. Messages or statements by observers may be brought to the attention of the Meeting by circulation through the Office of The Secretary.
6. The Secretary will keep a Summary Record of the Proceedings of the Meeting which will be made available to members as soon as possible after the Meeting.

Procedures Committee

7. The Secretary will keep a record of the proceedings of the Procedures Committee. This record will be confidential and available only to the Chair and members of the Committee and the President of ADB.
8. Reports of the Procedures Committee shall be signed by the Chair of the Committee and the Reporting Member.

Public Information

9. The Chair of the Board of Governors and the President of ADB may communicate to the media such information concerning the proceedings of the Meeting as they may deem suitable.
Agenda

1. Annual Report for 2005

2. Financial Statements and Independent Auditors’ Reports
   a. Ordinary Capital Resources
   b. Special Funds

3. Allocation of Net Income

4. Budget for 2006

5. Resources of ADB

6. Review of Rules and Regulations

Addresses
Welcome Address by the Prime Minister of India

MANMOHAN SINGH

I am delighted to welcome you all to India. We are honored that the 39th Annual General Meeting of the Board of Governors of the Asian Development Bank (ADB) is taking place in Hyderabad. I extend to you the best wishes of the people of India. I hope your stay here is memorable and your deliberations are purposeful.

India is a founder member of ADB. We are proud of our record of association with ADB and grateful to it for being our partner in development. Today, as we seek to further accelerate our growth process we look to an even more cooperative relationship with the ADB. We also commit ourselves to strengthening ADB as an instrument of development and of improved governance in our region.

While being a regional bank, ADB has acquired a global relevance because of Asia’s rising global profile. ADB has played an important role in dealing with the aftermath of the Asian financial crisis and responded handsomely to the needs of the people in the wake of the Asian tsunami, major earthquakes and other natural disasters in our region. We in India value ADB’s expertise in infrastructure financing. ADB’s loans have funded projects across India. I am particularly delighted that Jammu and Kashmir and the north-eastern states have also benefited from ADB funding.

India’s infrastructure needs in the next few years are over $150 billion. ADB has supported projects in sectors like public transport, power and urban infrastructure. However, I am happy that the ADB is considering support in new areas like restoration of water bodies, tourism infrastructure and agribusiness. Our investment rate has climbed up to 31% of GDP. We expect to see a further increase in this and in foreign investment in India.

India has a vital stake in the prosperity and stability of Asia. We signaled our renewed commitment to regional economic cooperation with our “Look East” policy. The policy marked a strategic shift in India’s evolving perspective of the world. It helped us pick up the threads from the 1940s and the 1950s when we were actively engaged in building a new Asia. As a natural corollary of our Look East initiative, India has reiterated its commitment to work with the Association of Southeast Asian Nations (ASEAN) and individual East Asian countries. We are linking India into a web of partnerships with the countries of the region through free trade and comprehensive economic cooperation agreements.

We have concluded free trade agreements with the South Asian Association for Regional Cooperation (SAARC), Singapore and Thailand. We are working on similar arrangements with ASEAN, Japan, the People’s Republic of China, and the Republic of Korea. This web of engagements may herald an eventual free trade area in Asia covering all major Asian economies and possibly extending to Australia and New Zealand. This Pan Asian free trade area could be the future of Asia and will, I am certain, open up new growth avenues for our own economy.
ADB could also study the benefits of such an economic agglomeration in Asia. India is determined to carry forward the India–ASEAN partnership to an enlarged domain in order to make the 21st century a truly Asian century.

With this vision in mind, we have actively pursued external liberalization by cutting customs duty rates. The current peak rate, about 12.5%, is quite close to ASEAN levels. India has the announced policy objective of aligning its duty rates with ASEAN levels. Given the rich reservoir of natural, technical, and scientific acumen that Southeast Asia harbors, globalization offers a unique opportunity to harness such resources to enlarge not only national and regional, but also global growth prospects.

Our region has shown its capacity to deal with the challenge of globalization. However, we must remain mindful of the ups and downs and the uncertainties inherent to the process of globalization. The Asian financial crisis in 1997 hit countries that had built up an enviable reputation as miracle economies. The suddenness and severity of the crisis dented the world’s confidence in globalization as well as the consensus that had seemed to be shaping up over a model of economic development. That the crisis has been managed, and importantly that these economies are all back on track, some with strong growth rates, is a testimony to the capabilities of these countries as well as the resilience of the international financial system.

As we look ahead, we need to look back to take stock of the lessons of the Asian financial crisis. With the benefit of hindsight, we now know that the crisis arose because of four important factors. First, the exchange rates were pegged at unsustainable levels. Second, the fragility of financial systems allowed companies to borrow without any regard for mismatches in currency composition or maturity profile. Third, the regulatory infrastructure, especially in the financial sector, was flawed. Fourth, governmental systems for monitoring the quantum and nature of capital flows were inadequate.

The post-crisis analysis has thrown up a number of issues such as the preconditions for capital account convertibility and the relative merits of fixed versus floating exchange rates which are all standard fare now. However, I wish to focus on the lessons from the crisis at the international level. An important lesson coming out of the Asian crisis is the need for effective, quick and credible responses from international financial institutions in the event of a crisis.

First, it is very important for international financial institutions to inject large enough funding to economies in crisis to provide an assurance of stability. Half-hearted measures do not resolve the problem; they only aggravate it further. In the aftermath of the Asian crisis, international financial institutions came under heavy criticism for not acting quickly enough. There is a view that funding must come before rather than after the reserves bottom out. It is perceptions that fuel a crisis and it is important to manage them by acting quickly and decisively. Thus, not only the quantum of funding but also the speed with which it is channeled is an equally critical factor.

Second, the Asian crisis demonstrated that financial crises can be contagious and that foreign exchange markets are prone to a bandwagon effect. These are
a result of imperfections in capital markets, which generate information bubbles and trigger a herd mentality among investors. In panic situations, markets do not adequately discriminate between countries with strong and weak economic fundamentals and seemingly strong economies can be engulfed by a snowballing crisis. This means that international financial institutions need to be ahead of the curve, to identify potential victims and to go to their support in good time so as to contain the crisis. This also means that the size of the funding can be quite large.

Third, continuous vigilance and monitoring of the economy are important. This requires three things:

- credible systems for gathering, monitoring and disseminating information to markets and regulators;
- international standards for economic management; and
- competent and effective regulatory systems for enforcing those standards.

In the period since the crisis, many Asian countries have built up sufficiently large reserves. While these reserves constitute a good first line of defense, the build up of these reserves does not diminish the role of the international financial institutions. They must monitor closely developments in economies across the world and advise countries on the course of action to be taken.

The role of international financial institutions becomes even more relevant in the context of growing global imbalances. The current global imbalance is reflected in the huge disparities in the current account positions of different countries. In 2005, the current account deficit of the United States stood at $805 billion which was as much as 6.4% of its GDP. Also in 2005, the current account surplus of Japan was $163.9 billion, of China $158.6 billion and of the Middle East $196 billion.

While to some extent mismatches in current account positions are to be expected—and even desirable—in the global economy, large disparities raise concerns about unsustainability and hard landings. The process of correcting imbalances can be disruptive if it is sudden and unexpected. The present level of global imbalance cannot be sustained forever. It calls for action both from countries having current account surpluses and those having current account deficits. A coordinated effort is necessary to correct the imbalances to prevent a sudden downturn. International financial institutions need to play a proactive role in this regard.

Our region has become an engine of global growth in recent years. The United States and the Euro-area will continue to display considerable resilience and will remain important drivers of global growth. However, East and South-east Asia, including India, are bound to increase their profile and relevance to the global economy. Asia will continue to increase its share of world GDP and trade, both as a source of export supply and as a source of import demand. Asia will consume more food and more energy. Asia will demand better infrastructure and seek improved services. Given the potential for investment demand in the region, we must find ways of making better use of our savings. How can we
make sure that the savings and surpluses generated in our region can find investment avenues within our region?

There is also scope for peer learning within the Asian region from the successes of other countries. The Chinese economy has performed exceedingly well over the last two decades, demonstrating growth rates which are the envy of most other countries. This has helped vast millions of people to be pulled out of the grip of acute poverty. Further, the growth of the Chinese economy has fuelled demand for products and services of other countries and the People’s Republic of China, in many ways, has become an engine of growth for the world economy. There is a lot to learn from the Chinese economic experience and the ADB can certainly facilitate it.

Our region should also be mindful of other challenges that many of us face. I refer to the challenge of regional stability and security, and, the challenge of ensuring equity, social justice and regional imbalances in the growth process.

Our region needs a comprehensive framework of security that will ensure that the process of economic development is not derailed by the threat of terrorism, the threat to our environment and the threat to our energy security, food security and security of livelihoods. At a time when international oil prices are witnessing a steeply rising trend, it is incumbent on all major international financial institutions to pool their collective wisdom, expertise and experience to devise credible strategies to enable the world economy to cope with the increased unpredictability and volatility of energy prices and their impact on processes of economic growth.

In a globalized world, growth and progress cannot occur in isolation. Countries and international agencies must collaborate to produce welfare-enhancing synergies. The challenge before Asia today is to create and maintain a regional and international environment that is conducive to maintenance of high economic growth.

Our Governments also have a domestic challenge of ensuring that our growth process is socially equitable and regionally balanced. The underprivileged sections of population must be helped to become effective partners in development. Particular attention must be paid to reduce the income gap between rural and urban areas. We must pro-actively address the imbalances that may have emerged in the process of rapid growth. This must be done in a framework of participatory democracy. Even as we pursue policies to sustain our growth momentum, we must ensure a better balance in distribution of gains across regions and social groups.

For the past quarter century, Asia has once again been on the move. Millions of people in our region have been liberated from poverty, ignorance and disease. If we can sustain this growth process, and ensure that it is equitable, we can banish poverty for all times to come. If we can pursue economic development in the framework of an open economy and an open, democratic society, we would have succeeded in restoring to Asia its ancient glory as the land of knowledge, wisdom, creativity and compassion.
The Asian Development Bank has played an important role in shaping development thinking in our region. I wish your deliberations all success and I wish ADB many more years of active engagement with the people of our region.
Opening Address by the Chair of the Board of Governors and Governor for India

THE HONORABLE P. CHIDAMBARAM

On behalf of the Government of India, it is a great honor and a pleasure to welcome all of you to Hyderabad for the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). I would especially like to welcome delegates of ADB’s newest member countries: Armenia and Brunei Darussalam.

We are delighted to be hosting this important meeting in a city that is close to the geographical heart of India, representative of India’s richness of cultures and traditions and its proud aspirations for the future. I would like to acknowledge ADB’s contribution as India moves forward on its path of development, growth and poverty reduction.

Tragedies in the Asia and Pacific Region

Let me open today’s session by extending, on behalf of the Board of Governors, our deep sympathy to all countries struck by catastrophes last year. The year 2005 was indeed a year bracketed by tragedy—the tsunami that hit the coastal areas around the Indian Ocean just before the start of the year, and the debilitating earthquake in South Asia just before the year’s end—both these disasters were also experienced in India. Throughout the year, many events on a lesser scale robbed families and communities of loved ones, homes, livelihoods and the basic necessities of life. The year also brought the threat of an avian influenza epidemic to the forefront.

We are gratified to note ADB’s swift and determined response to all these events. The $600 million Asian Tsunami Fund, the largest grant program in ADB’s history, is helping restore farms and fisheries; rebuild homes, roads, water and power supplies; put children back in schools; and finance new micro-industries for the poor in the affected countries. ADB’s $1 billion Pakistan Earthquake Fund quickly established in the aftermath of the earthquake, will revive economic activity, repair and rehabilitate damaged infrastructure, and help restore government services in that country. ADB has also pledged $470 million in grant and loan support for programs to combat avian influenza. I commend ADB for its responsiveness to these large and unanticipated challenges.

Opportunities: Entering into a New Era of Development in the Asia and Pacific Region

We gather here today to celebrate the recent achievements of the Asia and Pacific region, and to plan for its promising future. Developing Asia is currently witnessing an Asian resurgence based upon the rebuilding of the pre-colonial arteries of trade and commerce that created a distinct Asian identity in the first place. This has led to a renewed energy and optimism, and the means to reduce poverty and connect Asian citizens to opportunities in the global economy.
Riding this wave of economic renewal, developing Asia and the Pacific last year grew by a remarkable 7.4%. According to ADB’s Asian Development Outlook 2006, released last month, all but two of the region’s developing economies posted positive growth, despite the impact of natural disasters, avian influenza and record oil prices.

Looking to the future, we must recognize that the risks to global and regional economic expansion have not lessened. It is not inconceivable that oil prices could rise yet higher. A widening of global payments imbalances remains a possibility, increasing the risk of sharp adjustments in exchange and interest rates. Asia’s economies will need to be watchful, and policy makers must continue to pursue sound macroeconomic policies and continued structural reforms to sustain growth and weather potential economic shocks.

Setting the risks aside, however, it appears that the region’s overall economic expansion will continue in the foreseeable future. Within the context of a strong global economy, continued recovery in the global electronics market and fast growth in some of our member countries such as the People’s Republic of China and India, developing Asia is projected to expand by 7.2% for 2006 and 7.0% in 2007.

Development Challenges

With decades of rapid growth behind us, and positive prospects ahead, Asia is enjoying an unprecedented position of influence in the global economy. The years ahead should be years of growth and opportunity that will allow us—as an important member of the international community—to make further progress in the fight against poverty. It is important that we seize this opportunity to take on the many arduous challenges that remain.

Despite progress, the Asia and Pacific region is still home to two thirds of the world’s poor. ADB’s most recent estimates tell us that, in 2003, nearly 1.9 billion people—one-third of the world’s population—were struggling to survive in our region on less than $2 a day. Among them, around 620 million are the poorest of the poor, living on less than $1 a day. They are the women, children and men in our communities and countrysides who lack even safe water to drink. They live a life of meager subsistence with little access to health care, education, markets and economic opportunities.

The challenge of extending Asia’s growing prosperity to the poorest among us remains pressing and immediate. Without a significant increase in investment, the region will fall short of achieving several of the Millennium Development Goals—particularly in health, water supply and sanitation, primary education, and the environment.

The region faces a daunting challenge in the provision of quality infrastructure. The importance of infrastructure in sustaining economic growth and improving the lives of the poor is well recognized. Governments alone will not be able to meet Asia’s huge infrastructure investment needs. However, while the space for the private sector can and must be enlarged, the primary responsibility for developing infrastructure and providing infrastructure services must remain that of the governments.
Globally, land degradation, dwindling water supplies, air pollution, acid rain and greenhouse gas emissions threaten the livelihoods of millions of poor people, and portend a disastrous legacy for future generations. As the region grows, it is encouraging that governments across the region recognize the necessity of making growth both economically and environmentally sustainable. Climate change is a global problem which requires a global solution. Different countries bear different levels of responsibility for increases in atmospheric greenhouse gas concentrations. The adverse impact of climate change will be disproportionately harsher on those who were least responsible for causing the problem.

Putting the region’s development on a sustainable path requires particular attention to how we produce and use energy. Investment in efficient energy production and use and in renewable energy are crucial for sustainable development and to reduce our energy dependence and vulnerability to oil supply and price shocks.

In a globalized world, growth and progress cannot occur in isolation. Countries must collaborate to improve the ability of each to manage their development challenges and compete in the global economy. Intensifying our efforts in regional cooperation is critical to ensure that all of Asia becomes the model for equitable, sustainable growth and a motivator for global prosperity, stability, and peace.

ADB’s Role in Development

These and other challenges highlight the importance of a regional development bank like ADB. Over the last four decades, ADB has set down deep roots in Asia and the Pacific, building a profound knowledge of the region’s economies, challenges and aspirations. With assistance reaching a vast portion of the developing world, ADB is uniquely positioned to transfer the benefits of its experience from one economy to another. It can provide not only the financial resources, but also the best possible practices in its areas of expertise.

ADB is an institution committed to reducing poverty in Asia and the Pacific. With less than a decade in which to achieve the Millennium Development Goals, ADB must focus its efforts on assisting its developing member countries in this important endeavor. I am happy to learn that towards this end, ADB will soon be finalizing its new medium-term strategy to guide its operations in the next 3 years.

ADB’s Accomplishments in 2005

As President Kuroda outlined last year, to continue to meet the region’s changing needs, ADB must ensure that its products and policies are relevant, its processes responsive and its personnel focused on results. In this context, I am pleased to note that ADB reached a number of milestones in 2005 under the auspices of the reform agenda.

In managing for development results, ADB produced its first results-based annual report on the poverty reduction strategy. By the end of 2005, results-based country strategy and programs had been endorsed for Bangladesh, Bhutan,
Mongolia and the Philippines, and were under development for Fiji Islands, Indonesia, Papua New Guinea, Uzbekistan and Viet Nam.

Under the innovation and efficiency initiative, ADB introduced three initiatives to remove business bottlenecks and increase flexibility and responsiveness. These include: a new approach to cost-sharing and expenditure eligibility to improve project financing capability; new financing modalities, such as multitranche, subsovereign and nonsovereign financing, to better respond to development financing needs; and an expansion of local currency lending to reduced currency mismatches, and support for the development of capital markets in developing member countries. Along with this, ADB’s credit and financial risk management functions have been strengthened through the establishment of the independent Risk Management Unit.

A number of important policies and strategies also came under review during the year. The private sector development strategy review has been completed and a new strategic framework submitted to the Board of Directors. The new framework seeks to create an enabling environment for private sector investment and to mobilize finance for private sector development. The review of ADB’s governance and anticorruption policies identified gaps in ADB’s work in this area, and called for an action plan to address 15 recommendations for improvement. Finally, ADB began preparation of a new strategy for regional cooperation and integration to better reflect—and respond to—the region’s new financial, economic and political dynamics.

The year 2005 also saw the full implementation of two policies that are essential to ADB’s reform agenda. The new human resources strategy, approved in 2004, better aligns all staff with the institution’s mission and purpose by clearly defining responsibilities and accountabilities. The public communications policy, which took effect in September 2005, places ADB at the forefront of transparency and accountability among the multilateral development banks.

Finally, in terms of operations, ADB continued to work with its developing member countries to build a firm foundation for growth and poverty reduction through many new initiatives being supported across the region.

**Concluding Remarks**

Let me conclude by expressing my confidence that the Asia and Pacific region can meet the challenges ahead and continue to grow toward greater prosperity and opportunity. The Asian Development Bank is truly a worthy partner in this endeavor—an institution born out of our mutual desire to lift all the world’s peoples on the wings of progress. Let us therefore open this Annual Meeting by rededicating ourselves to a strong and lasting partnership for an Asia and Pacific free of poverty.
Opening Address by the President of ADB
HARUHIKO KURODA

The Two Faces of Asia: Working Together for a Poverty-Free Region
It is a privilege to join the Chairman, the Honorable Sri P. Chidambaram, Minister of Finance of India, in welcoming all of you to the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). We are honored by the presence of His Excellency Dr. Manmohan Singh, Prime Minister of India, at our meeting this morning. I would also like to warmly welcome ADB’s newest members, Armenia and Brunei.

On behalf of everyone here today, I extend our deep appreciation to the Government and the people of India for their warm hospitality, and for welcoming the Asian Development Bank to Hyderabad. With its rapid growth in science and technology and its distinguished educational and research institutions, Hyderabad is a showcase for the potential of today’s knowledge economy, and an inspiration for cities across the region.

The Two Faces of Asia
For decades now, the world has watched in admiration as the people of the Asia and Pacific region transformed their economies—transformed through creativity, hard work, and commitment to market reform. Trade has flourished and the pace of growth has soared.

The face of Asia is changing. Today, hundreds of millions of people enjoy a better quality of life. The middle classes are growing, and Asia’s place in the world is rising.

But open the lens wider, and another face appears.

In this region of increasing prosperity, one in five people still cannot access safe drinking water. Half the population is without proper sanitation. In this region of rising aspirations, more than 4 million children will die this year, never reaching their fifth birthday. And the same rapid development that has raised living standards from Shanghai to Mumbai has put the region’s ecosystems in peril—endangering the livelihoods of the poor.

Absolute poverty is declining. But inequality is growing. Poverty—in all its aspects—is still our region’s most daunting problem. Thus, the abiding passion, vision, and mission of the Asian Development Bank continues to be the elimination of poverty.

Tackling Urgent Challenges
The question now is: How do we respond to these two faces of Asia?

Based on recent growth rates, the number of people living on less than a dollar a day could fall to about 100 million by 2015 if the benefits of growth are equitably shared. But if growth slows and inequality increases, the number of desperately poor will still be nearly 350 million.
In the new era of development, what will it take to realize our dream of a poverty-free Asia?

In the long term, new thinking will be needed to solve the problems of today and tomorrow—problems like rising unemployment, aging populations, rapid urbanization, and the widening gap between rich and poor. New thinking is needed to capitalize on opportunities and ensure our continued, collective progress.

To this end, I am convening a panel of eminent persons to provide us with insights on the region’s future. The panel’s views will be discussed at our 2007 Annual Meeting and will help guide us in a comprehensive, consultative review of our Long Term Strategic Framework. This will also help refine ADB’s role in a changing Asia and Pacific.

But the poor cannot wait. In the medium term, there is much we can do to begin closing gaps in incomes and opportunities. Pragmatic, sensible solutions for inclusive social development and sustained, equitable growth; a focus on good governance; and a commitment to environmental responsibility will benefit everyone in the region, and they will certainly benefit the poor.

Our new medium-term strategy, now being finalized, speaks directly to these priorities. And it recognizes that, if we work together, we will go further—and faster—in spreading the benefits of growth to those who have been left behind.

Fostering Inclusiveness

The Millennium Development Goals (MDGs) set clear targets for eliminating all forms of poverty. As I have said before, the Asia and Pacific region represents the world’s best hope for achieving the MDGs. Today’s momentum of growth provides the means to extend the advantage of growth to the disadvantaged. Including the poor in the region’s development is fundamental to sustaining growth and social stability. Ensuring that all citizens have access to education and health services, safe water, and other essentials of life—this is our moral, social, and economic imperative.

A few weeks ago, I met a woman in Jaipur, Rajasthan, who had just given birth to quintuplets in a women’s hospital rehabilitated with ADB funds. She told me what a difference the hospital was making—for her, for other women, and for their children to get the healthy start so many of us take for granted.

Across the region, there are numerous stories of dramatic progress. In Viet Nam, investments in health care services cut infant mortality rates by half, and raised life expectancy by almost 5 full years. In East Asia, large investments in education brought literacy rates to over 90%. In Pakistan, one microfinance bank has helped more than 50,000 women build their own businesses—helping these women to increase their incomes, educate their children, and contribute to the development of their communities.

ADB has the experience—and the expertise—to tackle rural underdevelopment, bring the benefits of health and education to the poor, and empower women and underprivileged groups to share in a country’s prosperity.
By working with countries and other development partners, we will tap the rich skills of specialized agencies to continue to meet the diverse needs of our members. Working together, we can create an Asia-wide zone of hope and opportunity; one Asia, sharing responsibility for the dignity and well-being of all.

**Promoting Pro-Poor Growth**

Achieving the MDGs will require substantial levels of additional investment, particularly in infrastructure, to sustain high economic growth, and extend basic services to the poor.

The provision of safe water and better sanitation is of utmost importance for eliminating poverty, hunger, and disease. And effective management of scarce water supplies is crucial for food security and environmental sustainability. That is why we recently announced a plan to increase our investment in the water sector to over $2 billion a year. Over the long term, it is expected that our “Water for All” program will provide access to safe water and improved sanitation for about 200 million people.

But clearly, neither governments nor development institutions will be able to meet the region’s demand for infrastructure. East Asia alone needs $1 trillion over the next few years for transport, energy, and utilities. The only way these demands can be met is to substantially increase private sector participation.

Operating in both the public and private spheres, ADB can bring public and private partners together to tackle this tremendous challenge. Our investment and risk guarantees for the Nam Theun 2 project in the Lao People’s Democratic Republic helped mobilize a total investment of nearly $1.5 billion. Revenues from this project will improve livelihoods, rural infrastructure, irrigation systems, water supply, schools, and health services for some of the poorest people in Asia.

We can do more, and we will. The new financing instruments we introduced last year will strengthen our ability to engage the private sector in bridging the investment gap for a poverty-free, prosperous Asia and Pacific.

These efforts will be combined with strong measures to improve the regional investment climate. Even today, Asia’s own large private savings are flowing out of the region, when they could go a long way to meeting investment demands at home. This need not be so.

One solution is bond market development. ADB is supporting this development through multi-currency bond offerings, regional guarantee mechanisms, assisting with credit and trading systems, and helping to publicize Asia’s investment opportunities to the world.

**Improving Governance and Preventing Corruption**

But one of the most important things any country can do to attract investment is to improve governance. Research suggests that improving even a single aspect of governance—such as regulatory efficiency or controlling corruption—can, over time, bring about a significant increase in per capita incomes.
There is a growing commitment among our developing member countries to strengthen public finance and remove market distortions, improve legal and regulatory frameworks, and eliminate corrupt practices. We are prepared to do everything we can to help sharpen the region’s competitive edge.

While good governance is fundamental for growth, it is equally important to ensure that individuals are treated fairly and with dignity. All evidence shows that when governance is weak, it is the poor who suffer the most.

Let me take this opportunity to reiterate our commitment to strictly uphold our governance and anticorruption policies in ADB operations. We are working closely with other multilateral development banks to develop a common framework for preventing and combating fraud and corruption. And, in all our projects and programs, unethical actions will not be tolerated.

Managing the Environment

Responding to the two faces of Asia, we must curtail the environmental damage caused by rapid growth. The poor will only grow poorer if the negative consequences of growth continue. Less arable land, reduced food supplies, and depleted natural resources spell disaster for millions of people—in Asia and around the world.

We at ADB feel a special obligation to help move the region to a more sustainable path, particularly in sectors where we are actively engaged. With the region’s large appetite for energy, this sector must receive our special attention. We cannot continue to rely on fossil fuels and an aging energy infrastructure. Over the last 30 years, Asia’s share of greenhouse gas emissions has soared from less than one tenth of global emissions to nearly one quarter.

To address this important issue, ADB is working on an energy efficiency initiative to expand our investment in clean energy projects to $1 billion a year. We are also introducing a carbon market initiative that will address climate change and energy security, with significant benefits for both developing and industrialized countries.

By working together to make the best use of our resources, we can leave a cleaner, more enduring legacy for future generations.

Regional Cooperation and Integration

While Asia as a whole has made tremendous progress, it is still very much a patchwork of development. I believe that deeper regional cooperation and integration is the thread to transform this region into a harmonious tapestry of progress for all.

Asian economies are blossoming as trade opens within the region, and to the world. The South Asian Free Trade Agreement is the latest expression of this openness—a landmark agreement that will benefit all the economies of South Asia. To capitalize on this trend, countries are coming together to build cross-border infrastructure and harmonize policies and regulations. The ADB-supported Greater Mekong Subregion program, which brings together five
Southeast Asian countries with the People’s Republic of China, is making great strides forward through regional cooperation.

When I visited Central Asia last year, I watched the work on the Bishkek–Osh road in the Kyrgyz Republic—a project that will open new transport routes to the PRC, Russia, Europe, and the Middle East. The people of Asia have much to gain from strategic investments linking them to the global economy. Countries working together can do much more than they can alone: create more growth, attract more investment, generate jobs and opportunities—this reduces poverty.

The Asian financial crisis highlighted the downside of openness—the vulnerability that comes with increased interdependence. But it also inspired governments to strengthen the region’s financial architecture to protect against future financial stress.

Across the region, countries are joining forces to confront problems that transcend borders—problems like natural disasters, HIV/AIDS, severe acute respiratory syndrome (SARS), and avian influenza. None of us will forget how the region—and the world—came together to help the countries that were struck by the Indian Ocean tsunami. None will forget the images of ordinary citizens pulling friends and neighbors from the rubble of the South Asia earthquake.

All of these events and developments—our setbacks, as well as our progress—should inspire us to take our cooperation efforts even further. Regional cooperation and integration is an idea whose time has come.

Imagine an Asia-wide economic community. A community of nations where borders are fully open to trade and investment. A community that works together for financial health and shares responsibility for its natural and human resources. An Asian community that offers competitive, complementary markets for the benefit of all its members, as well as the rest of the world. If we can envision all this, I know we can achieve it.

The move toward greater regional cooperation and economic integration is one of the most important trends in Asia’s development. And I am convinced that, by working together, we can consolidate the gains of recent decades, and leverage the power of cooperation for greater stability and prosperity.

**Toward One Asia: Our Continuing Commitment**

One thing is clear: Asia today stands at a defining moment. Asia’s time has come.

We are a resourceful region—a region with the maturity, experience, and confidence to make the policy and investment choices that will finally lift the veil of poverty from our region.

There can be only one Asia—one face of Asia, with opportunities open to all. An Asia and Pacific where every individual can live with dignity—free of poverty and sharing in prosperity. I assure you, ADB will continue to be your partner in this journey for human progress.
Statements by Governors*
## Order of Speaking

### 5 May 2006

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### Statements Circulated but not Delivered

Papua New Guinea • Singapore

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<sup>1</sup> Countries composed of Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu. The statement was delivered by the Governor for Kiribati.
It is my privilege and honor to address this 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). I thank the Government of India for hosting this event and for the hospitality they have shown us. Hyderabad is indeed a beautiful city and I am glad that we are holding our Annual Meeting in this historic city.

As you all know, almost four and a half years ago, in accordance with the Bonn Agreement, President Karzai’s administration started to build a new polity, society, and economy in Afghanistan. Each year we have had a number of successes. This past year, once again, we had major achievements. In terms of macroeconomic indicators, our GDP grew by 14%, while inflation was contained at 10%; we adhered to strict fiscal discipline of no borrowing for recurrent expenditures and an increase of almost 60% in domestic revenues; we met all of the benchmarks of the IMF staff-monitored program and we accelerated the development of our macroeconomic policy-making institutions in accordance with best international practices; and there was significant progress in developing our physical, legal, and human resources infrastructure so as to create an environment conducive to private sector-led growth.

Politically, we conducted very peaceful parliamentary elections with high participation by both men and women. We are proud of the fact that 28% of our members of Parliament are women. The rules of the democratic system are being rapidly internalized by individual citizens as well as by organized political groups. Parliament, after a two-week intensive and very open discussion of the qualifications of each nominee for various ministerial portfolios, recently approved a new cabinet. With the establishment of Parliament in December 2005, the Bonn process, which in 2001 established the framework for the foundation of a new society, polity, and economy, came to an end.

Even though we have done well in the past 4 years, our social, political and economic institutions are very young and Afghanistan needs continued international support for a number of years. It is this realization that led to the convening of the London Conference on Afghanistan on 31 January and 1 February 2006. At the London Conference, the Islamic Republic of Afghanistan and the international community adopted a document called the Afghanistan Compact. This document provides a comprehensive list of benchmarks to be achieved in social, political and economic matters. Even though the Government of Afghanistan is fully committed to the Afghanistan Compact, the realization of the objectives contained in this document, which include the Millennium Development Goals, is beyond the financial capacity of the Islamic Republic of Afghanistan. To facilitate the realization of these objectives, the international community has promised to help us financially. Thus, at the London Conference our donors collectively pledged about $10.5 billion to help Afghanistan. We believe that the London Conference was a major success for the Government of
Afghanistan and we are grateful for the continued generosity of the international community to help rebuild Afghanistan.

ADB is one of Afghanistan’s major donors. At the London Conference, ADB pledged to provide $1 billion over the next 5 years toward the reduction of poverty. In the past 4 years, ADB has committed approximately $780 million to help our reconstruction and development. ADB is our fourth largest donor, with assistance expected to exceed $1.1 billion by 2008, and $1.7 billion by 2010. ADB’s involvement in development projects in Afghanistan is extensive. The Government considers the development of infrastructure to be a prerequisite for the development of the private sector. The Government has asked ADB to focus its development efforts on building infrastructure. ADB is engaged in road construction, power transmission and distribution, airport construction, water resource management, and irrigation. Associated with these infrastructure sector investments, ADB is helping our Government to build capacity and establish appropriate policy and regulatory environments in these sectors.

The Government has been asking donors to provide multi-year commitments in order to improve the predictability of our public finances. ADB’s willingness to commit funds to development projects on a multi-year basis, combined with the fact that ADB is one of our major financiers, has greatly helped the predictability of public finances in Afghanistan. In addition to financially supporting our poverty reduction programs, ADB is assisting in regional cooperation initiatives, and in providing support for public financial management and public administration reform. Furthermore, ADB’s Private Sector Operations Division has been active in Afghanistan, with private sector investments of over $50 million in communications and banking sectors.

We appreciate our relationship with ADB. We are very satisfied with the scope, magnitude, and quality of ADB’s involvement in Afghanistan. We are looking forward to extensive collaboration with ADB on poverty reduction in Afghanistan in the next 5 years.

ARMENIA
DAVID AVETISSIAN, Alternate Governor

It is a great honor for me to speak for the Republic of Armenia at the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). I would also like to express my sincere appreciation to ADB and the Government of India for arranging such an excellent event. Our special thanks go to the people of India for their generous hospitality.

I am particularly pleased to address this high-level meeting as Armenia has recently become a member of ADB. Our Government agrees with ADB’s vision and its approach to the Millennium Development Goals, alleviation of poverty and inequality, regional cooperation, economic development, and good governance.
A significant portion of the countries of the region have recently grown by a much higher rate than the world average. Armenia, for instance, has grown at an average of 12.5% a year for the last 3 years. GDP growth in 2005 was 13.9%, with a low and sustainable level of inflation. The country has set an example as a leader among the countries of Commonwealth of Independent States (CIS) in sustainable growth and poverty alleviation through a series of well-sequenced economic reforms. Crucial factors in this achievement include a commitment to reforms, prudent fiscal and monetary policies, liberal trade and foreign exchange regimes, good governance, improvements to the business regulatory environment, intense integration with international markets, and productive international cooperation, with an emphasis on multinational and financial organizations. This economic growth has been achieved despite the economic turmoil that followed independence in 1991, external constraints, and internal economic problems specific to countries in transition.

Being located between Europe and Asia, Armenia is not only determined to serve as a geographical bridge, but also to be a bridge for international economic activity and support for investments that will boost economic performance using Armenia’s well-educated and low-cost labor force, liberal trade policies, and goal-oriented reforms. The last 5 years have been the turning point in the economy. A wave of second generation economic reforms from 2001 and implementation of poverty reduction, export and real sector expansion strategies has meant that Armenia’s implementation of reforms has been recognized by well-respected international financial institutions, such as the World Bank. Much of its positive macroeconomic performance is due to Armenia’s progress in liberalization, privatization, and structural reform. The structural and institutional reform program remains to be completed. The Government poverty reduction and strategy paper (PRSP) has as its main goal to reduce poverty, including extreme poverty and income inequality. To strengthen its poverty reduction impact, the Government is also reprioritizing public expenditure and has substantially increased the absolute value of social sector spending to improve social targeting of the poor.

Armenia became a member of ADB in September 2005, after which ADB staff started to assess Armenia’s economic situation and development. The Government and ADB held a number of discussions to identify challenges and financing gaps and came to a common understanding about Armenia’s economic progress and needs. They also identified where assistance from ADB would have the highest potential impact. The Government welcomes ADB support in the following broad areas: (i) rural development (rural roads, irrigation infrastructure reconstruction); (ii) private sector development; and (iii) regional cooperation. We anticipate that resources will be channeled in the most effective and efficient way, taking into account the advantages of the tailored programs with tangible goals to be set in order to alleviate poverty, mostly in rural areas.

Our assessment of the experience of ADB lead us to believe that it will respond well to Armenia’s needs through well-designed projects. We expect that various kinds of financial and technical instruments will be deployed to
support the country’s sustainable economic growth, develop infrastructure, and improve regional trade, investments and cooperation.

Today’s meeting is also important for sharing experiences with ADB and other member countries, and in defining priorities and developing actions that will lead us to a region without poverty. We believe that ADB can serve as a gateway for new opportunities for new members and that it will be a reliable long-term partner for its member states, as they try to cope with challenges of poverty.

In conclusion, I would like to thank ADB President, Mr. Kuroda, and his management team, as well as to stress our commitment to partnership. We are ready do our best as a new member to help create a more prosperous, dynamic, and harmonious region.

AUSTRALIA
PETER DUTTON, Head of Delegation

I would like to warmly thank the Government of India for hosting this 39th Annual Meeting of the Asian Development Bank (ADB). I would also like to congratulate Mr. Kuroda on his first year of achievement as President of ADB and to welcome Vice President C. Lawrence Greenwood Jr. to the ADB senior management team.

The Asian region has achieved remarkable economic and social development over the last decade, reflected through strong growth in per capita incomes.

However, this is not the case for all of the ADB’s developing member countries. In particular, the Asia and Pacific region contains around 15 weakly performing countries where there has been little or no growth in per capita incomes for many years.

Of course, income is only one part of the equation. As highlighted by the recent World Bank Global Monitoring Report, all regions will have difficulty in meeting at least some of the non-income Millennium Development Goals (MDGs), with South Asia singled out along with sub-Saharan Africa as being off track on all of the non-income goals. Clearly, enormous challenges still lie ahead.

Australia’s commitment to assisting the sustainable development of poor countries in our region is highlighted by the Government’s goal to increase our aid budget to about $4 billion by 2010. Embedded in this goal is the principle of mutual accountability, with the increase in Australia’s aid budget conditional on strengthened governance and reduced corruption in our partner countries.

The strategic framework for Australia’s aid program, as outlined in the Government’s aid white paper, demonstrates our commitment to poverty reduction, sustainable development and progress towards the Millennium Development Goals. It reaffirms the focus on improving development outcomes in the Asia and Pacific region by promoting sustained economic growth, fostering functioning and effective states, investing in people and promoting regional stability and cooperation.
The white paper also outlines several initiatives for working closely with the multilateral development banks, which we envisage will include greater collaboration with ADB across several fronts.

While we are taking steps to strengthen our aid program, the Australian Government also recognizes that aid, by itself, does not constitute a growth strategy. If we are serious about addressing the challenge of global poverty, trade reform is critical. The current round of trade negotiations is crucial and I implore ADB member countries to display leadership by dismantling trade barriers.

We note that ADB will soon release its medium-term strategy for 2006-2008 to address the short-term challenges stemming from the region’s rapidly evolving development environment.

The medium-term strategy provides an important opportunity for ADB to become even more effective in bringing prosperity and opportunities to people in the region, particularly in those weakly performing countries that need greater assistance. ADB can and should redouble its efforts to help build the institutional capacity of developing member countries and support private sector development through integrated country strategies.

While we acknowledge that the process for ADB’s second medium term strategy was truncated so as to address pressing short-term issues, we hope that the process for the next medium-term strategy will afford greater opportunities for a thorough consideration of members’ views.

We therefore applaud President Kuroda’s announcement that ADB will review its long-term strategic framework over the next 2 years.

We look forward to a wide ranging, widely consultative, and transparent review process. This is important for the review to be credible, internally and externally, and influential in shaping the future of ADB over the longer term.

One tool for improving development outcomes in the region is the contribution that ADB can make to strengthening regional cooperation and financial integration. The Asia and Pacific region has much to gain from pursuing integrated, market oriented, and outward looking policies, including through free trade. ADB’s interest in greater regional cooperation and integration should be guided by its poverty reduction mandate and regional economic development objectives. We encourage ADB to assess its role in this area within the context of the proposed long-term strategic framework review.

Australia congratulates ADB on introducing broad ranging operational reforms during 2005. We look forward to ADB dispensing with its loan approvals focus and further embedding a results-oriented learning culture to ensure that operational structures and practices are aligned with ADB’s strategic objectives.

In particular, we strongly support ADB’s new human resources strategy, which is aligned with Australia’s long-standing view that recruitment and selection processes should be transparent, open, and merit based. Indeed, we would like to see ADB’s human resources strategy extended to all levels of ADB management, including changing the convention that appointments to senior management positions are restricted to certain countries or regions. We would
I feel very honored to speak to you this morning on behalf of Austria at this Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). Like many of the previous speakers yesterday, I would like to thank the Indian authorities and the city of Hyderabad for their warm welcome, their hospitality and the excellent organization of this meeting.

Let me also start by taking the opportunity to welcome Armenia and Brunei Darussalam as new members of the Asian Development Bank. It is a particular pleasure to see that the community of ADB member countries is still expanding.

**Macroeconomic Development**

In 2005, Asian economies recorded remarkable average growth rates of 7.4%. Most countries also managed to keep inflation under control, despite some pressure from high oil prices. Beside internal reforms and increasing internal demand, favorable external economic conditions and high foreign demand have contributed to this remarkable upswing of the Asian economies. Currently, the People’s Republic of China, India, and Japan account for one-fourth of global output and this economic dynamism is spreading out to the rest of the region. In sum, the Asian economies are undoubtedly one of the driving forces for the worldwide economy.

This economic dynamism presents an opportunity for the region to tackle the major problem of poverty. In fact, overall the region is doing well in its progress toward the attainment of the Millennium Development Goals (MDGs), although more can and has to be done in a region where still about 70% of the worldwide poor are living. The positive economic environment presents a unique opportunity for the region to make ongoing growth processes more equitable and more pro-poor. ADB thus has to make every effort in its programs and loan policies to contribute to the overarching goal of poverty reduction. In this respect I would like to associate myself with the comments of other European Governors about the second medium-term strategy (MTS II).
Internal Bank Reforms, First Year of the Presidency

This fast changing environment presents a challenge and an opportunity to ADB, to which it has to find the right answers. Mr. President, during your first year at the helm of ADB, we already observed some positive reforms and promising steps toward internal restructuring that are pointing in the right direction. Austria welcomes in particular all the initiatives for more flexible and effective development financing instruments that respond to client needs and mobilize resources efficiently. The vice presidents of ADB should support you in this, Mr. President, by filling meaningful management roles.

As regards transparency and objectivity within ADB, which is vital for motivated staff and any well functioning organization, we are particularly pleased with ADB’s review of the governance and anti-corruption policy. Detecting weaknesses and formulating adequate responses to them is without doubt a sign of the strength of any institution.

Concerning revisions and reforms, we also regard the revision of the procurement guidelines and guidelines on the use of consultants to be significant. Harmonization of procedures between multilateral development banks is fully in line with the aim of lowering transaction costs for developing countries.

Energy Efficiency, Clean Energy

In order for ADB to stay relevant to its clients, it is important that it should develop its comparative advantages. Austria believes that one such opportunity is offered by the need to provide clean and efficient energy services to the mostly underserved majority of people in the Asia and Pacific region. This is becoming even more important under the current continuing fast economic growth in the region, where we consequently face an ever increasing demand for energy.

To enhance access to clean and efficient energy technology, better use of old technologies and the development of new ones are crucial. The focus has to be on renewable energy, such as solar, wind, hydro and biomass sources. Austria considers international cooperation to be extremely important and we not only encourage ADB to play a greater role in the provision of clean and efficient energy projects, but also to participate actively in international cooperation programs such as the World Bank Initiative for an Investment Framework.

However, let me also add as a caveat that Austria cannot support the inclusion of nuclear energy under the title of ‘clean energy’. Nuclear energy cannot be brought into line with the principles and priorities of sustainable development. If all costs are taken into account, it is not a cost-efficient, feasible way to combat the greenhouse effect.

CMI/International Cooperation

Cooperation is the keyword for addressing issues of global public goods or global public threats that affect both developing countries and developed nations. As well as such disasters as the South Asia earthquake and the immediate threat of avian influenza, we are also concerned by the long-term threat of global
warming. Austria, therefore, welcomes the efforts of ADB to set up a new carbon market initiative (CMI) and has an active interest in contributing to it.

The CMI initiative of ADB was discussed during the recent Seventh Asia-Europe Meeting (ASEM) of finance ministers in Vienna. The ministers welcomed the initiative and emphasised the need for links and coordination with existing and developing schemes.

These initiatives are vital signs of an intensifying cooperation between nations and even between continents. In this dialogue, ADB should continue to be a key stakeholder for addressing global and regional issues and for promoting sustainable development. With regard to economic, social and environmental problems, Austria is committed to promoting further dialogue and cooperation to strengthen this partnership for mutual benefit.

Concluding Remarks

Let me close my remarks by wishing you, President Kuroda, and ADB good luck and a lot of “clean” energy in the constant pursuit of the Millennium Development Goals. Let me also thank the ADB staff as well as our executive directors and our constituency office for their professional work last year.

AZERBAIJAN

MIKAYIL JABBAROV, Head of Delegation

It is a pleasure and honor to participate in 39th Annual Meeting of the Board of Governors of the Asian Development Bank, graciously hosted by the Government of India and the people of the historic city of Hyderabad. I hope this meeting will contribute to our joint efforts to make ADB an even more efficient institution well equipped to address the complex challenges of growing, developing and often interdependent Asian economies.

There were strong positive economic trends in many parts of the Asian region in 2005, despite natural disasters and growing energy prices. At present 30% of the world’s GDP is created in the region and development trends indicate that the role of the region in the global economy will continue to grow dynamically. Our changing region represents new challenges. The ADB response to some of the unexpected challenges, such as the establishment and coordination of Pakistani Earthquake Fund and the Asian Tsunami Fund, deserves praise from each of us.

Azerbaijan has reestablished its economic and social system during the past 10 years and has achieved an average growth rate in excess of 10% per year since 1997, and 26% last year. Its GDP has tripled in 9 years and is set to double again in 3 years. Azerbaijan graduated from a net borrower to a middle-income economy with the potential to become a donor in next 5-7 years. It has created an infrastructure capable of absorbing an influx of significant oil and gas revenues that will start flowing from next year and it is managing its
growth so that it can eradicate poverty in line with the Millennium Development Goals (MDGs).

I would like to share our view of the medium-term priorities and challenges that ADB is preparing to tackle.

**Poverty Reduction**

As has been noted numerous times during the past two days, poverty continues to be the major challenge for most countries in the region. ADB has a proven track record of fighting poverty in its member countries and it must continue these efforts. Continued concentration on projects that would have development impact, enlargement of private sector operations, along with continued interventions to support basic infrastructure needs should remain the focus of ADB. Taking the example of Azerbaijan, we managed to reduce the poverty level from a very high level of 49% in 2001, to 29% at the end of 2005. It should be noted that the percentage of people living on less than $1 dollar a day does not exceed 1%. Although the level of poverty is still high, Azerbaijan is nevertheless well placed to achieve the MDGs by 2015. We must continue our cooperation to make poverty history in the entire region.

**Private Sector Focus**

The primary purpose of economic development is the well-being of people through access to employment, infrastructure, education, and health care. These cannot be efficiently achieved without the public and private sectors joining their efforts and resources efficiently. ADB has a greater role to play in promoting public–private partnerships, implementing private sector programs, and supporting growth. Today, the development of a strong private sector that will become an engine for sustainable growth in years to come is among the top priorities for Azerbaijan, and I believe for many other countries of the region. We expect ADB to intensify its efforts in this direction, including through private sector development mechanisms that cannot be limited to borrowing instruments. A lot of effort is needed for the domestic private sector to grow.

**Increased Transparency**

The efficiency of our efforts depends to a large extent not only on the amount of the resources that can be devoted for development purposes, but also on the ability and capacity of both ADB and the beneficiaries to uphold standards of transparency in operations and good governance. This issue is especially important in the resource-rich countries of ADB, and Azerbaijan is no exception. Transparency is a prerequisite for an effective fight against corruption and for this reason the Government of Azerbaijan has joined the extractive industries transparency initiative (EITI). In fact, Azerbaijan was the first country to submit an EITI report. We are currently in the process of preparing our third annual EITI report. We call on the other member countries to join this initiative, which provides for greater transparency, accountability, and openness. We are delighted and impressed by commitment expressed in President Kuroda’s address to tackle
the difficult issue of governance and corruption in ADB operations as well as in its relationship with its member countries.

Regional Cooperation

ADB should be encouraged to take the lead in the promotion of regional and subregional cooperation. Only working together we can prepare for the challenges and opportunities of globalization, diversify and integrate our economies, develop our trade links, achieve more sustainable development, and combat natural disasters and global challenges. The successful construction of the multibillion dollar oil pipelines Baku–Tbilisi–Ceyhan and the natural gas pipeline Baku–Tbilisi–Erzerum passing through Azerbaijan, Georgia, and Turkey represents a successful example of what we can achieve working together. The projects will create thousands of new jobs in each country, increase energy stability and supplies, and increase foreign investments. They will be constructed to the most rigid environmental requirements, setting standards for similar projects in future. As we speak, negotiations are underway with another ADB member, our friends and partners across the Caspian Sea, Kazakhstan, to conclude a framework agreement that will make it possible for some of their energy reserves to be transported through the BTC oil pipeline. Regional initiatives of ADB such as CAREC are timely, relevant and important to the continued deepening of the cooperation across the borders.

There are, however, factors that limit regional cooperation in Central Asia and Caucasus, and the most important of them is the continued occupation of almost 20% of Azerbaijani territories. While welcoming Armenia to ADB, we call on it once again it to stop the illegal occupation and withdraw its armed forces from Azerbaijan. We truly believe that only in spirit of good neighborhood and co-existence we can efficiently address our common development challenges.

On a separate note we also would like to welcome Brunei Darussalam as a new member to ADB.

The country strategy and program (CSP) for Azerbaijan is underway now. This will be a results-based CSP. We look forward to seeing the CSP reflect the priorities that we have had an opportunity to communicate today.

In conclusion, I would like to thank all the ADB staff, led by President Kuroda, for their hard work to make this Annual Meeting a success.
It is a great pleasure for me and my delegation to be present here in this historic city of Hyderabad and to address the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). I join fellow Governors in congratulating our chair and I would like to put on record my deep appreciation of President Kuroda and his team for the dedication, commitment, and leadership in steering ADB toward its core goal of achieving a poverty-free Asia and Pacific region. Our particular thanks are due to the Government of India and the people of Hyderabad for their warm hospitality and excellent arrangements.

As an important development partner, ADB has always been responsive to our needs and sensitive to our development aspirations. My Government expresses its sincere appreciation of ADB’s contribution to our development efforts. In particular, I would like to mention ADB’s prompt response to our appeal for support for our post-flood rehabilitation programs of 2004. We also thank ADB for including Bangladesh in its multitranche financing facility.

We have already received ADB’s country strategy and program (CSP) for Bangladesh for the period 2006-2010. The National Poverty Reduction Strategy provides a medium-term socioeconomic framework centering on a number of well-focused strategies to combat poverty and the social exclusion of the poor as well as attaining the Millennium Development Goals (MDGs). Pro-poor economic growth will be the main vehicle for poverty reduction. Our growth is projected to reach 7% in 2007 and is expected to accelerate to over 8% per year by 2015. The inclusiveness of the growth process will be reinforced through adoption of policy measures to protect the weak and vulnerable sections of the population.

I would like to underline the biggest challenges faced by developing member countries (DMCs), including Bangladesh. Recent external developments, in particular, the sustained high oil price, are playing havoc with macroeconomic management in the region. This has cast a gloom over the development prospects of countries like Bangladesh and could even destabilize the global economy, with serious repercussions for everyone. In my country, the sudden spike in oil prices will require over $1 billion annually to defray the additional fuel import costs. Other DMCs will need to mobilize additional resources to meet this external shock. Needless to say, this will not only put immense pressure on our balance of payments, fiscal situation, foreign exchange reserves, exchange rate, and general price levels, it will also divert scarce resources that would normally be available for investment by the private and public sectors in the priority sectors of the economy. The attainment of the MDGs will also become uncertain.

It will be extremely difficult for DMCs to confront this challenge alone. It threatens to put our economic and social development back by many decades. It is a difficult time for all of us. In a trying time like this, ADB should marshal all its resources to help member countries overcome this crisis. I encourage
ADB to play a catalytic role in supporting DMCs to meet this challenge. Asia has an enormous reserve of $2.7 trillion. ADB must come forward with arrangements for using part of this reserve to mitigate the sufferings of Asian countries. I would like to take this opportunity to request ADB to also augment its grant financing and concessionary ADF lending to member countries hit badly by the recent price hike of fuels in the international market.

Let me also briefly dwell on few issues that impinge on ADB portfolio performance in the DMCs. First, it is important to reduce the cost of capital for DMCs. I congratulate ADB and the Board for agreeing to a 20 basis point waiver of loan spread and full waiver of the 1% front-end fee of ordinary capital resources (OCR) loans from July 2006 to June 2007. Second, I would like to suggest that agriculture should be included as one of the core areas for ADB’s support in its second medium-term strategy for the period 2006–2008. The poverty reduction agenda in most DMCs will require a vibrant agriculture sector with links to the rest of the economy. Third, we strongly support ADB’s proactive role in promoting regional cooperation and integration and particularly of the South Asia region. Last year’s South Asian Association for Regional Cooperation (SAARC) summit in Dhaka took a number of major decisions to strengthen economic ties among the member countries. Following the decision at the last summit, the finance ministers of the SAARC countries met on 2 May 2006 to discuss ways to further strengthen our economic cooperation and ties. We need to move forward on the commitments and pledges made in previous summits, including transport connectivity, and communication and energy links across the region. Since certain countries of the region have surplus electricity, there is also scope for greater regional energy initiatives to utilize the surplus in countries with energy deficits. Regional cooperation in water resources management is also important.

The euphoria surrounding globalization seems to be waning as the champions of globalization have in recent times expressed doubts as to its effect on their industries and employment. We still believe in the process of globalization but at our own pace and convenience based on realities on the ground. The process should move forward by providing weaker countries better access to developed markets, as well as by augmenting the flow of overseas development assistance (ODA) to facilitate investment in critical sectors of the economy. Along with the above, it is also important that developed countries live up to their pledges of increased ODA flows so that we can attain the MDGs within the predetermined time.

I would now like to touch on the issue of governance, on which so much importance is being placed. We are all for good governance for understandable reasons. However, we must allow the developing countries to make their own decisions in this regard specific to their own requirements. A debate on this issue should never be allowed to deflect attention from our core objectives of greater employment and development and their main determining factors. The assessment of the appropriateness of governance-related matters should also take into account our achievements and their relevance in our development paradigms. We need to avoid the pitfalls involved in allowing the debate on
governance to overshadow the main challenges and problems facing the developing countries.

The policies of my government have all along been pro-people and pro-growth. Bangladesh achieved a GDP growth rate of 6.5% in financial year 2006. In the last decade we have been able to reduce income poverty by 1% per annum. The rate of social poverty reduction was even better. Our primary school enrollment rate has gone up to 97%. My government’s Female Secondary Education Stipend Program has been instrumental in removing gender disparity in schools. The infant mortality rate has gone down significantly. We are determined to bring down the poverty rate to 25% by 2015. The attainment of the income poverty reduction targets and outstanding social outcomes all testify to the Government’s strong political commitment to poverty reduction and development.

We are determined to remain on course to consolidate our recent significant achievements. We also remain equally committed to move steadily ahead to make growth and progress an enduring feature for Bangladesh. We deeply value the support and assistance of our development partners, including ADB, which complement our national efforts.

Before I conclude, let me reiterate that the enormity of global poverty demands a global compact to eradicate it. The commitments we made earlier on different occasions will remain as mere pious wishes unless we all work together with strong political determination to bring smiles to the poor people of the world.

BELGIUM
RENÉ LEGRAND, Temporary Alternate Governor

I wish to thank the Indian authorities for inviting us and the people of Hyderabad for their hospitality.

I would also like to take this opportunity to reiterate the deepest condolences of Belgium to the victims of the earthquake in Pakistan. Belgium regrets that this disaster did not raise the same level of compassion and solidarity as the tsunami. The responsiveness of ADB in such circumstances was even more appreciated. However setting up dedicated funds for each disaster striking the region should not become the ready-made answer. We would prefer that a policy for emergencies be adopted where eligibility criteria to use ADB resources would be clearly defined. The Millennium Development Goals (MDGs) are better fitted for reconstruction than for emergency assistance (for which there are many specialized agencies).

In recent months, Asia has maintained the same impressive economic growth and remained the main contributor to global poverty reduction. However, many of those who escaped absolute poverty are not substantially beyond its threshold. Serious questions remain ahead about the challenges and opportunities this growth generates. The issue of ecologically sustainable growth is even higher
on the agenda since the meeting in Montreal. ADB’s innovative carbon market initiative is therefore warmly welcome. Most of its features are very attractive and Belgium wishes it complete success. Many similar initiatives will be required to deal with the greenhouse effect and climate change. Nevertheless, this is an encouraging first step and we look forward to seeing replicated on a much larger scale.

I will not insist here on the various shortcomings noted by others in the second medium-term strategy (MTS II). Belgium shares many of those views. That being said, with more or less $2 per capita per year that it lends, ADB will always remain quite modest in most respects compared with the challenges facing the region. Remaining relevant before this daunting task is quite a challenge. Belgium therefore welcomes a few features of the MTS II. We appreciated, for example, the wish to withdraw from some activities and to identify a core business and focus on it, taking into account the fact that others are better fitted to act in several fields. We wish other multilateral development banks (MDBs) would also sort out their activities. Piling up requests and priorities over the years cannot be avoided easily and can be a perverse effect of a country focus. Since each client has specific needs, nothing can be excluded from the list of eligible things to do. This leads to a policy broad enough to encompass anything an MDB would be requested to do. We therefore anticipate with interest how this selectivity will work in practice.

Overall, we also appreciate the intense efforts made over the recent months in the field of strategies and policies and action plans. However, this is putting ADB under stress because it represents intense work in itself, at the same time as efforts to improve operations on the ground. Both are equally important and there is a limit to what one can do with a zero-growth budget; therefore one should be careful not to neglect one for the other and be reasonable in one’s expectations. Much attention has to be given to the design of the action plan to implement the MTS, by taking account of the resource constraints of the institution.

ADB should focus on the finalization of ongoing reviews of its existing policies, on the implementation of its reform agenda and on managing change effectively to increase its development effectiveness. The reform agenda is particularly important in the context of Asian Development Fund (ADF) IX. ADB should be more committed in particular to managing for development results and to improving the following areas: harmonization, development of partnerships, measurement of results, monitoring and evaluation, internal governance, and management systems. In particular, there should be more involvement of vice presidents and managers in decision making, without having everything going up to the top. ADB should be encouraging a culture of dialogue, exchange, participation and transparency, which should improve the morale of the employees at all levels and their performance.

The various initiatives to deal with the specific requirements of the middle-income countries are welcome. In such countries, providing long-term resources at a reasonable cost has to give way to assistance to manage growth, and in
particular its “negative externalities”. To use the fashionable jargon, “value added” has to be identified through enhanced dialogue, since value added is specific to each client and operation. Financing many activities at lower levels, where one finds most often the obstacles and impediments to the satisfactory functioning of the institutions, is where one can get much development impact. However, this does not require large loans and does not confer as much visibility as a new airport or the modernization of the stock exchange. A war is prepared by the artillery but is still won by the infantry. Technical assistance is the infantry of the MDBs. There has been a multiplication of technical assistance in recent years. This is to a large extent due to the change in the nature of the business of MDBs. Their number has grown to an extent where one wonders how such an impressive portfolio can be managed. Some selectivity should also be introduced in the allocation of resources, and also a refocusing towards activities where one can most likely get value added.

In 2004, the Development Committee recognized the need to balance the priorities of social initiatives and promotion of growth, and in particular investment in infrastructure. ADB took care to bring infrastructure to the forefront. However, similar institutions also underlined the lack of adequate infrastructure due to a lack of investment. This sudden awareness will fuel competition for resources and, for this reason, it would be high time to see projects get off the ground. In this competition, Asia, or at least some parts of it, is well placed to attract investors. One should not expect miracles, since all MDBs are small in relative terms and (similar problems, similar answers) they will once more invent similar mechanisms to be “catalytic”. One should not forget that private money is in short supply too, that it has its own pets, that it expects a return. In the meantime there will still be regions, always the same, where the need is even more urgent and which are overlooked by private investors. Therefore we invite ADB to apply the argument of being “catalytic” with utmost care and to shy away from highly profitable mega-ventures and to focus on projects with the most developmental value.

BHUTAN
WANGDI NORBU, Governor

First of all, I would like to join our fellow governors in expressing deep gratitude to the Government of India for hosting this meeting, and for the warm hospitality extended to us. This historic city of Hyderabad is a most appropriate selection as it is the fastest-growing high-technology city in India.

We also join the other delegations in welcoming two new members, Armenia and Brunei Darussalam. Their presence will further strengthen ADB.

As we come together to take stock of the policies and activities of the Asian Development Bank (ADB) during the past year, I believe ADB deserves praise. Much has been achieved in the past year of President Kuroda’s stewardship.
We commend ADB for continuing to pursue innovative approaches in fostering and catalyzing development, such as regional and subregional initiatives. Bhutan believes that active participation in regional cooperation initiatives will be beneficial to all. We therefore place great importance on the South Asia Subregional Economic Cooperation (SASEC).

We also welcome ADB’s proposed second medium-term strategy (MTS II), which will allow ADB to focus its activities in the short term. We look forward to actively participating and cooperating with ADB in fulfilling its strategic priorities. Under our ongoing development agenda, we have already been pursuing some of the strategic priorities of MTS II.

We would like to commend ADB for its initiative in enhancing the development effectiveness of its operations by aligning its strategies with those of its member countries, especially the developing member countries (DMCs). This will greatly enhance the effectiveness of the joint efforts of ADB and of the DMCs.

We also appreciate the innovation and efficiency initiative (IEI) adopted by ADB in 2005. Under this initiative, the offer of a new array of financial services will greatly help the DMCs meet their investment needs and facilitate private sector development.

The move by ADB to disburse funds to Asian Development Fund (ADF) borrowers and to accept repayments in one SDR-denominated currency instead of many currencies is greatly appreciated. This will increase predictability and help ADF countries to manage their debt services more effectively. We thank our ADF donor countries for their kind consideration in this matter.

Let me touch briefly on Bhutan's socioeconomic development. We have had GDP growth of over 7% in the past year. Other macroeconomic factors, such as inflation, exchange rates, and budget balances, have been stable. While we continue to have a trade deficit, our balance of payments has remained positive. Our international reserves are also at a satisfactory level. We expect conditions to improve markedly next year following the completion of one of our largest hydropower projects.

Under the visionary leadership of our dynamic king, tremendous achievements have been made, and we are on the threshold of making further strides. Nevertheless, daunting hurdles remain. While our socioeconomic indicators have improved markedly within a relatively short span of time, we have still a long way to go. Bhutan’s progress toward the Millennium Development Goals (MDGs), while on track at present, is still posing a considerable challenge because of lack of resources. Our infrastructure base is still very poor, and needs much larger investments given the difficult terrain of the country.

Currently, we are at the end of our ninth five-year development plan period. The tenth plan will begin from July 2008, and poverty reduction will be the main thrust. The tenth plan will also continue to focus on infrastructure development as the major means of reducing poverty, especially in rural areas. We want to increase connectivity, expand the network of social services, deepen
the devolution and decentralization process, and foster greater private sector
development.

Bhutan is undergoing tremendous changes under the visionary leadership of
our extraordinary king. As I mentioned at our last meeting, Bhutan is moving
steadily toward a new form of governance, a democratic form of constitutional
monarchy, scheduled to begin in 2008. We have already established two important
institutions, the Election Commission and the Anti-corruption Commission. In
the same year as the adoption of the new form of governance, our present King,
although still young, will pass on the throne to his son, the Crown Prince. With
this transformation, we will be able to further our development objectives as we
move toward becoming a fully developed modern nation. The international
community has expressed full support for this change, and we are confident
that material assistance for development will also be forthcoming from our
development partners, to maintain the confidence of a people under a fledgling
democracy.

In this context, I would like to point out that the increase in revenues due
to the new hydropower project will be largely offset by new expenditures in
support of institutions and processes brought about by the Constitution, and
by the increase in the maintenance costs of infrastructure. Furthermore, our
expenditure is expected to grow because of increasing social sector spending in
order to meet the high incremental costs of achieving the MDGs. The need for
external assistance is therefore critical for Bhutan at this juncture to consolidate
the development successes of the past and to chart a sustainable future.

In conclusion, I would like to express our appreciation of the reforms
initiated by ADB under the dynamic leadership of President Kuroda. The
Government and the people of Bhutan join me in wishing ADB every success
in implementing the reforms and achieving our overarching goal of a poverty-
free Asia and Pacific region.

BRUNEI DARUSSALAM

ABDUL. RAHMAN IBRAHIM, Governor

It is a great honor and privilege to address this distinguished audience in the
beautiful and historic city of Hyderabad at the 39th Annual Meeting of the
Board of Governors of the Asian Development Bank (ADB). As you know, this is
our country’s first opportunity to participate in this very important gathering.
On behalf of the Government of His Majesty the Sultan and Yang Di-Pertuan of
Brunei Darussalam, may I therefore express my sincere appreciation to the
Government and people of India for their warm hospitality and for the excellent
arrangements for the meeting. I would also like to extend my heartfelt gratitude
to all ADB’s member countries for their overwhelming support for Brunei Darussalam’s application to join this eminent institution. My special thanks are
also due to you, President Haruhiko Kuroda, and your staff, for organizing a
special membership ceremony to mark our admission into the fold of the ADB, just a few days ago at the ADB headquarters in Manila. Thank you for all your assistance in making our membership in ADB a reality. We would also like to extend our appreciation and thanks to ADB for its many invitations to Brunei Darussalam to participate in meetings and programs, including the Annual Meetings, even when Brunei Darussalam was not yet a member country.

Since its establishment in 1966, ADB has made great strides in its efforts to fulfill its overarching objective of eradicating poverty and improving the livelihood of the people in Asia and the Pacific region. In recent years, ADB has been instrumental in assisting the Association of Southeast Asian Nations (ASEAN) and ASEAN+3 processes; in developing initiatives in the areas of surveillance and crisis prevention, and capital market development; and in promoting regional cooperation and integration as a whole. In this connection, I welcome ADB’s ongoing reform efforts to improve its effectiveness, and the recent introduction of the second medium-term strategy (MTS II), which focuses on the importance of quality investment, sustainable and equitable growth, and regional cooperation and integration. With regard to the latter, the Office of Regional Economic Integration (OREI) has recently been established. These strategies demonstrate ADB’s unwavering commitment to stamp out poverty and meet new challenges affecting the development process, despite the uncertain current global economic landscape threatened by global payment imbalances, the threat of avian influenza, volatile oil prices, and trade protectionism.

We are aware that development is a long and challenging process. However, we also believe that this process can be tackled effectively, through a comprehensive and integrated approach that takes into account, not only its economic, political and social impact, but also its unique and individual circumstances. We have learned from a recent ADB study that sustained, robust growth has not translated into sustained and adequate employment creation. In many countries, production processes have made significant use of capital-intensive technologies that lead to higher productivity at the expense of employment creation. Therefore, development strategies need to strike a balance between the utilization of capital and labor to ensure they have maximum impact on employment creation. At the same time, more widespread distribution of economic activities, in both urban and rural areas, will ensure that economic and social disparities can be significantly narrowed. Thus, we share the view that more emphasis needs to be placed on employment creation, to meet the dual objectives of robust growth and reducing unemployment and poverty. It is thus crucial to venture into and promote new economic activities that will ensure greater job opportunities.

ADB is not just a multilateral financial institution. It is also an institution that possesses an enormous wealth of knowledge and expertise which countries like Brunei Darussalam can take advantage of. We therefore hope to capitalize on the technical assistance and the many capacity-building programs that are planned by ADB every year, in particular in the areas of capital market
development, surveillance and crisis prevention, finance, privatization, and energy development.

I would like to conclude by again thanking all ADB’s shareholders for their support and ADB’s management and staff for their assistance. We look forward to a productive and meaningful relationship with ADB in the years to come.

CAMBODIA
KEAT CHHON, Governor

It is a great pleasure and honor for me to represent the Royal Government of Cambodia at the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) and to address this distinguished gathering. May I, on behalf of Cambodia’s delegation, thank our host, the Government of India, and especially the people of Hyderabad for the warm hospitality extended to us during our stay in this beautiful and culturally rich city. I would like also to express our sincere gratitude to the Management and staff of ADB for the excellent arrangements made for this meeting. May I take this opportunity to warmly welcome Armenia and Brunei Darussalam as new members of ADB.

This Annual Meeting takes place as Asia continues to emerge as a strong engine of global economic growth and prosperity. The regional economic outlook for the foreseeable future is expected to remain robust, which provides a real opportunity for the region to meet the Millennium Development Goals (MDGs), including halving poverty by 2015. At the same time, the region faces the risk of rising oil prices and global payment imbalances that may lead to sharp adjustments in exchange and interest rates, which would undermine the growth momentum crucial to poverty reduction efforts in the region. The Asian economies must therefore be vigilant and pursue sound macroeconomic policies and continued structural reforms to sustain growth and cope with any possible economic shocks. I believe that ADB will be able to help member countries to respond to these challenges.

We agree with President Kuroda that Asia today stands at a defining moment. Asia’s time has come. Asia is living in a new era of development given its current role and weight in the global economy, and there is real potential for the region to achieve a higher level of development effectiveness. This dynamism suggests that ADB as the regional development bank must also change to respond to this regional transformation. We therefore reiterate our strong support for the President’s vision and commitment to the economic and social progress of developing member countries and a region free of poverty by making ADB more relevant and responsive.

Let me take this opportunity to congratulate ADB for its achievement and the progress made in 2005 and express our support for the ADB’s internal reforms, focusing on results, the result-based country strategies and programs, the human resources strategy, the private sector development strategy, the
second medium-term strategy (MTS II), the regional cooperation and integration strategy, and the realignment of regional departments.

We firmly support ADB’s second medium-term strategy and its regional cooperation and integration initiative. These are central to sustaining economic growth and reducing poverty in the Asia and Pacific region. In this context, we would like to see ADB pay more attention to the poorer countries in the region. Realignment of regional departments is another means to further strengthen regional cooperation and integration. In this connection, we greatly appreciate ADB’s catalytic and leadership role in the Greater Mekong Subregion and its facilitation of cooperation under the Association of Southeast Asian (ASEAN) and ASEAN+3 frameworks.

We congratulate ADB for reviewing various reforms under the innovation and efficiency initiative. We also support ADB’s adoption of the carbon market initiative to manage energy security and climate change under the clean development mechanism. We welcome ADB’s doubling of its financing for the water sector, which is vital to growth, poverty reduction, and environmental sustainability.

The introduction of grant financing under the eighth replenishment of the Asian Development Fund (ADF IX) has improved the debt situation of the poorer and post-conflict countries. We think the ADF IX midterm review should be broadly conducted and should accommodate the views of the recipients. For performance-based allocations, we are of the view that the system should take into account countries’ historical backgrounds and specific circumstances so that it can act as an incentive for change for better performance.

The newly approved public communications policy of ADB helps improve governance in both developing member countries (DMCs) and ADB. However, political will alone is not enough. It has to be supported by additional financing for reform programs conducted by DMCs.

Let me now turn to developments in Cambodia. Our Royal Government’s Rectangular Strategy for Growth, Employment, Equity and Efficiency provides a clear view and direction for our long-term development. Governance is at the heart of this strategy; without improved governance, growth and development cannot be sustained.

The Royal Government of Cambodia understands that reform is a vital issue and that day-to-day work is needed to improve, strengthen, and expand our capacity to keep up with social, economic, technological, and political developments in the country, the region, and the world. We would like to re-emphasize that implementing reforms requires not only political will, but also considerable human and financial resources. The cultural and political context has to be taken into account.

During 1994–2004, poverty in Cambodia fell by 10% to 15%. Based on the recent Cambodia Socio-Economic Survey (CSES), poverty declined from around 47% in 1994 to 35% in 2004. Per capita household consumption rose 32% in real terms. These achievements have resulted from peace and from reforms in the Triangle Strategy in 1998 and the Rectangular Strategy in 2004.
In 2005, Cambodia’s economic growth was 9.8%, driven by an expanding tourism sector, garment exports, construction, and investment in irrigation schemes, resulting in a rebound in agriculture. The annual inflation rate, represented by the consumer price index, rose to 6.7% in 2005. The Cambodian riel depreciated marginally to 4,117 riels per US dollar by the end of 2005 (from 4,035 riels at the end of 2004). Foreign reserves represented 3 months of imports. Prudent fiscal and monetary policies contributed to the stability of the exchange rate.

Total Cambodia exports increased by 8.9% to around $2.7 billion compared with a 2004 performance of nearly $2.5 billion, equivalent to a growth rate of 22.1%. Total imports in 2005 grew by 15%, a slowdown from the 24.7% increase recorded in 2004. The number of tourists visiting Cambodia reached 1.4 million, an increase of 35%. In 2005, the main construction areas in Phnom Penh and Siem Reap, Angkor, increased by 35%

The macroeconomic outlook in the medium term appears stable, because of the expansion in tourism, continued growth in garment exports, and offshore oil and gas exploration. Economic growth for 2006-2010 will be within the range of 6% to 6.5% per annum. Growth in 2006 is expected to be around 6.5%, driven by all sectors, but heavy reliance is placed on industry, led by textile exports, and the service sector, led by tourism. Inflation is expected to remain below 5%.

To improve the outlook for future economic growth, which we believe is the prerequisite to poverty reduction, the Government has taken steps to diversify the economy, with a stronger focus on agriculture (including irrigation), better governance and stronger government capacity, improvements to the trade and investment climate, reorienting capital outlays toward development of rural areas, and promoting agro-industry and small and medium-sized enterprises. In all these efforts, economic integration and international cooperation continue to be the main pillars supporting economic growth.

In conclusion I would like to express once again our deep appreciation to the ADB Board, Management, and staff for their hard work and impressive achievements in responding to the needs and challenges of the region and individual member countries, and especially for the support and assistance in the rehabilitation and development in Cambodia. We look forward to continued strong partnership with ADB.

CANADA

HAU SING TSE, Head of Delegation

Allow me to thank the Government of India and the State of Andhra Pradesh for hosting this 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). It is a pleasure to be in Hyderabad, a city with a rich history and a leader in the world of information technology (IT).
This meeting marks the end of President Kuroda’s first year at ADB and the inclusion of two new members into the ADB family: Armenia and Brunei Darussalam.

We congratulate the President on progress made in the reform agenda over the past year. We are hopeful that the pace of reform will continue and even accelerate.

I would like to focus on three other issues that we believe are critical to ADB’s role in the region: (i) its commitment to poverty reduction and pro-poor growth; (ii) the focus on good governance and anti-corruption efforts; and (iii) the renewal of ADB itself.

Pro-Poor Growth and Poverty Reduction

Asia is an economic powerhouse that has achieved dramatic reductions in poverty through economic growth. However, the gains from growth are uneven, with significant variations among and inequalities within countries. These inequalities create threats to social stability and come with an economic cost as the potential of millions of marginalized people remains untapped. Of particular concern is the slow progress on gender equality, especially given its relevance to all the Millennium Development Goals (MDGs). Despite substantial progress in narrowing gender gaps in education enrollment, ADB’s analysis confirms that the region is seriously “off track” on indicators of women’s equality.

In Canada’s view, raising the poor out of poverty should be central to ADB’s efforts to promote equity and to reduce the gap between rich and poor. We hope the medium-term strategy for 2006-2008 (MTS II) will articulate this vision more forcefully and will reaffirm ADB’s commitment to pro-poor growth, gender equality, and inclusive development.

Challenge of Governance

Meeting the challenge of poverty reduction requires that aid be used effectively. Good governance, accountability to taxpayers, and the fight against corruption are central to this effort. Corruption undermines development by distorting the rule of law, weakening institutions, and eroding public support for development efforts.

The Government of Canada has identified accountability as an important domestic priority and is committed to strengthening its system of public governance. We are also committed to more effective use of Canadian aid dollars and will work to ensure greater accountability in the distribution and results of Canada’s international assistance.

We welcome the inclusion of governance and anti-corruption as a new ADB priority in the MTS II. We encourage ADB to consult with other development banks on this issue to ensure that best practices are captured and that institutional innovations on governance are shared. If ADB is to make concerted progress on this issue, it will need to allocate sufficient resources to this effort.
Institutional Renewal to Enhance Effectiveness

Last year in Istanbul, President Kuroda spoke about the need for institutional change and renewal as a means to further strengthen ADB’s development effectiveness. We agree.

In our view, this process of renewal must be based on three principles.

First, ADB must practice inclusiveness and transparency so that Governors, the Executive Board, Management, and staff are involved in and supportive of reforms.

Second, a merit-based organization must be created that empowers staff and makes best use of their talents.

Third, and most importantly, strong and consistent leadership is needed from management.

Conclusion

As President Kuroda recently said: “Asia is a region where development works. People in Asia no longer just aspire to development—they expect it. Asia represents the world’s best hope for meeting the MDGs.”

To accomplish this, ADB must lead the way by emphasizing pro-poor growth that is gender-sensitive, by focusing on good governance and by continuing the renewal of ADB itself so that the resources that we all provide to it are used as effectively as possible.

I would like to close by paying tribute to our chair and to the staff of ADB for the high quality of their expertise and commitment to the people of Asia.

PEOPLE’S REPUBLIC OF CHINA*

JIN RENQING, Governor

It is a great pleasure to attend the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) in the beautiful city of Hyderabad. I would like to extend my gratitude to the Indian government for its warm and cordial hospitality. At the same time, I would like to express my welcome to the two new ADB members, Armenia and Brunei Darussalam.

Since the last annual meeting, the Asia and Pacific region has maintained stable economic growth and has good development prospects. However, the unbalanced economic and social development and severe poverty in the region indicate that it will be challenging to meet the Millennium Development Goals (MDGs) as scheduled. In order to meet these challenges, countries in the region need to strengthen cooperation, jointly explore a development path suitable for the region, and create a new vista of mutually beneficial regional development.

It is encouraging that, in recent years, regional cooperation has attracted great attention and the strong support of all the parties concerned. ADB has

* Statement delivered in Chinese. Translation supplied by the delegation.
made great efforts in this regard. The Government of the People’s Republic of China (PRC) has always been an active facilitator of regional cooperation. The Second Greater Mekong Subregion (GMS) Summit was held in the PRC last year. At this meeting, leaders of the six GMS countries reached a broad and important consensus and issued the Kunming Declaration, which mapped out a future development path for the subregional economy. This year, the PRC Government will host the Ministerial Conference of Central Asia Regional Economic Cooperation. It is my belief that this meeting will bring collaboration among these countries to a new high.

We are pleased to note new achievements made by ADB in the past year—policy and institutional reforms have continued and the operational scope has been expanded. However, ADB still has a long way to go in promoting sustained and stable regional development and eliminating poverty. Here I would like to make the following suggestions.

First, ADB should vigorously mobilize financing for development and expand the scale of its assistance. In order to help developing countries in the region achieve the MDGs as scheduled, ADB should work more closely with the rest of the international community and other development organizations, and mobilize considerable funds for development. ADB should step up the scale of its assistance scale for poor countries in the region. ADB should also further strengthen its partnership with middle-income borrowers.

Second, ADB should continue to intensify its policy and institutional reforms. Given the ever-changing situation and development demands in the region, ADB should improve its policies on technical assistance, operational procedures and loan products to make them more consistent with borrowers’ demands. ADB should continue its initiative to become a knowledge bank, and provide more prompt and effective development experience and technical assistance to developing countries. It should strengthen its support for the private sectors of developing nations, and for small and medium-sized enterprises in particular.

Third, ADB should further regional cooperation, a mission that is enshrined in the ADB Charter. Regional cooperation is full of potential. It is our hope that ADB will continue to play a role as a facilitator and financier. As a facilitator, ADB should give full play to its strengths as a multilateral institution and do more coordinating work, so as to promote deeper regional cooperation. As a financier, ADB should increase its financial and human capital input and expand cooperative ties with its international development partners, thus winning more support for regional cooperation.

The economy of the PRC maintained stable and grew rapidly last year. GDP grew by 9.9% and per capita income stood at $1,700. With the unremitting efforts of its people, the PRC has entered a new stage of development. The central government has articulated a scientific approach to development that puts people first, with the overall objective of building a harmonious society in all aspects.

The PRC legislators endorsed the Eleventh Five-Year Plan this March, according to which the Government will make strong efforts to build a new
socialist countryside, increase support for agriculture and rural areas, facilitate rural reforms, and narrow the urban and rural development gap in the next 5 years. The Government will speed up industrial restructuring, enhance the capacity of independent innovation, and build an environment-friendly and resource-conserving society. The Government will carry out a mutually beneficial opening-up strategy and try to strike a balance in foreign trade.

The PRC attaches great importance to sound cooperative relations with ADB and other international organizations. We will further adjust the direction and structure of our loans from ADB in line with our economic and social development priorities, and use ADB research and consultation resources more intensively for our development. The PRC is prepared to make concerted efforts with ADB and other members to contribute to a stable, prosperous and harmonious Asia and Pacific region.

DENMARK

OLE MOESBY, Governor

Let me join others in thanking the Government of India, the state of Andhra Pradesh and the city of Hyderabad for hosting the Annual Meeting this year. We are privileged by the excellent arrangements and the kind hospitality.

Responding to the rapid changes in Asia is a big challenge. Today, Asia is the most dynamic region in the world in terms of economic growth. Poverty is on the decline. However, deep pockets of poverty remain, the gap between the rich and the poor is widening, and income inequalities are increasing. Hundreds of millions of people in Asia still have to survive on less than US$1 per day. Unemployment is on the rise, as are urbanization and environmental degradation.

ADB has a critical role to play in meeting these challenges. The experience and expertise of ADB in partnership with the countries of the region is needed in order to meet the targets in the Millennium Development Goals. I was pleased with the statement made by the President yesterday and his assurances that the mission of ADB continues to be the elimination of poverty. Poverty reduction, pro-poor economic growth, inclusiveness and equitable development should remain at the core of ADB’s business in the future.

The same goes for good governance and anti-corruption measures. We welcome the upgrading of good governance and anti-corruption measures to a strategic priority in the new draft medium-term strategy. Improving good governance and fighting corruption is essential, not only to reducing poverty but also to a prosperous investment climate. With a view to the recent review of the implementation of the good governance and anti-corruption policies, we would strongly urge ADB to give much more priority to these issues in the future and to translate its commitment into operational terms.

The medium-term strategy is a key document for the future of ADB. We would strongly encourage ADB to ensure that policy documents of this kind are
based on appropriate consultations with stakeholders inside and outside ADB. Like other speakers before me, I see a clear need to pay greater attention to cooperative management.

I welcome the increased focus on energy efficiency by setting a specific target for spending and by introducing the carbon market initiative as a reflection of the commitment of ADB to move the region toward a more sustainable path.

Regional cooperation and integration features will play an important role in ADB’s future. We support the increased emphasis on regional cooperation in the context of a greater value-adding strategic focus and selectivity in line with the overriding objective of poverty reduction. This must be based on demand and ownership by the borrowing countries.

ADB is faced by many challenges. Development effectiveness, an issue at the core of the work in most development agencies today, is one of them. ADB took a very important step forward when formulating the reform agenda in 2004. We look forward to discussing the implementation of the reform agenda at the Asian Development Fund (ADF) midterm review later this year.

Let me conclude by assuring you of Denmark’s continued commitment to supporting ADB to meet the development challenges facing Asia in the years to come.

**FINLAND**

MARJATTA RASI, Governor

Let me join the previous speakers in expressing my government’s appreciation to the authorities of our host country India, the state of Andhra Pradesh, and the city of Hyderabad, for the warm welcome and generous hospitality.

The UN Millennium Summit in September marked the first global stocktaking of the progress made in achieving the Millennium Development Goals (MDGs). The summit acknowledged the vast challenges in reaching the goals. For Finland, ADB’s contribution to the MDGs, translated into specific targets at the country level, is a key criterion for assessing its development effectiveness. We expect ADB to be clear and concrete in its commitment and contribution to the MDGs in all of its major strategic documents and actions.

The general economic outlook in the Asian region is encouraging. Despite this positive trend, we must not underestimate the challenges facing the region. While the proportion of the poor is declining, there are still more than 620 million people living in absolute poverty and the available information indicates little progress toward the non-income MDGs. We are all aware that growth alone is not enough to ensure equitable social and economic development. In this context, I would like to highlight, in particular, the challenge of extreme inequalities in terms of incomes and income distribution, access to health, education, employment and other opportunities, which cut across countries, population groups, and genders in the region. This is well addressed in the
poverty reduction strategy of ADB. We are concerned that this focus may be somehow diluted in the draft second medium-term strategy for 2006-2008 (MTS II). The draft strategy must be enhanced in this respect, to provide an efficient tool to turn the poverty reduction objectives into operations.

We have also been concerned with the process of putting together the new MTS, perhaps the most important strategic document of ADB. This is a reflection on some features of the strategic management and policy setting in ADB that I will turn to later on. We do, however, commend ADB for addressing inclusiveness as a strategic priority of the MTS. We expect ADB to demonstrate a high level of ambition in turning this commitment into concrete actions. In Finland’s view, this is an area where ADB in particular can bring added value by acting as a catalyst for promoting pro-poor, inclusive and equitable development. The benefits of growth can be extended to the entire population only by ensuring political and economical empowerment and the participation of all, especially the poor and vulnerable, a group that unfortunately is still too often dominated by women.

The high level of economic growth that is transforming Asia is also posing new challenges for ADB. How can it be a relevant and effective partner to all borrowing member countries? We welcome the efforts to enhance and streamline ADB’s cooperation with middle-income countries, remembering that these countries continue to be the home of the majority of the region’s poor. Creating an enabling environment through an institutional, legal and financial framework will increase the impact of private sector operations on poverty reduction. ADB can function as a catalyst for private financing and as a quality insurer on issues such as environmental and social concerns. Furthermore, ADB can assist the borrowing countries to strengthen their capacity for corporate governance, especially by promoting a strong anti-corruption culture and to setting up transparent regulatory regimes.

Improving governance and preventing corruption is a most welcome strategic priority of the MTS II and is very high on Finland’s list of priorities. We very much appreciate President Kuroda’s remarks on the need to eliminate corruption. Thus we expected an even stronger commitment to pursuing good governance and to the fight against corruption. The establishment of a concrete accountability framework for ensuring effective implementation would demonstrate a firm intention to pursue the fulfillment of objectives. Furthermore, we expect ADB to take urgent action as recommended by the review of the implementation of the ADB governance and anticorruption policies. We are also monitoring with great interest progress on the development of a uniform framework for preventing and combating fraud and corruption as agreed by the heads of the regional development banks, the IMF and the World Bank in February in Washington.

Regional cooperation and integration will play a big role in ADB’s future. We support the increased emphasis on regional cooperation in the context of a greater value-adding strategic focus and selectivity, in line with the overriding objective of poverty reduction. This cooperation must be based on demand and ownership by the borrowing countries.
Finland values ADB’s commitment to the harmonization agenda in accordance with the Paris Declaration. We urge ADB to further enhance the process by using its comparative advantage and leadership for proactive dialogue with borrowers, civil society, and all bilateral and multilateral donors present at country level. One option for aligning programs in a more strategic and results-oriented manner is to work together with governments and donors in sector-wide approaches (SWAps) and joint country strategies and programs.

To capture the positive momentum created by the adoption of the reform agenda, we stress the importance of designing a strategy for coordinated change management. At the corporate level, we are yet to see the kind of change in management culture envisaged in the reform agenda. This requires immediate action and long-term commitment by top management to issues related to strategic management and managerial guidance in the organization. In the process, management should aim at greater interaction with the Board of Directors and give the Board a meaningful role in setting the strategic directions of ADB.

Last but not least, I would like to turn to the strong partnership between the European Union and Asia. Finland, which will assume the Presidency of the European Union as of the beginning of July this year, is committed to continuing to work on our common challenges, such as climate change, energy, anti-money-laundering activities, human trafficking, and social protection, with a focus on empowering disadvantaged and vulnerable groups.

To conclude, I wish to reconfirm Finland’s strong partnership with ADB. We are convinced that ADB will continue to enhance its contribution to the promotion of long-term prosperity in the Asia and Pacific region.

FRANCE*
RAMON FERNANDEZ, Temporary Alternate Governor

Like my predecessors, I would like to start by thanking the Indian authorities for their warm welcome, with a special thought for all the people who were hit by the tsunami just over a year ago. I would also like to congratulate Armenia and Brunei Darussalam on joining the Asian Development Bank (ADB).

Despite the unprecedented tsunami disaster, Asian countries continued to expand at a brisk pace in 2005, and that growth is still the key driver of the global economy. Asia has displayed outstanding resilience to negative shocks, including avian influenza, the end of the multifibre arrangement, and the steep rise in oil prices.

Some of these shocks will persist in 2006. The oil price is likely to remain high or to head further upwards, while macroeconomic imbalances will continue

* Statement delivered in French. Translation supplied by the delegation.
to widen. Moreover, we must not overlook the possibility of a slide into protectionism and an increase in bilateral trade agreements.

France believes that multilateral dialogue on all these questions is vital. Issues that are truly global can be addressed only through institutions with global reach. Often, however, regional action can play a decisive role, provided it is consistent with guidelines set at the international level. That is why this institution, which has brought us here today, is so valuable. Let me illustrate my point in two ways.

On environmental and energy-related issues, we welcome ADB’s decision to launch an initiative aimed at carbon markets, building on the World Bank’s clean energy investment framework. Our institution should be a pioneer in the field of energy—our second most activity-intensive area—without waiting for everybody to take action under the Kyoto Protocol. Otherwise, it will be too late.

Regional integration is another example. As a member of the European Union, France is well aware of its merits. With this in mind, we have always strongly encouraged projects such as the Greater Mekong Subregion initiative. The monetary cooperation initiated at Chiang Mai is also contributing to that goal.

That said, the imbalances continue to worsen, reminding us that efforts to coordinate economic policies hinge on broader cooperation. On this point, monetary cooperation in Asia, which ADB actively supports, must be complementary to the actions of the IMF. Meanwhile, the IMF needs to ensure that regional arrangements for pooling reserves are properly linked to the key issue of global financial stability. It is of course equally vital that Asia be fairly represented in that institution. This is what France aims to achieve in September in Singapore through a realistic and pragmatic compromise on quotas.

Regional cooperation is indispensable and therefore requires a specific strategy from ADB. Nevertheless, the main challenge facing our institution is obviously to reduce poverty and reach the Millennium Development Goals. This must remain its top priority.

On this point, let me go back briefly to France’s position on the second medium-term strategy (MTS II) discussed recently by ADB’s Board. We sometimes felt that the link between MTS II and the goal of poverty reduction was too tenuous. We would also have preferred a more ambitious strategy for governance and a clearer road map for private sector activity. However, we do not disagree with the priorities that have been put forward, which, moreover, we have often endorsed in the past.

Our doubts were mainly to do with the way that MTS II was prepared and the concrete arrangements for implementing it. A strategy that sets no precise objectives for the staff can easily become a purely formal exercise with no real operational impacts. France truly hopes that, bearing this in mind, we will manage to finalize MTS II and, looking further ahead, we will succeed in establishing together ADB’s post-2008 priorities, taking into account the Asian Development Fund agenda. We would also like the management team around the President be fully empowered and accountable for the design and the implementation of this strategy.
I would like to finish by addressing an issue that we feel is essential and in which ADB and all the countries present here today have a key role to play, namely adapting the methods for financing developing countries to the achievement of the Millennium Development Goals.

The first necessity, naturally, is to increase aid flows and make them easier to forecast. The launching of a pilot International Finance Facility (IFF) for immunization is contributing to that effort, as is the establishment of a solidarity charge on airline tickets. Fifteen other countries, including the Republic of Korea, will soon introduce a similar levy. In Asia, countries such as Bangladesh, Cambodia, and India are working with us on innovative financing mechanisms. Let me take this opportunity to encourage other countries to do likewise and to jointly build an international drug purchasing facility.

At the same time, it is vital that all lenders, multilateral and bilateral alike, coordinate their policies more closely to avoid a fresh cycle of unsustainable debt. Failing this, the multilateral debt cancellations voted last year will have been pointless, and the political support for financing development assistance will be lastingly undermined.

GERMANY
KARIN KORTMANN, Governor

I would like to start by expressing my heartfelt thanks to our hosts—India, the State of Andhra Pradesh, and the city of Hyderabad. I would also like to thank President Kuroda, his team, and everybody at the Asian Development Bank (ADB) who helped organize this year’s Annual Meeting and to make it a success.

Germany has been a member of ADB for almost 40 years. I would therefore like to use this opportunity to take a brief look at ADB’s successful work over these past four decades. ADB has become one of the most important institutions for the financing of development worldwide. Its activities in the region are just as significant as those of the World Bank. Moreover, ADB has built bridges of confidence-based cooperation between the region and America and Europe, including Germany.

In the course of these four decades, ADB has become a cornerstone of development in the region, especially in the area of infrastructure. More recently, ADB has also proven to be a quick and flexible helper in times of great crises such as the tsunami, the South Asia earthquake, and avian influenza.

However, the world and the region have changed greatly since ADB was founded. ADB is thus faced with a number of significant challenges.

One of the central challenges is also ADB’s highest goal: the reduction of poverty in the region. Of course, we are witnessing very swift development, especially in a number of emerging economies. Nevertheless, about 600 million people in Asia are still living in poverty. ADB’s financial figures show that its resources would be sufficient for it to do more to reduce the large number of
poor people in the region. There are also fears that ADB might turn away from poverty reduction as its main goal. ADB must respond to these concerns.

It must ask itself, even more explicitly than in the past: what can ADB do to make poverty reduction even more effective? What can it do, in particular, to help achieve those Millennium Development Goals that are not income-related? More targeted measures are needed, measures with a clear poverty focus—because it cannot be expected that the promotion of growth alone will automatically result in poverty reduction. ADB should regard itself as an advocate and catalyst of pro-poor growth and social inclusion, especially in middle-income countries. ADB must also make greater efforts to assist those members who are making little progress, even with regard to halving income-poverty. For example, traditional financing programs for large infrastructure projects are not enough on their own to achieve poverty reduction. What is needed above all is a focus on target groups. This must be complemented by relevant accompanying measures and sector policies.

Another central challenge is how to make development sustainable. Over the past few years, we have witnessed a dramatic increase in environmental degradation, the cutting down of tropical rainforest, and the overall decline of biodiversity in the region. It is always the poor who suffer most from environmental degradation.

When it comes to environmentally and socially compatible development, one sticking point is the high demand for energy in the swiftly developing Asian economies. The increased use of renewable energy sources and the enhancement of energy efficiency are not only desirable—they are indispensable for limiting the negative consequences of global climate change and for reducing countries’ dependency on external energy sources.

Germany therefore strongly supports ADB’s new carbon market initiative. This is a very important step toward expanding ADB’s activities in the areas of renewable energy and energy efficiency. So far, ADB’s work in this sector has mainly focused on technical assistance to help create the right environment. Relevant lending operations, which have been insufficient so far, should be expanded through sector and project financing.

The two challenges I have mentioned both point to the third central question. In a way, this third question is an overarching issue: What is the vision of ADB for its own role in the near future and in the long term? To answer that question, we need a clear decision on ADB’s course. We feel that such a decision is still missing in the new strategic documents, especially in second medium-term strategy (MTS II). Among other things, the question concerns ADB’s relationship with other multilateral donors. It also concerns the form of ADB’s future cooperation with middle-income countries, given high levels of liquidity and a commercial banking sector that is becoming stronger all the time. It concerns the role of the less developed and fragile states. It concerns the distribution of resources to as many borrowing members as possible. And it concerns the sectoral distribution of resources, which should give greater attention to the social sectors—not least because borrowing members’ demand
for classic investment projects has been decreasing. We all—the Governors and Executive Directors of all shareholders and ADB’s management—must discuss these central questions in a more transparent, more participatory process, and we must find a consensus which everybody can support. My wish would be that greater account be taken of these concerns in important strategic debates at ADB, for example in the debate on MTS II.

One of the most prominent political figures of our host country, Mahatma Gandhi, once said, “Be the change you want to see in the world!” In this spirit, we would like to encourage ADB: “Be the change you want to see in the region!”

HONG KONG, CHINA
PETER S.T. PANG, Head of Delegation

Let me first thank the Government and the people of India for their warm hospitality in hosting this year’s Annual Meeting. I must also thank management and staff of the Asian Development Bank (ADB) for the excellent arrangements made, and join other Governors in welcoming our new members—Armenia and Brunei Darussalam.

The economic growth in Asia over the past few decades has helped reduce poverty dramatically and brought better lives to hundreds of millions of people. While we are now experiencing one of the fastest growth periods in this region, we must not be complacent. Rather, we should seek to achieve a more balanced and sustainable trajectory and to mitigate any risks that may hamper our growth prospects.

Underpinning Asia’s rapid growth are the much closer economic and trade relationships among regional economies, which have far outpaced integration on the financial front. While more than half of total trade in Asia is intra-regional, capital flows mainly involve major markets outside the region. Currently, a sizable portion of gross savings in Asia finds its way into the financial obligations of the developed markets before it is recycled back to Asia in much more volatile forms. Such an asymmetric development in economic and financial integration not only hinders economic growth from achieving its full potential, but it may also lead to financial instability in the region. We all have fresh memories of the disruptive impacts of the Asian financial crisis.

There is little doubt that a higher degree of financial integration would facilitate increasing intra-regional economic and trade activities, and enhance our resilience against volatile international capital flows. What would be the most appropriate strategy to achieve higher financial integration in Asia? One might think that financial integration in the region could only be pursued when the final goal is clearly defined as some form of economic or monetary union, and that such a goal would have to be unanimously agreed upon by all members. This is, in my view, not necessarily the case. There are areas of financial
integration worth pursuing in their own right, and these could form the building blocks for a higher form of economic and financial cooperation in the future.

I can think of five areas of financial integration under the building block approach. The first is the linking of financial infrastructure, i.e., the trading, payment, clearing, settlement, and custodian systems across jurisdictions. This would facilitate the safe and efficient flow of funds between jurisdictions arising from the many trade, investment, and other economic transactions taking place every day.

The second area concerns the relaxation of restrictions on access by foreign financial intermediaries to domestic financial markets. Currently, high quantitative licensing thresholds imposed by many jurisdictions in the region have kept financial institutions of neighboring economies away. However, size is not necessarily a good indicator of financial soundness and other objective measurements such as capital adequacy should be used instead.

The third area is the harmonization of financial standards within the region. This specifically means the adoption of minimum international standards while striving to achieve best international practices, rather than the development of regional standards that are different and therefore inevitably risk being seen as inadequate. This would help enhance investors’ confidence and attract a greater proportion of the abundant Asian savings to stay in the region.

The fourth area concerns cooperation between jurisdictions in developing domestic financial systems. I am glad to see that Asian governments have put in place several initiatives in this regard. A good example is the Asian Bond Markets Initiative under the Association of Southeast Asian Nations (ASEAN)+3 forum with the strong support of ADB. Another successful example is the launch of the Asian Bond Fund by the Executives’ Meeting of East Asia-Pacific Central Banks (EMEAP), which has provided an excellent example of regional cooperation in debt market development and a promising precedent for future cooperative ventures.

The fifth area concerns the promotion of greater cross-border capital flows. The freer mobility of capital is essential to achieve greater efficiency in the allocation of financial resources. While there are obviously risks associated with financial liberalization, these risks are to be managed, not avoided. With foreign reserves at very high levels, it may be an opportune time for the regional jurisdictions to embark on prudently organized financial liberalization. The qualified domestic institutional investor (QDII) scheme announced recently by the People’s Republic of China, allowing outward portfolio investment to be conducted in an orderly manner, is a welcome move.

The five areas of financial integration that I have just discussed would help enhance the efficiency of financial intermediation and promote greater financial stability of the region, thus contributing to more sustainable growth. As we proceed further under the building block approach, we will probably identify and achieve other areas of financial integration, and thus a higher quality of growth. I am glad to note that ADB also shares this view of the importance of
economic and financial integration to the region and has been gearing up its efforts to promote integration of trade, investment, and finance in the region. With the collaborative efforts of the regional economies, I believe we should be able to achieve more balanced, stable, and sustainable growth.

INDIA
P. CHIDAMBARAM, Governor

On behalf of the Government and the people of India, I join my fellow Governors in extending a warm welcome to our newest members, Armenia and Brunei Darussalam.

We meet a year after Istanbul. We meet with the confidence that the year promises to be resilient for the world economy. Despite rising oil prices, multiple natural disasters and tight commodity markets, economic growth for the world in general, and Asia in particular, has been robust. A large part of the increased pace of growth has been contributed by “developing Asia.”

The downside risks are evident. They include higher energy prices and the possibility of sharp adjustments in exchange and interest rates induced by widening international payment imbalances. Nevertheless, I am optimistic about the outlook for growth in Asia and for a healthy demand for Asian output in the next few years.

India has achieved an average growth of nearly 8% in the last 3 years—a robust demonstration of its nascent strengths. I believe that our economic reforms over the past 15 years, the strong role played by the private sector, and rising domestic consumption have been the drivers of this growth.

We are aware of the challenges before us. We will continually work to address these by deepening reforms. Our aim is to put the country on a trend of 8% to 10% growth in order to eliminate poverty and achieve the Millennium Development Goals by 2015.

The investment rate in India is around 30% of GDP, and has been largely funded by domestic savings. As the country moves to a higher growth path, there is need to supplement domestic resources with foreign investments. International institutions like the Asian Development Bank (ADB) can play a catalytic role through investments in public sector infrastructure and also through support for private sector activities in developing member countries (DMCs).

Medium-Term Strategy
I commend ADB for its forward-looking medium-term strategy to assist DMCs in their development endeavors. Emerging Asia faces the challenge of maintaining high and inclusive growth, leading to sustainable development. ADB’s strategic priorities can help address this challenge.

The resurgence of Asia has been largely due to economic reforms that have brought efficiency gains, critical public investments in infrastructure, and human
development. Reforms have also enlarged the space for the private sector in economic growth. We believe that ADB needs to readjust its strategy from focusing largely on public sector lending. It needs to become a more fleet-footed financial intermediary and knowledge bank that will help DMCs attract more private sector investment through intermediation. The multiplier effect of ADB’s assistance through a public–private partnership model would be much higher than the current reliance on public infrastructure projects.

Regional Cooperation and Integration
We are all agreed that ADB has played a crucial role in the economic development of the Asia and Pacific region through regional cooperation. As ADB proceeds to finalize its second medium-term strategy in the next few months, I hope it will also firm up the means to adequately fund the strategy and on more favorable terms. On the initiatives for monetary and financial cooperation and integration, I urge ADB to follow an approach of consensus and inclusion rather than being exclusionary in its approach.

Energy Efficiency Initiative
Developing countries are at the stage where their overriding priority cannot be anything else but to accelerate the pace of development. Improving access to energy is critical to achieving the vision of an “Asia free from poverty”. Concrete and innovative mechanisms need to be explored and developed countries can take the lead in the transfer of cleaner low-emission and cost-effective technologies to developing countries.

Financial Cost of ADB Lending
ADB’s loan charges as compared to the cost of funds from other sources are critical for the growth of its business. The financial parameters of ADB have been robust for 4 consecutive years now. Loan charges should be restored to the lower levels prevailing before the year 2000. The commitment fee should not be treated as a source of income and it should be possible either to eliminate or to substantially reduce the commitment fee through improvements in operations and the internal efficiency of ADB.

I understand that ADB has undertaken a review of its safeguard policies. It should look to adopt country systems tailored to local conditions, especially in countries that have institutional mechanisms anchored in democratic processes that recognize and adopt the principles of good governance.

As the Annual Meeting draws to a close, I would like to place on record our appreciation that ADB has given us the opportunity to host the 39th Annual Meeting of the Board of Governors. The Government of India and the Government of Andhra Pradesh have worked hard together to make your stay comfortable. I hope that you have enjoyed the few days you have spent here and that they will remain a cherished memory for many years.
On behalf of the Indonesian delegation, let me first convey my appreciation to the people and the Government of India for their generosity and hospitality.

We also would like to congratulate President Kuroda for making excellent progress on several fronts, including internal reform agenda of the Asian Development Bank (ADB) within his first year of leading ADB.

We place great importance on regional cooperation and integration, and appreciate ADB’s attention to this key area, and its focus on bringing coherence to this process. We recognize the positive attributes of ADB’s strategy for enhancing regional connectivity. It is important for ADB to undertake extensive consultation with regional members, including other multilateral institutions such as the Bretton Woods institutions, in order to clarify divisions of labor and efficient resource allocation, and to obtain full consensus before new initiatives under the regional cooperation and integration strategy are pursued.

We strongly support efforts to streamline business processes within ADB, such as the innovation and efficiency initiative. This initiative should be translated into reducing borrowing transaction and financial costs, especially in lowering commitment fees. We welcome the commitment under the second medium-term strategy (MTS II) to portfolio management, including the quality of project design and implementation as top priorities. We would like to stress the need for greater quality assistance in capacity building and institutional strengthening in these key areas. Such steps will help alleviate the heavy burden of commitment fees imposed on borrowers like Indonesia, and greatly improve ADB’s ability to implement sound projects and programs.

We are pleased with ADB’s decision to maintain loan charges at current levels, including an additional 12-month waiver extension of front-end fees. Additionally, we would be grateful if this could be extended for 36 months in view of ADB’s strong financial outlook for 2006-2008. These savings would significantly improve our Government’s program borrowing requirements.

We acknowledge the proper allocation of ADB’s 2005 net income. In particular, we welcome the generous portion allocated to the surplus account, reflecting ADB’s commitment to restore this to pre-tsunami levels while strengthening ADB’s flexibility and capacity to deal with unexpected emergencies.

On the issue of ADB’s loan conditions, we urge ADB to explore and develop relevant, appropriate, and reasonable conditions. ADB’s recent approach of providing single-tranche programs within a medium-term framework is consistent with our Government’s thinking and compatible with our strong ownership of reform. Such an approach also recognizes Indonesia’s stature as a growing middle-income country, with a clear development vision and commitment.
Let me now turn to the Indonesian economy. We continue to experience a strong economic recovery. In 2005, our economy grew at 5.6%, the highest since the economic crisis. We remain vigilant in order to preserve our fiscal sustainability and will continue to pursue a prudent and disciplined fiscal policy. We will continue to coordinate closely with our independent central bank, Bank Indonesia, on macroeconomic policies for maintaining a sound macro-environment that supports sustainable high growth.

We are focused on achieving our projected growth of about 6% for 2006, while maintaining macroeconomic policies that can sustain potential external shocks and market disruptions. We have launched two comprehensive policy packages, one focused on accelerating infrastructure development, the other on strengthening the investment climate. A third policy package is being developed, with a focus on strengthening the financial sector. These policy packages are designed to address the key constraints in attracting investments, both domestic and foreign.

At the Ministry of Finance, we are continuing to implement major reforms, notably in the areas of tax and customs, to improve our competitiveness, and to maximize revenue collection. Strengthening our fiscal management, improving the quality of public spending, and strengthening our treasury management are also important to Indonesia in meeting its development priorities.

In addition to private capital, we will look to tap official sources, including ADB, to finance our development needs in the coming years. Among the key areas of support from ADB, infrastructure development will be assigned a high priority. We also seek to catalyze ADB financing to achieve greater efficiency of our public expenditures that target poverty reduction and accelerate progress toward the Millennium Development Goals. Given our reform and financing needs, we plan to seek greater program lending support from multilateral development partners, including ADB. Such assistance will be blended in a prudent manner with project financing support. As the Government remains fully committed to policy reforms and has shown clear results, we are confident of working closely with ADB.

I wish to emphasize my earlier point on the need to reduce transaction costs of program and project preparation and execution. We understand this applies to both sides—as ADB endeavors to reform its internal processes, the Indonesian Government is fully committed to addressing our constraints. We are keen to work with ADB to design flexible programs and projects under the innovation and efficiency initiative, which has the potential to reduce the transactions costs of financing our development.

Going forward, we also believe our work with ADB can help deepen our reforms and strengthen our institutions while achieving a mutually beneficial outcome.

Finally, I wish President Kuroda every success in his leadership of this important regional development institution and look forward to a closer partnership.
ITALY
GIORGIO GOMEL, Temporary Alternate Governor

I greatly appreciate the opportunity to address the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) on behalf of Italy. Let me express my thanks to our host, the Government of India, for its friendly hospitality. May I also take this opportunity to extend a warm welcome to Armenia and Brunei Darussalam as new members of ADB, and to stress the importance of encouraging the accession of new members.

The Economic Situation in Developing Asia

In spite of sluggish growth in the major industrial economies and the softening global demand for information technology (IT) products, stronger-than-expected growth in Japan and the People’s Republic of China (PRC) supported the expansion in Asia. Overall, the pace of GDP growth for emerging Asia eased from a peak of 8.4% in 2004 to 8.2% in 2005. Nevertheless it was still the fastest growing region in the world.

For 2006, improved prospects in the Euro area and Japan, as well as an upturn in global demand for IT products, bode well for emerging Asia and the region is expected to grow at almost 8%.

Finally, it is a great pleasure to acknowledge the impressive results recorded by our host country. India is indeed becoming a key engine for regional and global growth, underpinned by robust export performance as well as strong domestic demand. Recent growth is providing a golden opportunity to carry out the government’s structural reform agenda.

Notwithstanding this positive outlook, vulnerabilities need to be addressed. A first source of risk stems from an uneven unwinding of global imbalances.

The US current account deficit is expected to reach a record 6.5% of GDP in 2006, with surpluses elsewhere, especially in the People’s Republic of China (PRC) and other Asian economies. Without appropriate policy actions, these imbalances are bound to adjust in a disorderly manner, triggering sharp and sudden movements in financial markets and hurting growth. Asia is expected to play a central role in managing the process. A smooth unwinding of imbalances will require achieving a better equilibrium between externally and domestically led growth. In the short run, exchange rate appreciation will be required. Nonetheless, given regional interdependencies, concerns about losses of competitiveness will likely constrain further upward exchange rate movements. A coordinated approach to exchange rate adjustments within the region will, therefore, be necessary to alleviate such concerns.

Another source of vulnerability is the sharp increase in oil prices and the risk that they will climb even further, making inflationary pressures more difficult to manage. Action has been taken by many countries to reduce fuel subsidies, encourage conservation and develop alternative energy sources. Steps are needed to protect the most socially vulnerable.
Countries in the region have taken steps to reduce their vulnerabilities to sudden shifts in financial markets conditions. We strongly welcome, for example, the development of the Asian Bond Market initiative. First, it will increase resilience to external shocks by reducing reliance on foreign capital; second, it will improve financial integration and mobilize local savings for productive investments.

The last issue I would like to address regards the avian influenza pandemic which, although difficult to quantify, represents a serious threat to global growth. Recent analysis suggests that a number of countries would be affected by the spread of the virus.

**ADB’s Mission**

Notwithstanding overall growth, and the progress made by the Asia and Pacific region as a whole toward achieving the income MDGs, several countries are likely to be left behind. Even countries likely to meet the overall target still have sizable pockets of extreme poverty, while meeting the non-income MDG targets remains a challenge.

In fact, economic growth in Asia has come at the cost of increased inequality. Against this background, ADB must remain firmly anchored to its vision of an Asia and Pacific region free from poverty and act as a catalyst for equitable development. All other strategic objectives must be pursued in ways that contribute to this goal. Pro-poor economic growth, inclusive social development, and good governance must be the three, equally important, mutually reinforcing pillars upon which ADB builds its operations.

We are concerned that the weight seems tilted towards the first pillar. We are equally concerned that a somewhat “one-dimensional” notion of development prevails. True, economic growth is necessary to reduce poverty, but alone it is not sufficient. GDP takes no account of rising inequality, damage to people’s health and the environment, social breakdown, and loss of cultural assets. We urge ADB to uphold, not only in words but also in deeds, a notion of sustainable and inclusive development and to remain focused on its mission to improve the quality of life of the millions in Asia who are being left behind.

Let me now touch upon a few specific issues in this connection.

**Governance and Corruption**

Improving governance and fighting corruption is the third pillar of the poverty reduction strategy and one of the areas in which international organizations such as ADB can add significant value. There is no doubt that poor governance and corruption have high development costs, and that it is the poor who pay the highest price. ADB’s engagement in this realm must go beyond individual projects and be part of a comprehensive approach, in cooperation with other multilateral development banks (MDBs) and development partners. In this regard we welcome the work that regional banks and the World Bank are doing to develop a uniform Framework for Preventing and Combating Fraud and Corruption. In this area, we believe that the principle of zero tolerance of
corruption should not result into a zero-action attitude, as its effects would be only damaging for the recipient country. This being said, I would like to stress the importance of distinguishing between improving governance and fighting corruption, the latter being one aspect of the former, although a significant one.

We will be closely monitoring how ADB plans to implement its governance and anti-corruption policies, how it will coordinate and harmonize its efforts with other MDBs, and finally, how all this will impact on the Asia and Pacific region in terms of development effectiveness.

**Environment Issues**

As Asia is growing rapidly, environment issues are becoming major and urgent challenges. In this respect, promoting energy efficiency and renewable energy is an utmost concern. We support ADB’s initiative for the creation of an Asia-Pacific Carbon Fund, as it will contribute to the objectives of the Kyoto Protocol. We invite ADB to work in partnership with other international organizations, such as the World Bank, to avoid duplication and to take advantage of possible synergies. At the same time, the carbon market initiative should complement ADB’s other business operations, in particular those addressing energy efficiency and clean, renewable energy.

**ADB’s Role in Natural Disasters**

We would like to acknowledge and commend the prompt response and the leadership of ADB’s management and staff in the aftermath of the South Asia earthquake, the rising emergency of the avian influenza, as well as after the tsunami at the end of 2004. At the same time, we need to reflect on the role of all MDBs vis-à-vis other organizations that have a specific comparative advantage in emergency relief. Close cooperation with other institutions and agencies is paramount in this area.

The proliferation of dedicated funds to respond to the recurrent calamities in the region is not exempt from problems, and net income transfers should not be continually resorted to. We call on ADB to review its Disaster and Emergency Assistance Policy and to aim at establishing a general instrument through which funds can be channeled effectively and expeditiously.

**Harmonization and Donor Coordination**

Let me move to our responsibilities as shareholders and donors. By now it may sound like a broken record, but we cannot stress enough the need, on our side, to work hard to increase harmonization and coordination of policies and practices in order to enhance the effectiveness of aid flows. In this regard, as much as we can strive towards delivering on the Monterrey commitment of increasing overseas development assistance (ODA), it is a fact that resources will never match the growing needs of the poor if we adopt a merely quantitative approach. Aid quality, as well as selectivity of areas of intervention, is essential to achieving solid development results.
This being said, I would like to stress that Italy is making every effort to deliver on its commitments. In 2005 Italy has increased its level of ODA (0.29% of gross national income [GNI], almost double that in the previous year.) We will make further efforts to continue along this path. In addition, as part of the G-8, Italy has promoted the debt relief initiative. We are also playing an active role in the field of innovative financial mechanisms, which we consider to be important instruments to increase aid flows to meet the Millennium Development Goals (MDGs). With a contribution of € 504 million, Italy is one of the founding members of the International Finance Facility for Immunization (IFFIIm). Finally, Italy is actively working on the launch of a pilot advanced market commitment scheme to support research and development of vaccines for diseases which affect the poorest countries.

**ADB’s Future Directions**

Last year in Istanbul President Kuroda declared that ADB must change. We shared and supported his vision. Since then, progress has been made on a number of fronts. However, we still have not seen the much needed bold move forward and we miss a clear plan on how management intends to translate good intentions into actions.

Implementation is at the core of ADB’s problems. We believe that organizational and managerial weaknesses must be addressed as a matter of priority and that a change in mindset and culture is needed to make ADB genuinely responsive, relevant, and results-oriented.

We call on President Kuroda to take firm leadership on these issues and to engage all ADB shareholders through the Board of Directors in an open and transparent debate.

We are only 9 years away from the MDG deadline and the challenges ahead are numerous, but we are confident that ADB will live up to its mission of contributing to the defeat of poverty in Asia.
On behalf of the Government of Japan, I would like to express my gratitude to our hosts, the Government of India and the people of Hyderabad, for their warm hospitality. I think that Hyderabad is an appropriate place to talk about the future of growing Asia, because it is one of the centers of the growing IT industry in India.

Japanese Economy

I am delighted that I can make a brighter announcement on the recent development of Japanese economy than the one I made at the last Annual Meeting in Istanbul. The Japanese economy is now enjoying stable private sector-led growth, after succeeding in eliminating the excesses in three areas in the corporate sector that used to hamper growth, namely employment, production capacity, and debt. Thus, the ratio of nonperforming loans of major banks, for example, declined from 8.4% to 2.4% between the first quarter of 2002 and the third quarter of 2005, and the real rate of economic growth reached 2.7% in fiscal 2005 and is expected to be about 2% in fiscal 2006. This is the result of structural reform in various areas promoted by the policy “without reform there will be no growth”.

At the same time, however, our fiscal situation remains extremely severe. Japan’s central and local governments, when combined, are expected to have long-term outstanding debts accounting for over 150% of GDP by the end of fiscal 2006. I am determined to pursue structural reform on the fiscal front, both in revenues and expenditures.

Challenges for Asia

In 2005, the Asian economy achieved a high growth rate of over 7%. The number of people in poverty is decreasing at a pace exceeding that needed to achieve the Millennium Development Goals (MDGs). Some indexes, however, relating to human development in the region, such as health or education, are lagging partly behind. The region also faces several challenges, including increasing energy demand, tackling environment issues, and improving the investment climate.

Regarding the MDGs, goals for some indicators, such as those on the universal primary education rate and the child mortality rate, are unlikely to be achieved. In addition, 600 million people in the region are still living in poverty. We must recognize once again that the achievement of the MDGs is still very important, even in Asia.
That is not all we must address. Demand for energy in Asia has been on the rise because of rapid economic growth. Rapid urbanization has had a negative impact on the environment, making access to clean water difficult.

As for the investment climate, while the ratio of investment in Asia is no lower than that in most other regions, it is necessary to attract more investments for sustainable growth. Given the limited availability of public funds, fostering private investments is imperative. For that, it is essential to develop infrastructure and improve governance.

**Japan’s Efforts in Asia**

Japan, as a member of Asia, will fully support regional actions to overcome the challenges facing Asia. We will make efforts to further strengthen solidarity among Asian countries and make Asia a prosperous region open to the outside world. I would like to highlight the five key challenges in this context.

**Key Challenges in Assistance for Asia**

First, infrastructure development should contribute to broader areas of development, such as human development, although we have been addressing the issue mainly in the context of improving the investment climate. We must explore an approach that addresses these infrastructure needs through (i) supporting regulatory and institutional reform in related sectors; (ii) ensuring project sustainability, including maintenance needs and further strengthening compliance with environmental and other safeguard policies such as environmental criteria; and (iii) providing assistance based on broad dialogue and cooperation with civil society and the poor in particular.

Second, energy efficiency and the use of clean energy should be promoted. This is an urgent task, particularly in Asia where some countries have scarce energy resources. Improvements to pricing policy reform and regulatory reform in the energy sector are needed.

Third, it is also important to promote private capital inflows to broader sectors. In particular, I believe that high priority should be given in the development policies of middle-income countries to mobilizing domestic resources and private capital from abroad. The Asian Development Bank (ADB) should maintain its relevance to middle-income countries by enhancing the quality of their development policies. ADB should play a role as an institution that provides assistance for reform by promoting international environmental safeguard policies and policy dialogue.

Fourth, we would like to emphasize that good governance, including taking anti-corruption measures, is important in order to improve the investment climate in Asian countries. Governance is an area where the multilateral development banks (MDBs), rather than bilateral donors, are expected to play a more active role. We urge the MDBs to cooperate with each other to support the efforts of the Asian countries to improve their governance.

Fifth, regional cooperation and integration must be promoted. Asia is a region of great diversity, both culturally and socially. The level of development varies
by country, so the set of economic issues facing each country also varies. However, I am confident that efforts at regional cooperation and integration will provide us with a common platform for mutual trust and vitality. That said, it is essential for ADB to have a thorough discussion with member countries to decide on its involvement in each area of regional cooperation and integration.

I think these challenges are basically consistent with ADB’s strategic priorities presented in the second medium-term strategy (MTS II). Therefore, I welcome the recent endorsement of MTS II.

**ADB Achievement under President Kuroda**

More than a year has passed since President Kuroda assumed office as the ADB president. Since then, I feel that ADB has changed very much. This is partly because the President has sent messages in his own words on what ADB should do or what challenges ADB is facing. As the result, ADB has become a more accountable institution.

With President Kuroda’s energy and foresight, ADB was able to take quick and appropriate responses to the Indian Ocean tsunami, the South Asia earthquake, and avian influenza.

I must also commend ADB’s initiatives to enhance the development effectiveness and efficiency of its operations. These include improvements to the disbursement ratio of the ADB portfolio and other measures to strengthen project management; the launch of new financial instruments, such as the multitranche financing facility, sub-sovereign lending, and local currency lending; the creation of the Office of Regional Economic Integration; and the realignment of the regional departments.

I am confident that, under President Kuroda’s leadership, ADB will play a role as a core institution for future economic assistance in Asia.

**Conclusion**

I am particularly honored that the next annual meeting will be held in Kyoto, Japan, where I am from, on the important occasion of ADB’s fortieth anniversary.

In Kyoto, every year, the famous Gion Festival has been held since the 9th century. It is said that the deity worshiped in this big festival was a guardian deity of Gion Shoja, the Indian Jetavana Buddhist Monastery in India. Also, a piece of Indian cotton textile imported into Japan in the 17th century is still now treasured, and used once a year as the ornamental screen of decorated floats at the festival. I am deeply impressed to be able to receive the baton from the country which has such a historical relationship with our country.

I hope the annual meeting in Kyoto next year will contribute to strengthening regional cooperation and further development in Asia.
First of all, let me on behalf of the Republic of Kazakhstan greet the participants at the meeting and express my assurance that today’s meeting will give a new impetus to the intensification and expansion of cooperation between ADB’s member countries.

I would like also to thank the Government of India for its hospitality and express my gratitude to ADB for the organization of this meeting.

Our cooperation with ADB is of great importance for the Republic of Kazakhstan. Implementation of joint projects in the areas of infrastructure development, agriculture, water supply, and environmental protection show both a high level of mutual understanding between the Government of the Republic of Kazakhstan and ADB and great potential for further cooperation. In addition, I would like to note that, along with other international financial institutions, ADB will have opportunities to play a key role in the development and implementation of large-scale interregional projects in Central Asia that will facilitate the integration and economic development of states in the region.

In this respect, Kazakhstan supports the new initiatives contained in the second medium-term strategy (MTS II).

The Republic of Kazakhstan has adopted the ambitious goal of being among the 50 most competitive countries in the world. It is difficult to overestimate the importance of cooperation with the international financial institutions as we work to achieve this task. ADB’s expertise and knowledge will be needed by the Republic of Kazakhstan to create hi-tech industries, and to diversify the economy and increase its competitiveness.

In accordance with the address by the President of the Republic of Kazakhstan on 1 March 2006, the Government of the Republic of Kazakhstan has been assigned tasks that will allow the country to strengthen its economic development and to improve the citizens’ quality of life.

At the same time, the primary tasks and priorities of the Government correspond to those in the strategic plan for state development up to 2010, focusing on further realization of the long-term country development strategy up to 2030.

At present, we have preliminary analysis of the basic macroeconomic results for the last year. We achieved progress in most indicators.

For example, real GDP growth in 2005 was 9.4%, which amounted to $56 billion. Our per capita GDP was $3,620, and we plan to increase this to $5,800 by 2010.

I believe that we have not only the program documents but the instruments that will enable us to realize our goals and provide incentives for businesses in our country.

In this regard, we hope to further expand the fields of cooperation between Kazakhstan and ADB. We would like to include not only such issues as infrastructure improvement, improving the business environment, and solving
ecological problems, but improvements to the investment climate, and the development of sectors of the economy outside raw materials, tourism and agriculture.

In conclusion, I would like once again to extend to the ADB’s Board of Governors an invitation from the Republic of Kazakhstan to host the Annual Meeting of the ADB’s Board of Governors in our country in the near future.

REPUBLIC OF KOREA

DUCK-SOO HAN, Governor

First of all, let me express my deepest appreciation to the Government of India for hosting this Annual Meeting. I also extend my sincere gratitude to President Kuroda for his dedicated efforts to make this meeting a great success.

It is truly an honor for me to address such a distinguished audience today, in the city of Hyderabad. Hyderabad is a city where we can clearly witness the great potential of the latest information technology (IT) developments to make an even greater contribution to development and poverty reduction.

During the past year, the Asian economy has steadily maintained its position as a major growth engine for the world economy. The Asian region recorded a growth rate of over 6%, while developing countries expanded their trade surpluses and foreign asset base, maintaining inflation rates at a stable level.

I have no doubt that ADB’s painstaking efforts greatly contributed to the outstanding economic performance of the Asian region.

For this remarkable track record to firmly settle into more sustainable growth, allow me to make the following proposals for ADB.

First, ADB should step up its efforts to narrow the digital gap in this region. In the past, the term “digital divide” referred to the difference in the level of IT development, which was one of the main causes of the growth gap among Asian nations.

However, as I mentioned at the beginning of my speech, the advances in IT technology are emerging as a means to create a more even world.

Thanks to the benefits of IT development, countries such as the People’s Republic of China and India are achieving rapid economic growth and contributing to the redistribution of wealth among nations. Nevertheless, for the benefits of economic growth to be more broadly shared among all Asian nations, ADB needs to strengthen its efforts to close the digital gap in this region.

In this regard, I sincerely hope that the “e-Asia & Knowledge Partnership Fund”, launched with $20 million financed by the Republic of Korea, will greatly assist ADB’s efforts.

Second, I suggest that ADB reinvent itself as a knowledge bank, which can produce knowledge from its own resources. The Asian region is constantly faced with rapid changes, and the demands of ADB clients are changing accordingly.
For ADB to respond flexibly to such demands and to maximize its aid effectiveness, it needs to provide productive knowledge, on top of financial support, by proposing projects and programs based on its comparative advantage.

To this end, ADB should expand its links with world-class think-tanks and increase the opportunities for policy dialogue and forums, thereby establishing an efficient system of knowledge production, accumulation, and distribution.

Third, it is crucial for ADB to emerge as an agency that reflects the unique characteristics of the Asian region, while pursuing harmonization with other multilateral development banks at the same time.

Considering the difference in the absorptive capacity of organizations and the market situation in many developing countries, imposing standards that are identical to those of advanced economies may hamper economic growth.

Therefore, as a regional development bank, ADB must strive to come up with economic development strategies and governance models that can most efficiently operate in each developing nation of Asia. Moreover, the unique culture and practices of all individual nations should be taken into consideration in this process.

Within one generation, the Republic of Korea has successfully transformed itself from a borrowing to a donor country. Because of this unique experience, the Republic of Korea has the ability to understand the positions of both developing and advanced countries.

Taking advantage of this, the Republic of Korea is determined to play a leading role as a neutral and creative mediator between advanced and developing economies of Asia.

In this context, I have no doubt that the e-Asia and Knowledge Partnership Fund, launched with a contribution from the Republic of Korea, will serve as a very useful tool to bring this commitment into being.

Before I close my remarks, I would once again like to express my appreciation for the President’s excellent leadership.

I also hope that the second medium-term strategy, which envisions the future directions of reform for the next 3 years, will produce positive results. I anticipate tangible improvements to ADB’s aid effectiveness, both in terms of quality and quantity.
It is an honor and privilege for me to speak at the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). On behalf of the Government of the Kyrgyz Republic, let me thank the Management and staff of ADB as well as the Government and the people of India for the kind hospitality and excellent organization of this meeting.

ADB is a key international financial institution in Asia. The key role of ADB in rendering assistance to countries in need, particularly in providing emergency assistance, was demonstrated last year. A relatively short period of time was needed for ADB to establish and successfully operate new funds, including the Asian Tsunami Fund and the Pakistan Earthquake Fund. I believe that ADB’s response to the emergency needs in Southeast and South Asia was a good one.

I would also like to note that ADB under the leadership of new President Haruhiko Kuroda achieved a lot last year with the ADB reform agenda. Important strategic and policy papers for ADB were approved, which will contribute to improvement of the operations and staff capacity of ADB. I would like to express our gratitude to the Management and to the Board of Directors.

The year 2005 was a turning point in the history of the Kyrgyz Republic. The most important political event after the March Revolution last year was the election of the President of the Kyrgyz Republic. The election was held on 10 July 2005 and was recognized as fair and transparent by the international community. One of the most urgent tasks of the new Cabinet of Ministers of the Kyrgyz Republic was to avoid a sharp economic recession, preserve macroeconomic stability, and meet all its commitments to the international and donor community.

The Government of the Kyrgyz Republic has succeeded in doing this. Despite the difficult political and social situation in the Kyrgyz Republic, and contrary to the forecasts of some analysts, there was no economic collapse. The main achievement of the last year was the preservation of macroeconomic stability.

Currently, the Government, within the framework of its new economic policy, has defined the medium-term priorities of the republic’s social and economic development. The Government is developing a medium-term development strategy until 2010, aimed at accelerating economic development in order to solve the problem of poverty reduction. This important national document, with the participation of donors and civil society, will be completed by 1 June this year.

In March 2005, the Government of the Kyrgyz Republic and the member countries of the Paris club of creditors reached an agreement on rescheduling the public external debt of the Kyrgyz Republic, according to the Evian approach.

* Statement delivered in Russian. Translation supplied by the delegation.
Last year, all bilateral negotiations were successfully completed and agreements with the members of the Paris Club were signed. This rescheduling allows a reduction in the burden of external public debt servicing on the budget. At the same time, the problem of debt sustainability has remained an urgent one for us.

ADB is the major donor to the Kyrgyz Republic. Since joining ADB, the Kyrgyz Republic has received external financial aid in the amount of $604 million. All these loans were financed from the resources of the Asian Development Fund (ADF). The funds were channeled to transport, social protection of the population, education, public administration, finance, and energy. It is worth noting that, within the Asian Development Fund IX, a substantial part of assistance to our country is provided on a grant basis (50%), which, we are sure, will have a positive impact on poverty in the Kyrgyz Republic.

I would like to inform you that in March 2006, a joint country portfolio review of the Kyrgyz Republic was conducted with such donors as the Asian Development Bank, the World Bank, the Islamic Development Bank, and German development assistance (KFW). ADB was the coordinating organization.

This year, we are planning to hold consultations with major donors, including ADB, on the elaboration of a joint country assistance strategy for the medium term. We plan to hold a consultative meeting of donor countries. We believe that the joint country assistance strategy will contribute to the achievement of the Millennium Development Goals by the Kyrgyz Republic.

The Central Asia Regional Economic Cooperation (CAREC) Program deserves a special mention. I consider it very important that implementation of CAREC should continue. ADB and member countries of this program have made tremendous efforts to achieve mutually beneficial results. At the same time, I would like to express the hope that the role of the CAREC Program in developing economic and trade cooperation in Central and Eastern Asia will grow.

In conclusion, I would like to join to my Governor colleagues in expressing deep gratitude to the President of ADB, Mr. Haruhiko Kuroda, to ADB staff and members of the Board of Directors for their hard work during last year. I would like to wish you all the best in performing your tasks in the future and would like to assure ADB of the support of the Kyrgyz Republic in the coming years.

LAO PEOPLE’S DEMOCRATIC REPUBLIC
Chansy Phosikham, Governor

It is an honor and a great pleasure for me to represent the Government of the Lao People’s Democratic Republic (Lao PDR) at the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB).

Let me join my fellow Governors in congratulating the Chair, the President of ADB, and the Government and people of India for the excellent arrangements made for this important meeting and for the very warm hospitality extended to our delegation.
I am also pleased to have the opportunity to visit the beautiful city of Hyderabad with its long and remarkable cultural history.

I would like to take this opportunity to inform the meeting of the Lao PDR's current economic situation. In 2005, the economic growth rate was 7.2%, which was 0.2% higher than the projection. GDP per capita was $490, or an increase of 10.4% compared with the previous year. Inflation has been reduced from 8.6% at the end of 2004 to 6.5 % at the end of 2005, and the exchange rate has remained stable.

Domestic and foreign investment in the Lao PDR for the first 6 months of the fiscal year 2005–2006 has increased by 6.1%, compared with the same period last year. The capital inflow to the the Lao PDR from foreign investors through the banking system increased by 36.6% from the target level of $330 million. The main factors contributing to this growth were the adoption of the single window process for approving foreign direct investment (FDI), which has further facilitated and streamlined FDI; the start of the construction of the Nam Theun 2 hydropower project; and the start of a copper mining project. These two big projects have helped to increase foreign investors’ confidence in the Lao PDR.

The Government of Lao PDR had many achievements in 2005, particularly in reducing poverty and raising living standards. Most poor people live in remote areas, and make a living by engaging in shifting cultivation. The Government has policies to discourage the poor from slash-and-burn farming and shifting cultivation and to take up more sustainable jobs. In addition, the Government is working hard to provide basic social services with better coverage for the poor, particularly in the education and public health services.

In addition, the Government has actively promoted domestic production and foreign investment. This will contribute to job creation and increase the incomes of the poor. As a result of these measures, the poverty incidence in the Lao PDR has been reduced by 17.4% from the 201,672 poor families recorded in 2004. In addition, other social indicators have increased, and living standards have improved. Furthermore, in early 2006, the Government was able to announce that poppy cultivation had been virtually eliminated from the whole country.

The start of fiscal year 2005-2006 is also the start of the sixth 5-year social and economic development plan (2006-2010). The main economic targets for 2005-2006 are an economic growth rate of 7.5% to 8%, and a GDP per capita of $529 (an increase of 7.7% compared with the previous year). There is also a target of increasing revenue collection to 12.3% of GDP, or an increase of 19.8% compared with the previous year.

In addition, the Government will continue to support export-oriented policies in order to achieve export growth of 15%, compared with the previous year. In addition, the Government will continue to pursue appropriate fiscal policies, with the aim of increasing revenue collection and strengthening expenditure controls in order to maintain the stability of the economy.

We value the support from the international community highly, including support from bilateral and multilateral organizations and international financial institutions, including ADB. This support is very important for socioeconomic
development in our country, and will help to convert Lao PDR from a “land-locked country” to a “land-link country”.

The Lao PDR extends its full support to ADB’s initiatives for regional and subregional integration, particularly the integration of the Greater Mekong Subregion. This process includes highways, power, transportation, trade, and investment. We strongly believe this integration will contribute significantly to the economic development of the countries in the region and subregion.

According to the 2006-2008 country assistance strategies of ADB, the ADF allocation for the Lao PDR is $40 million per year, a reduction from the $52.8 million allocated in 2005–2006. We understand that the reduction in the ADF allocation for the Lao PDR was influenced by the adoption of performance-based allocations by ADB. We are very concerned that this reduction may affect the implementation of the social-economic development plan of the Lao PDR, and that it may result in a delay in our achieving the Millennium Development Goals. Therefore, I urge ADB and donors to reconsider this issue.

LUXEMBOURG
ARSÈNE JACOBY, Alternate Governor

It is an honor for me to represent Luxembourg at the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) here in Hyderabad. Echoing previous speakers, I would like to extend my thanks and appreciation to the Indian authorities for graciously hosting this event.

Yet another year of significant growth has come to an end in the Asia and Pacific region, home to the world’s most dynamic economies. Despite this strong expansion of growth, progress towards the Millennium Development Goals (MDGs) is uneven and insufficient. Although the proportion of poor people has decreased, poverty remains widespread. Following current trends, many developing nations will fail to meet the MDGs. Clearly ADB’s focus has to remain on poverty alleviation and pro-poor growth. In this context, particular attention should be given to the human development MDGs.

At present there are many discussions going on about where ADB is or should be heading. These are crucial in order to reposition ADB in a highly dynamic environment with diverging needs and priorities. On the one hand, the ADB will have to engage in a strategy with middle-income countries and emerging economies. On the other hand, it will need to devise a clear strategy with regard to low-income countries and weakly performing countries.

We appreciate the first steps undertaken under the innovation and efficiency initiative in order to make ADB more effective, efficient, and responsive. However, more needs to be done. Lending procedures must be streamlined, so resources can be freed up to focus on implementation, country assistance, and capacity building. ADB should act as a knowledge bank and catalyst to spread best practices, help target pro-poor policies and promote regional cooperation.
As a founding member of the European Union, we certainly think that regional cooperation is worthwhile promoting. However, we have some doubts about ADB’s strategy in this context, more specifically, we doubt there’s a role for ADB when it comes to monetary and financial integration. Other fora seem to be better equipped to deal with this issue.

We take note of the current discussions on ADB’s medium-term strategy. By insisting on greater selectivity within countries of operation and by refocusing ADB’s attention on core operational issues, this strategy may well prove vital to better addressing the remaining development challenges. However, we are concerned about ADB’s continuous insistence on increasing the volume of loans, whereas the real issue is to improve its track record in poverty reduction. We also feel that private sector development could play a more prominent role. Finally, promoting good governance, including the fight against corruption, is of utmost importance.

We sincerely hope that under the President’s strong leadership, there will be progress on all of these matters. Ensuring robust support by all shareholders is essential in this context. More open exchange between management and the Executive Board is badly needed. All these measures will have been in vain if they are also not taken in consultation with ADB’s most precious resource, its highly qualified personnel. In order to maintain a highly motivated and highly skilled staff, ADB must strive toward a culture of dialogue, participation, and transparency. Necessary measures should include clearly defined responsibilities for staff at all levels, starting with the vice presidents.

Without dialogue there will be no consensus and without consensus ADB will become neither more relevant nor more responsive. Let me conclude by referring to one of India’s greatest leaders. As Mahatma Gandhi put it: “We must become the change we want to see.” ADB has Luxembourg’s full support in this endeavor.

MALAYSIA
NOR MOHAMED YAKCOP, Governor ad interim

It is a great honor for me to address the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). On behalf of the Government of Malaysia, I would like to express our gratitude to the Government of India and the people of Hyderabad for the fine arrangements and cordial hospitality extended.

Medium-Term Strategy
Malaysia acknowledges ADB’s role in economic development and in fostering poverty reduction in the Asia and Pacific region. I think it is only fair to say that the decline in poverty from 32% in 1990 to 22% in 2000 is to some extent attributable to ADB’s support and intervention and its determined focus on poverty alleviation. I note that ADB is currently embarking on the second phase
of its medium-term strategy for 2006–2008. The strategy includes catalyzing investment, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and containing corruption. This is going to be a daunting task for ADB, since Asia is not only home to two thirds of the world’s poor, it also consists of countries that are at different stages of economic development, and exhibit political and cultural differences. As a member country, Malaysia is keen to see ADB play a more significant role in helping to build a common platform to leverage these differences into strengths, thereby bringing about greater intra-regional trade and investments in the region. Nevertheless, this must be done without the developing member countries (DMCs) having to compromise their national strategic policies. This is important because ADB must play the primary role in facilitating, instead of dictating or frustrating, the achievements of DMCs’ national policies.

Regional Cooperation and Integration

Malaysia welcomes the focus on regionalism in the medium-term strategy. Although the scope has been limited to supporting cross-border infrastructure, monetary and financial cooperation, trade and investment and regional public goods, we are of the opinion that ADB’s involvement must not be confined to merely instituting and strengthening policy, legal and regulatory frameworks, or to harmonizing the bilateral and subregional free trade agreements in the region. Rather, ADB’s contribution is needed to provide grants and loans at concessional rates to encourage private sector participation in this integration exercise and to encourage private sector operations in less desirable markets. In this context, Malaysia foresees vast potential for development in trade and investment if the Asian automated clearing house as proposed by ADB could be established immediately.

On financial and monetary cooperation and integration, it is important to note that closer monetary arrangements are a means to promote greater real integration, en route to higher economic growth and levels of prosperity. As such, the steps taken by ADB toward developing an Asian currency unit (ACU) comprising a weighted index of Asian currencies need to be more clearly defined, so the ACU is not undermined by economic and financial ambiguity. Member countries ought to be fully engaged in determining the countries that need to be included in the index and in ascertaining the weights themselves. Caution is needed so that ACU is not treated as the de facto benchmark to measure the misalignment of an individual currency. The markets may eventually question the credibility of the ACU. Nevertheless, although the ACU will initially serve as an indicator to monitor the movement of Asian currencies against a regional benchmark and against other key external currencies, it would be beneficial for the DMCs if ADB could also look at the cost-benefit analysis of instituting the ACU as an international currency for the Asian region. This was how the Euro was first conceived. In fact, a study conducted by the International Monetary Fund (IMF) in 2004 contains evidence of trade gains and trade-creating effects.
after the introduction of the European Economic Monetary Union. Likewise, there is optimism on the potential impact of the ACU on economic and financial integration but caution must be exercised not to pursue closer monetary integration ahead of real integration.

**Engagement with Middle-Income Countries**

I am happy to note that ADB has been actively engaging middle-income countries to be more involved in ADB operations. In this regard, Malaysia values the efforts made by ADB to participate in the recent RM500 million 5-year bond issues under Malaysia’s RM3.8 medium-term note program. ADB’s participation serves to create a more vibrant capital market for the further development of the Malaysia bond market. Malaysia also takes note of the cooperation by ADB with other multilateral development banks (MDBs) to harmonize consultancy and procurement guidelines, and in introducing new financing modalities for sub-sovereign borrowing to promote public–private partnership in the process of getting middle-income countries to borrow from ADB under its ordinary capital resources. ADB needs to be cautious and prudent, as sub-sovereign borrowing has greater risk than lending to sovereign governments. At the same time, ADB also needs to focus on stimulating private sector operations that will catalyze mobilization of resources from a country’s reserves to generate economic activities and hence create employment and subsequently reduce poverty. Imposing too many conditions and exercising rigidity in implementation will only discourage the private sector from borrowing from ADB. Unfortunately, ADB is moving too cautiously in its private sector operations and this needs to change.

Asian economies at present have become far more robust. The opening up of the People’s Republic of China and India has changed the global economic landscape dramatically. Labor- and capital-intensive modes of development have given way to productivity and knowledge-based growth. Populations have become increasingly urbanized and educated, while the middle-income group has expanded. Yet there are income disparities between rural and urban areas and between less developed and more developed regions. These are the concerns that Malaysia has addressed in our recently launched Ninth Malaysia Plan (2006-2010). In the plan, Malaysia has given greater prominence to key areas such as raising the capacity for knowledge and innovation through education and human capital development; addressing persistent socio-economic inequalities constructively and productively; improving the standard and sustainability of the quality of life, and effective execution of policies. It is our hope that ADB can play a more significant role in helping individual member countries like Malaysia to foster economic development and improve social economic inequalities without having to compromise on their national strategic policies.

Malaysia has supported ADB in all its endeavors and will continue to do so. We are looking forward to working closely with ADB and other member countries to enhance economic growth in the region. To conclude, allow me to welcome Brunei Darussalam as a new member of ADB. On behalf of the Malaysian
delegation, I would once again like to express our sincere appreciation to the Government of India and the people of Hyderabad for making the 39th Annual Meeting of Board of Governors a memorable one. I would also like to commend Mr. Haruhiko Kuroda, the President, its Directors, management and staff for ADB excellent performance and achievements in 2005.

MALDIVES
MOHAMED JALEEL, Governor

I bring to you the best wishes of the people and the Government of the Maldives. On behalf of my delegation I would like to thank the people and the Government of India for hosting the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) in the beautiful city of Hyderabad. We are heartened by your warm hospitality, impressed by the thoughtful arrangements, and indebted for this opportunity to be here in this progressive and vibrant city.

Let me also take this opportunity to join other members in congratulating and welcoming both Armenia and Brunei Darussalam to ADB. I wish them every success.

The year 2005 was extremely challenging for the Maldives. The new year came only a week after the worst natural disaster in the recorded history of our country—the Asian tsunami of 26 December 2004. To this day we are continuing to deal with the difficult task of recovery and reconstruction to restore our economy to the levels of 2004.

I consider it my duty to express my deep appreciation to the Board of Governors for the strong support extended by ADB to the people of my country at this difficult time. I also wish to place on record the generous assistance received from other member countries, which restored the livelihood of the thousands who lost their lifetime savings, established confidence in development efforts, and provided momentum for our growth.

I am pleased to inform you that our economy has started to rebound, fuelled by an early recovery in tourism and fisheries. Although there is a substantial funding gap in some critical areas, the reconstruction program is well underway. We are undertaking the reconstruction of a small country and restoring the economy to growth of more than 7% from 2006 to 2008.

Our challenge is to meet the Millennium Development Goals and to graduate from least developed country (LDC) status by 2011. We are developing a policy regime to promote private-sector-led development and export-oriented growth, including promotion of a greater role for foreign direct investment. We expect greater ADB support in this regard.

To this end, we have embarked on credible reforms that will allow greater democratization and improve the economy. To ensure greater fiscal responsibility, a new public accounting system has been put in place and public finance legislation has been developed with the assistance of ADB and other donors.
This legislation was enacted by the Parliament in January this year. A new Banking Act is being prepared and the Central Bank Act is being revised in line with international best practice. This legislation is expected to be enacted by Parliament this year. The Seventh National Development Plan has been completed, with a focus on an integrated framework for development.

The Maldives supports ADB’s new initiatives under the second medium-term strategy and appreciates ADB’s assistance for the development of our medium-term planning.

At the last Annual Meeting in Istanbul my predecessor Hon. Ismail Shafeeu appealed to the international community to stay engaged with us during our journey of reform and development. I wish to reiterate his appeal while I express my Government’s gratitude for the long service he gave to ADB and his country as Governor for the Maldives.

In conclusion, I wish to thank the people and the Government of India for the generous hospitality extended to us. I would also like to thank ADB for the excellent arrangements made for this meeting.

Finally, let me express my Government’s support for ADB President Kuroda’s vision articulated yesterday for an Asia and Pacific region where, and I quote him, “Every individual can live with dignity—free of poverty and sharing in prosperity”. I assure you of my Government’s full commitment to this end.

MONGOLIA

CHIMEDDORJ GANZORIG, Head of Delegation

It is a great honor for me to address the 39th Annual Meeting of the Asian Development Bank (ADB) on behalf of the Government of Mongolia. Please let me to join others in thanking the Government of India and the city of Hyderabad for hosting this meeting, and express my deep appreciation to the management and staff of ADB for the excellent arrangements.

In recent years the Asia and Pacific region has been affected by a series of disasters such as the SARS epidemic, the Asian tsunami catastrophe, the avian influenza epidemic, and most recently the South Asia earthquake which affected thousands of lives and destroyed even more livelihoods. On behalf of Mongolia allow me to express my deepest condolences to the disaster-affected countries and people.

I would like to commend ADB for its quick response to the disaster, which proved yet again ADB’s leadership as the main bank of the region. It is reassuring to know that when crises of such magnitude occur, ADB has the capacity to manage and coordinate relief efforts.

Mongolia supports the new initiatives under the second medium-term strategy (MTS II). At the same time I would like to confirm Mongolia’s commitment to the Central Asia Regional Economic Cooperation program and commend ADB for its activities as the facilitator of the program.
Now I will turn to the Mongolian economy and touch on some priority issues of our Government. In the 15 years since the transition to a market economy, Mongolia has achieved macroeconomic stabilization, strengthened the banking and financial sectors, and ensured development of a healthy private sector through sound privatization and tax policies. In 2005, economic growth reached 6.2%, while the inflation rate was 9.5%. The exchange rate remained stable. As a result of prudent fiscal policy and a favorable economic situation, in 2005 Mongolia enjoyed a budget surplus equal to 3.2% of the GDP.

Today over 70% of Mongolia’s GDP is produced by the private sector, and the Government is strongly committed to promoting private-sector-led economic growth as an instrument of poverty reduction. In this regard, Mongolia welcomes ADB’s activities in private sector development, through endorsement of public–private partnerships and credit support to the small and medium-sized enterprise (SME) sector.

Against this backdrop, we must not overlook the challenges that the Government of Mongolia faces in the progress toward achieving the Millennium Development Goals (MDGs). Mongolia, like many other developing countries, is searching for answers to such critical issues as rapid assessments of current state policies and appropriate institutional arrangements to manage the process of developing and implementing an MDG-based national development strategy. This is a challenging task for Mongolia. On behalf of our Government, allow me to confirm our deep resolve to take the lead in harmonizing national strategies and aid activities to ensure the effectiveness of our collective efforts and promote tangible development results.

Finally, I would like to commend President Kuroda, and the directors, management and staff of ADB on the extensive internal reforms and initiatives carried out in the last year. During the Istanbul Meeting last year President Kuroda identified increased assistance to developing member countries as one such initiative. Mongolia welcomes this and encourages President Kuroda and the management of ADB to continue their efforts to increase the grant ratio of ADB’s products to ensure the continued competitiveness of our regional bank.

I would like to wish ADB another fruitful year of progress and achievement.

MYANMAR
HLA TUN, Governor

It is a great honor and pleasure for me to represent Myanmar and to address this auspicious 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) in this very spectacular city of Hyderabad.

At the outset, I would like to take this opportunity to congratulate the chair on his election. May I also extend our warmest welcome to Brunei Darussalam as the newest member of ADB.
On behalf of the Myanmar delegation, I also wish to join other speakers in expressing our deep and sincere appreciation to the Government and the people of India as well as to ADB management and staff for the excellent arrangements made for this very important meeting.

The global economy is currently encountering a number of risks and challenges. These include global imbalances and disorderly adjustment, leading to turbulence in global financial markets; a sharp upturn in global interest rates; outbreaks of avian influenza; and further increases in oil prices. However, Asia, and especially developing Asia, has exhibited remarkable resilience. Developing Asia is continuing to adjust to the emergence of the People’s Republic of China (PRC) and India as major economic powers. Taking advantage of the enormous opportunities that these potential economic powerhouses should bring to the region, developing Asia is expected to continue rapid and robust growth in the coming years. While developing countries, including those in Asia, strive for continued economic momentum, developed countries will also need to contribute to the social and economic development of the rest of the world to assist in achieving balanced global growth.

I would like to highlight some recent economic developments in Myanmar. The year 2005-2006 is the final year of the Third Five Year Short-Term Plan. The objectives of the plan are:

- to set up more industries based on agriculture;
- to ensure the development of the electric power and energy sectors in conformity with the establishment of more industries;
- to exert greater efforts for self-sufficiency in the agricultural sector and the fish and meat sector and to strive for exports;
- to strive for the all-round development of other sectors;
- to develop the social sector, including education and health, for the reduction of poverty, promotion of gender equality, reduction of income distribution and development of human resources; and
- to ensure rural development.

I am happy to say that Myanmar’s economy has performed very well in recent years. The agricultural sector, which represents over 40% of GDP, remains the main engine driving the nation’s economic growth. In addition, the energy, livestock and fishery, mining, manufacturing, and processing sectors have contributed to the growth of the economy.

The government has established and is implementing projects to develop economic infrastructure and is making efforts in all spheres to develop the private sector. Efforts are also being made to establish agro-based industries, and to develop the electric power and energy sectors. The Government is also encouraging the use of bio-diesel products from physic nut as an alternative energy source. Further improvement of the agricultural and forestry sectors for self-sufficiency and export is also being undertaken. Moreover, improvements to the education and health sectors are being made in order to reduce poverty and ensure the development of human resources. Rural development is being carried out in order to achieve the Millennium Development Goals (MDGs).
Because of these efforts, significant progress has been made. Although there are some negative external impacts, such as higher oil prices and pandemic diseases, a high growth rate was achieved in 2004-2005. Therefore, based on the high growth rates in all sectors for the past couple of years, the growth rate for 2005-2006 is expected to exceed targets.

There was an outbreak of avian influenza in some townships of Upper Myanmar in February and March of this year. The Government, closely working together with the World Health Organization (WHO), has taken actions as well as precautionary measures to prevent and control the disease. I am glad to say that the Government has been successful in controlling avian influenza and that no human cases have been detected.

To successfully achieve the Millennium Development Goals (MDGs) remains our top priority, as well as our greatest challenge. In this context, I am glad to inform you that, in line with the country’s political, economic and social objectives, Myanmar has been able to make progress toward some of the MDG targets. Nevertheless, there are still some challenges that need to be overcome if all are to be met by 2015.

Myanmar is also making continuous efforts to combat money laundering and to fight financing of terrorism as well as to prevent trafficking of persons, in cooperation with the international community. Accordingly, the Control of Money Laundering Law and Rules and the Mutual Assistance in Criminal Matters Law and Rules were enacted in the past couple of years. The Anti-Trafficking of Persons Law was promulgated in September of last year. In this regard, I would like to inform you that Myanmar became a member of the Asia and Pacific Group on Anti-Money Laundering in March of this year. Myanmar will continue to take part not only in regional economic and financial cooperation, but also in preventing and combating terrorism and anti-money laundering issues at the international level as well.

May I reiterate here that Myanmar has made these achievements by depending on its own resources. It has been nearly 18 years since international organizations, in many of which Myanmar is an active and long-term member, began neglecting and stopping financial assistance to Myanmar. In using its own resources for its economic and social development, Myanmar has had to overcome many obstacles and difficulties on its own.

Needless to say, a country’s efforts to develop would be achieved more quickly if its efforts were supported by international organizations, as there are many challenges that may exceed the capacity of an individual country to overcome alone. It is fortunate that we have good relations with our neighboring countries, which have assisted Myanmar in its times of need. In the meantime, Myanmar is doing its best to maintain its growth momentum and is determined to continue its efforts.

In doing so, like other countries, Myanmar may have to face some risks and challenges. One of the challenges is the economic sanctions imposed by the United States on Myanmar and the international financial institutions’ decision to stop financial assistance to Myanmar. These actions have pressured the
Government to rely on its own resources in order to achieve sustainable growth. This has led to continued budget deficits. However, it is expected that in the near future Myanmar will be able to balance its budget because of a broadening of the tax base, high growth rates in production, and increases in exports.

On the other hand, continued increases in global oil prices are yet another factor that may have an impact on Myanmar’s economy. Although Myanmar is an energy-exporting country, during this fiscal year it may face imported inflation as the prices of some imported goods may rise.

Whatever risks and challenges lay ahead, Myanmar intends to forge ahead to maintain its growth momentum, not only for its own benefit but also for the benefit of the whole region. At this stage, ADB should consider resumption of its financial assistance to Myanmar, so as not only to assist in achieving economic development but also for the successful implementation of the Millennium Development Goals (MDGs). Myanmar for its part intends to continue to cooperate and collaborate with ADB for the development of regional coordination.

Finally, I would like to express our profound thanks once again to the people and the Government of India for the warm hospitality extended to us since our arrival and the excellent arrangements provided to us. Let me conclude by thanking President Kuroda and the ADB staff for their continued dedication to economic development in the region. We look forward to having closer cooperation with ADB in the future and I wish ADB all the success in the coming year.

NEPAL

PRAMOD KUMAR KARKI, Alternate Governor

I bring a message of goodwill and cooperation from Nepal’s new government to this Annual Meeting in the historic and rapidly transforming city of Hyderabad.

First of all, we would like to welcome Armenia and Brunei Darussalam into the Asian Development Bank (ADB) family.

Looking back, we have reasonable grounds to be happy about the performance of ADB in the past year, which has also been President Kuroda’s first year in office. We congratulate the President for the successful implementation of the reform agenda that ADB set for itself.

In addition, ADB introduced innovative financing modalities and instruments in 2005 that are primarily focused at the financing needs of member countries. ADB’s rapid and effective response to emergencies such as the Asian tsunami, severe acute respiratory syndrome (SARS), avian influenza, and the devastating South Asia earthquake was commendable. We note that ADB is increasingly listening to what developing member countries have to say and tailoring its assistance and implementation methods so they are in line with national priorities and practices. There is much to be done in the area of aligning aid with national priorities and procedures, but we see the present efforts are in the right direction.
We support the second medium-term strategy. Nevertheless, implementation should meet the development expectations of member countries so that it becomes relevant, responsive, and result-oriented. This, we believe, is also the commitment of the President.

Because of the extremely high growth rate in the large economies, the overall growth rate of developing Asia and the Pacific is expected to be over 7% in 2006 and 2007. Developing Asia’s trade surplus with the rest of the world is widening. Asia is rising and rising rapidly. However, we must be mindful of the emerging inequalities among nations. We must keep reminding ourselves of the old saying that “poverty anywhere is a threat to prosperity everywhere”. Income inequalities within nations breed insurgency and conflict; this is what Nepal has experienced for the past 10 years. Illegal migration and terrorism is clearly because of income inequalities among nations. There is therefore a greater need for regional cooperation and integration in the area of trade, investment, and cross-border infrastructure. ADB has rightly taken up this issue as one of its strategic priorities. However, there is a need to translate this priority into real action that benefits the developing member countries adjacent to emerging economies.

Developing Asia, and particularly South Asia, needs huge investments in physical infrastructure to sustain the present rate of economic growth and to provide a better investment climate. While good infrastructure will surely attract new investments in manufacturing and service sectors, investors also need a better governance and policy environment and a larger base of skilled human resources.

The financial markets in developing member countries have mostly been urban-biased and financial services have been expensive in rural areas where most of the poor live. We cannot possibly reduce rural poverty unless we have a financial infrastructure in rural areas that is as effective and efficient as that in the urban commercial centers.

Under President Kuroda’s leadership, we anticipate that ADB will pay due attention to these requirements for sustainable and equitable development.

Nepal has recently experienced a tremendous popular uprising seeking to establish a political and governance system that is democratic, inclusive, and broad-based. The parliament has been reinstated and a new government has vowed to end the decade-long armed conflict through appropriate reforms in the political and governance system. The parliament has already passed a resolution calling for a constituent assembly to draft a new constitution according to the wishes of the people.

In spite of the decade-long conflict, the Nepalese economy had shown resilience, mainly because of a tight fiscal policy, an increasing flow of external remittances, and implementation of various reform programs. Since 2002, the GDP growth rate slowed to an average of 2% per annum and preliminary estimates indicate that the growth rate will not exceed 2% at the end of current fiscal year.

As a result of weak export performance, a decline in industrial output, and an overall slowdown in economic activity, there are indications that the general
economic stability achieved until 2005 may not remain. Inflation has exceeded 7%, which is much higher than the average annual rate of inflation in the past 4 years. Government revenue is declining, while current expenditures remain unabated. We realize that immediate action is needed to save the country from falling into economic crisis, which is why Nepal is in need of greater international support during this period. The Government will soon work out the details and put up proposals for discussion at an appropriate forum.

Finally, I would like to take this opportunity to thank the Government of India and people of Hyderabad for the excellent hospitality provided to my delegation.

THE NETHERLANDS
GERARD STEEGHS, Head of Delegation

I would like to express my gratitude to the Government of India for hosting its Annual Meeting in this most charming city.

Hyderabad is indeed an excellent location to address issues affecting the Asian Development Bank (ADB). It is unique for its rich historical sites but also for its very modern outlook. This emerging IT and biotech hub of India can rightly serve as a symbol of India’s, but also Asia’s, ongoing dynamic transformation.

The Asia 2015 conference reaffirmed the remarkable successes of this region, both in terms of economic growth and poverty alleviation. However, the joint chairs of the conference also concluded that Asia’s rapid growth may not automatically continue and that sustainable economic growth is a necessary but not sufficient condition for eradicating extreme poverty. Despite an impressive average GDP growth of 7.4%, gains have been uneven, within and across Asian countries. Too many marginalized groups are still unable to share substantially in the benefits of economic growth and trade liberalization. It pays for the economy as a whole to include vulnerable groups and involve them in an economically productive way. Meeting the Millennium Development Goals in 2015 will benefit us all.

Medium-Term Strategy II

ADB has already started to address its own recent strategic transformation. In the previous year, several measures were taken to raise ADB’s relevance and responsiveness. We warmly welcome the innovation and efficiency initiative and support the creation of the Independent Risk Assessment Unit. We also recognize the first, essential steps taken toward greater strategic focus and selectivity as laid down in the new medium-term strategy (MTS II).

However, clear focus and selectivity can only be implemented successfully if the strategic prioritization is accompanied by a commensurate shift of resources: a shift toward those sectors in which ADB has a clear comparative advantage. I propose that such resource implications be addressed in a business plan for the MTS II, to be approved by the Board.
Several lessons can be drawn from recent strategy discussions, particularly the debate on the MTS II. First of all, in order to guarantee ownership and consensus among all stakeholders both within and outside ADB, it is very important to develop key strategies through a fully consultative and participatory process. Second, strategies like the MTS II have to be supported by strong leadership from management—if not, they become paper tigers. For this we need clearly defined accountability, also at the most senior management levels, and sufficient attention to day-to-day business processes. Lastly, the mutual interaction between Management and the Board on key strategic issues needs to improve in order to further strengthen the governance structure of ADB and the ownership of all its shareholders.

To be clear: the Netherlands supports the new priorities contained in the MTS II. These new priorities, however, have to demonstrably contribute to the chief objective of ADB—poverty reduction. Increased development effectiveness and the instruments to measure this are of crucial importance. Only then can ADB contribute to economic growth that includes those at the bottom of the pyramid.

Real transformation of ADB will have to be accompanied by a major change in management culture. A strategy of change, coupled with a commitment to management for development results (MfDR) is needed.

ADB is first and foremost a development institution. As such it is a regional player within the global development architecture that has to serve us in attaining the Millennium Development Goals (MDGs). Its comparative advantage is first of all promoting sustainable economic development, with a guarantee of quality and effectiveness. The Netherlands will assess the usefulness of its presence in ADB against these criteria.

**Lending Policy**

We welcome ADB’s proposals to align its Asian Development Fund (ADF) grants framework with that of the fourteenth replenishment of the International Development Association (IDA 14). We are convinced that the use of the debt sustainability framework should become the main instrument for all development partners to prevent unsustainable debt burdens and encourage prudent use of external finance. ADB’s overarching objectives of poverty reduction and sustainable economic development are still very relevant. It must ensure that all groups are heard and respond to the needs of all its clients: middle-income and low-income countries. We strongly welcome the increased dialogue with ordinary capital resources (OCR) borrowers and look forward to discussing specific proposals to strengthen their partnership with the ADB.

**Infrastructure and Environment**

We support ADB’s continued focus on infrastructure development, particularly with regard to energy, rural infrastructure, and water. We encourage ADB’s involvement in the environment. This type of infrastructure investment is also important for low-income countries. The recently proposed “Investment
framework for clean energy and sustainable development” is mainly directed at larger middle-income countries. However, lack of access to energy is an acute problem in many low-income countries. This is why the Netherlands minister for development cooperation, Agnes van Ardenne, proposed in last month’s Development Committee, an “Energy for All” initiative, focusing on sustainable use of wood fuel and cook stoves, access to electricity and energy for social services or economic purposes. Regional development banks have a role to play in this framework. In addition to ADB’s recent carbon market initiative, which we welcome, we would like to invite the ADB to sign up to the ‘Energy for All Initiative’.

**Private Sector Development**

In the area of private sector development, strengthening the business climate is of the essence. Closer collaboration between the private and public sector arms of ADB remains necessary where direct lending operations of the Bank are concerned. Moreover, rather than the size of the ADB portfolio, it is the development impact and value-added of private sector operations that matter most.

**Regional Cooperation and Integration**

ADB has a natural role to play as a knowledgeable advisor and powerful catalyst for regional cooperation and integration. It will soon present a coherent framework for regional cooperation. Maintaining focus and selectivity is a precondition for effective implementation, as is a clear vision on how such a framework can contribute to poverty reduction. Perhaps one of the most important contributions could be in the area of regional public goods. ADB is ideally placed to play a role in matchmaking as well as in pointing out the need for cooperation.

**Governance**

We welcome the inclusion of governance and anti-corruption measures as a new ADB priority issue. As a cross-cutting issue, governance must apply to all ADB activities. ADB’s goal should be to eliminate corruption. Fighting corruption requires a systematic approach with regard to capacity building. A decrease in the administrative burden can also contribute. Anti-corruption measures deserve to be a core priority of all country strategy and program documents. Establishment of a clear accountability framework is necessary to ensure effective implementation of commitments.

In conclusion, I would like to underline that ADB continues to be an essential partner that contributes to further economic and social development in the region. It is a partner that effectively demonstrates the value-added of its corporate mandate in the Asia and Pacific region, ensuring that all groups are heard and responding to the needs of all its clients.
NEW ZEALAND
TREVOR COLIN MALLARD, Head of Delegation

Let me begin by extending New Zealand’s appreciation to our hosts, the Government of India, to the Asian Development Bank (ADB) President and his staff and to the people of Hyderabad for the excellent arrangements for this meeting.

The region continues to be beset by natural disaster. In this regard New Zealand welcomes the initiative of ADB in establishing the Pakistan Earthquake Fund and the earlier Asian Tsunami Fund.

The past 12 months have seen a significant lift in the relationship between ADB and New Zealand. In March this year the New Zealand Prime Minister Helen Clark took the opportunity to call upon President Kuroda and we appreciate the welcome extended to her. This visit provided an opportunity for New Zealand to discuss its concerns and priorities, particularly for the Pacific, and to exchange views on how to address these.

The past year also saw the initiation and a second round of what will be regular consultations between ADB senior management and New Zealand. We emphasized the importance we place on developing an effective partnership with ADB and agreement was reached on cooperative approaches to development assistance in a number of areas.

The consultations provide a framework for ADB and the New Zealand Agency for International Development (NZAID) to develop effective partnerships at the operational level, in accordance with the Paris Declaration principles on donor harmonization and alignment with developing country strategies and processes.

Because ADB has made a full commitment to the Paris Declaration and for reasons of common sense, it is important that this commitment be made more effective at the operational level. The fundamental principle of ownership by our developing partners must also be pursued. New Zealand believes that this can be done within acceptable prudential bounds and that it will have important impacts by lowering the cost of administering development assistance for developing partners, while at the same time building their capacities.

In this context, New Zealand is concerned that ADB’s medium-term strategy for 2006–2008 did not sufficiently emphasize the implementation of Paris Declaration targets. These targets were more evident in the preceding strategy. This is an area where we believe much more needs to be done by ADB. We were also disappointed that the strategy did not deal more explicitly with how it intends to assist weakly performing states, and we look forward to the promised companion paper on this issue.

Nonetheless, the strategy’s emphasis on core activities, particularly on catalyzing investment and improving governance, is welcome. The focus on regional cooperation and integration is also timely, as regional approaches, pursued by ADB within its core mandates, can enhance the ability of developing
countries to take advantage of globalization and mutually strengthen their efforts toward development.

In this context, New Zealand appreciates ADB’s contribution to the development of the Pacific Plan, which was adopted by the Pacific Islands Forum in October 2005. New Zealand firmly believes that many of the challenges faced by Pacific island countries can be best dealt with through greater regional cooperation and integration. We look forward to cooperating closely with ADB and other development partners in the Pacific in supporting the implementation of the Pacific Plan under the guidance of forum leaders.

Notwithstanding, the progress made by Papua New Guinea and the involvement of ADB in the “Honiara Club”, we remain concerned that debt levels in other Pacific island countries continue to rise. In this respect we urge ADB to make full use of the grant element in the Asian Development Fund when assisting the Pacific. Such an approach would also be useful for other developing member states suffering from debt stress, and also for funding activities, especially in social sectors that do not generate immediate cash returns which could be used to service debt.

New Zealand welcomes the intervention of our host Prime Minister on the matter of trade liberalization. We are certainly willing to work with India to convince others that, as well as trading in the brilliant biotech and ICT products from this city and country, Asia and Pacific region food should likewise be freely traded, rather than held at artificially high prices throughout the world. The biggest contribution that donor nations could make to the economic growth of all countries is not through aid, it is through the removal of trade barriers. There is no justice in pouring funds into developing more productive farmers in developing countries and then turning away their goods at your borders.

As a small country, and hence a small player in the global efforts toward development assistance, New Zealand has found that close partnerships with developing countries and sometimes other donors are the most effective way to achieve development impact. Our partnership with ADB has continued to strengthen and we look forward to building on this in the year ahead. We thank President Kuroda and his staff and wish them success for the coming year.

NORWAY
INGRID GLAD, Head of Delegation

I would like to thank the Government of India and the beautiful and historic city of Hyderabad for their warm hospitality and the excellent organization of this meeting.

Pakistan experienced a devastating earthquake in October last year. We would like to take this opportunity to reiterate our sincere and deeply-felt sympathy for the many victims and for all those who have lost friends and family.
Norway commends the early response, active involvement and leadership of the Asian Development Bank (ADB) in the reconstruction efforts in Pakistan. The Pakistan Earthquake Fund (PEF) was established quickly. Norway will contribute to this fund through a $20 million debt-for-development swap between Norway, Pakistan and ADB. The parties are working on the details at present. We are very happy that ADB is interested in employing these innovative cofinancing mechanisms, and hope this may inspire other creditor countries as well.

I would like to start by reiterating Norway’s strong support for ADB’s long-term vision of “an Asia and Pacific region free of poverty”. The long-term strategic framework (LTSF) 2001-2015 provides the road map for translating that vision into action. As you all know, the framework consists of three equally important pillars: pro-poor sustainable growth, inclusive social development, and good governance. It is crucial that all these considerations are duly reflected in the second medium-term strategy (MTS II).

A year has passed since we last met in Istanbul. I would like to commend your work on ADB strategy, including the MTS II and the strategy on regional cooperation and integration. It is important that these strategies are aligned and that they give proper attention to focus and selectivity. In our view, ADB is undergoing a major transformation. During such a transformation process, firm and transparent change management is of utmost importance. The MTS II is the main strategy we need to deal with at this juncture. In the preparation process, we would have liked to have seen more focus on the needs of the poorest countries and a broader and more inclusive consultation process.

Regional cooperation and integration should lead to increased cooperation, with the goal of alleviating poverty in the region. ADB’s mandate should be clarified and the value-added it generates should be determined, especially in relation to the two pillars: trade and investment, and monetary and financial cooperation and integration. Norway welcomes the proposal to identify the sectors for private sector involvement in the country strategies and programs (CSPs). Cooperation between the public and the private sector departments of ADB is crucial to ensure pro-poor development.

I would now like to highlight three issues of particular importance: anticorruption measures, gender equality, and the environment.

The multilateral development banks lend about $40 billion a year. According to a recent World Bank study, a vast amount is lost through corruption. A best-case scenario indicates that some $1.2 billion of funds intended for poverty alleviation falls into the wrong hands every year.

The findings of the review of the implementation of ADB’s governance and anticorruption policies were worrying, particularly as the MTS II is rather weak on this issue. The objective should not be just to prevent corruption, but to eliminate it, in close collaboration with the developing member countries and ADB’s development partners. It is imperative that the forthcoming action plan is firmly rooted in the operational departments and has a clear accountability framework for ensuring its implementation. More resources are needed for the ADB’s anti-corruption measures and investigations.

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We commend the increased cooperation between the multilateral development banks in fighting corruption. In this context, we would like to encourage the President to take a firm public stance on good governance and anti-corruption measures, together with his colleagues in the other banks.

Gender equality continues to be a key priority in Norway’s development policy. We all know that gender equality plays an important role in poverty reduction. The Millennium Development Goals have reinforced the importance of this issue. We are long-standing supporters of the ADB’s Gender and Development Fund and will continue this support.

It seems to us that gender equality is not exactly at the top of the agenda of the ADB at present. We are quite disappointed that the issue does not figure more prominently in the MTS II. The placement of gender specialists in resident missions has proven to be a most successful institutional innovation under ADB’s gender and development policy. It should be continued. We look forward to the gender action plan III, which will be a key document in determining what further actions are needed and hopefully bring gender equality back onto the ADB agenda.

Our new Government is also putting special emphasis on the environment. We warmly welcome ADB’s signal, confirmed in the MTS II, that it will become more involved in environmental issues, including water, energy-use patterns and renewable energy. The total public and private investment needs for improved water supply and sanitation are considerable. Although good progress has been made, the Asia and Pacific region is still falling short of targets because of rapid population growth, increased urbanization, and poor water supply performance.

We are also very interested in ADB’s carbon market initiative. Carbon finance is a promising tool for attracting private investment for development purposes. We note that several development banks are becoming involved in carbon finance initiatives and would encourage actors to seek synergies, not least with the World Bank’s Carbon Finance Unit, which has the most experience in this field.

It is almost 2 years since we completed the negotiations for the eighth replenishment of the Asian Development Fund. The donors’ report has a strong focus on alleviating poverty in the region. ADB’s reform commitments will make ADB a stronger development partner. The progress of ADF IX will be assessed at the ADF IX midterm review, which is scheduled for December this year. We look forward to seeing concrete progress, particularly in the area of human resources. The human resources strategy (HRS) is at the core of the reform, and implementation has to be speeded up. A fundamental change in management culture is needed to achieve transparency, merit-based promotion, and empowerment. Furthermore, an annual staff survey would be useful to ascertain any changes in the attitudes and the incentive structure of ADB.

In our view, the most important task facing ADB is to ensure coherence and compatibility between the ongoing work on strategy, the reform agenda and the implementation of ADF IX. I would like to assure you that ADB has Norway’s full support in its efforts to accomplish this task.
PACIFIC DEVELOPING MEMBER COUNTRIES

NABUTI MWEMWENIKARAWA, Governor for Kiribati
(on behalf of Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, Vanuatu)

On behalf of the Governors of the Pacific developing member countries (PDMCs), I would like to welcome Armenia and Brunei Darussalam as the newest members of ADB, and also thank our hosts, the governments and the peoples of India and of Andhra Pradesh for their hospitality, and for making the arrangements for this meeting. No doubt our hosts wanted to challenge our thinking by introducing us to a city that is both ancient and modern. That was an inspired choice, as ADB’s success requires it to be able to respond to the old and the new, the large and the small, and both weak and strong performers. In short, ADB must be able to operate across the spectrum of its members’ development experiences.

There are three main points that Pacific developing member countries want to communicate to ADB and its Governors, as ADB considers its longer term future strategic directions. We believe that ADB should, first, continue to strengthen its recognition of our diverse cultures, circumstances, and needs; second, extend the innovative thinking that has led to new approaches and instruments for big borrowing members, to develop new tools and approaches that meet Pacific needs and those of other small and distinct states; and, third, support us in deepening and broadening regional cooperation and integration as prioritized by the Pacific region.

Recognizing and Responding to Diversity

Pacific island nations are mostly small in land area and in population—indeed to some we are barely visible, but, like more populous members of ADB, our people also need clean water, transport facilities, and employment opportunities. We have common problems of scale, isolation from markets, narrowly-based economies and vulnerability, but we vary distinctly in culture, ethnicity, economic structure and development performance. We look to ADB as an important and neutral international institution to understand, represent and respond to this diversity. We rely on the skills and knowledge of a Pacific Department, resourced not on the basis of our limited borrowing, but on the basis of our development needs.

As ADB pursues further reforms, the key test we apply is how the measures meet our needs. We can see, for example, how many of the ideas in the second medium-term strategic framework assist larger countries, but we have struggled at times to see how the strategy will produce better development outcomes in the Pacific. Institutionally, greater sectoral selectivity and focus may make sense, but as one of the few large international partners operating in the Pacific, ADB must be able to help us respond to a wide range of pressing development challenges. Differentiation between member countries is required to meet their
needs efficiently and effectively. We believe ADB may need to think further about how this can best be achieved. In other words, we would like to see the strategy go beyond equality of treatment to equality of outcomes.

In becoming more focused, ADB should not implicitly or explicitly rely on other institutions or bilateral partners to meet the region’s needs, or see itself as a minor player in the Pacific. Indeed we hope that ADB will strengthen its partnerships with us to deliver on the President’s commitment to “relevance, responsiveness and results”. ADB’s relationship with PDMCs needs to be tailor-made to our individual circumstances, and where new approaches are provided, proper consultations should be undertaken. Consequently, we have been concerned about the proposal to abolish country strategy and program updates (CSPUs), as 12 of our 14 members are not covered by country-specific strategies. Without CSPUs, our relationships with the ADB would be expressed solely in the regional country strategy and program.

Good as this regional strategy is, it does not represent an adequate basis for relating to us as separate nations. We encourage ADB to be flexible and creative in allowing different country strategy and program formats to fit different circumstances, especially those of the Pacific. We would also encourage ADB to consider appropriate mitigating measures in the case of loan failures, particularly, where responsibility for such failures does not rest on the borrowing member country. In addition, we also feel special care should be taken in the application of country performance assessments (CPA) to small and more vulnerable PDMCs.

**Extending New Approaches and Instruments**

PDMCs have been impressed by the creative energy embodied in the development of new tools and approaches that respond to middle-income country needs under the innovation and efficiency initiative (IEI). The piloting of subsovereign lending, the multitranche financing facility, and local currency lending will allow ADB to play a larger role in development finance in many member countries. Our message to you is don’t stop there. Let us think about an innovation and efficiency initiative for the Pacific and for other countries that do not fit the existing model. One of the most important elements of such an initiative would be to develop new non-lending instruments.

Many Pacific states are vulnerable to environmental and economic shocks—some are fragile and conflict-prone, while most struggle to achieve high levels of sustainable growth. Loans are not always the answer to our problems. We applaud the introduction of Asian Development Fund (ADF) grants and their use in the Pacific for recent activities such as HIV/AIDS prevention. Our needs for technical assistance, policy advice and capacity development are significant. We note that technical assistance (TA) resources remain under considerable pressure and we ask that Governors give priority to additional resources for this purpose. Furthermore, we see the need for ADB to consider an incremental approach in allocating funds for grant assistance according to degree of urgency for any country in the region, in relation to common areas of concern such as
HIV/AIDS, disaster management, and risk mitigation.

We look to ADB to develop new and better ways of TA financing and delivery modalities. Planning horizons and project durations need to be longer. Consultants must be genuine experts—in their subject areas, in the region, and in developing productive relationships. They must be engaged on longer-term assignments, tasked specifically with transferring skills and building capacity, with their success measured against these objectives. We would also encourage ADB to allow PDMCs to have more say in the selection of consultants, including the use of consultants from the region. We await, with considerable interest, ADB’s capacity building taskforce report and we look forward to the application of this work in the Pacific. We commend ADB’s initial efforts to make its TA more focused, but we urge ADB to go beyond setting limits on the number and size of TA projects to adopt a much more strategic and flexible approach to the use of TA resources. We are somewhat concerned by the move to shift the balance of TA strongly in favor of loan project preparation. We ask ADB to ensure that managers have discretion in the implementation of this policy as its introduction in the Pacific could be detrimental to our needs.

We have watched ADB struggle with how best to facilitate private sector development. We believe there is still a long way to go in this regard, though we recognize the good diagnostic work that has been done for the Pacific. We would also encourage ADB to carry out more in-depth analysis of the issues distinctly relevant to each country in the PDMC group. As ADB continues to think through the issues, we hope it will give thought to how it can use its resources and risk-bearing capacity to draw more private capital into regions such as ours which do not currently benefit greatly from it, especially for the development of areas where we have comparative advantage, such as tourism. We acknowledge that many PDMCs also need to continue working to improve their enabling environments for private sector development and we commit to doing so.

Achieving the Right Balance in Regional Cooperation and Integration

We note the ADB President’s emphasis in his opening statement on regional cooperation and integration, particularly, in East Asia. We agree that such cooperation can play a significant role in complementing national efforts. In October 2005, the Pacific leaders endorsed the Pacific plan, which provides a framework for exploring future models for regionalism. However, our leaders also recognized that national priorities and policies will remain the bedrock for sustainable development in the region. We are hopeful that, if this approach is pursued, in measured and carefully defined ways, ADB can increase the attention it gives to regional cooperation efforts, while also enhancing country-specific efforts.

We would remind Governors and ADB that, beyond national and regional efforts, we must also take global action to deliver targeted development outcomes. Key among these for Pacific states, is addressing climate change much more aggressively. Several of our member states may cease to exist without deeper more comprehensive action, particularly, on the part of larger and wealthier
countries. We commend the President’s designation of Mr. Lohani as his special adviser on climate change, and the renewed vigor with which ADB is advancing a clean energy agenda, including through its work on the carbon market.

We exhort governors to move rapidly to finalize the Doha development round of international trade negotiations. While we do not think ADB can add substantial value in this area directly, given the expertise and experience of others, we do appreciate it using its voice and influence to this end as it has done recently in the Asian Development Outlook. At the country and subregional level, ADB can also help build the infrastructure and systems to allow states to benefit from freer international trade and to manage its negative consequences. Better transport and communications infrastructure is a key component of many Pacific development strategies, but we also need much greater access to markets in developed countries—particularly for products such as tropical fruits—if we are to achieve sustainable development.

We ask Governors to refrain from using unnecessarily stringent quarantine provisions as protective measures that prevent our development. We also ask you to look again at liberalizing, not only in the areas that most suit you—including services and investment—but also those that are essential to us, such as labor markets. It is untenable in the longer term to have a system of globally mobile capital and enterprise, but to keep the movement of labor as highly restricted as it is today. In this regard, we believe that within ADB’s medium-term strategic framework and available facilities, there are opportunities for ADB to consider support for required adjustments in PDMCs that emanate from trade liberalization. Of particular concern is the need to address supply side constraints where market access opportunities have been identified.

To conclude the PDMCs have a special message to President Kuroda. Mr. President, you have traveled far and wide in your first 12 months and no doubt you will not wish, nor be able, to sustain this in future, especially given the substantial change agenda to be driven at headquarters. That said, we would observe that almost a quarter of the membership of ADB—the 14 PDMCs—are yet to receive a visit from you. We reiterate our invitation to you to experience directly the development challenges that we confront and to partake of our legendary hospitality. We hope there will be an opportunity to receive you in the not too distant future.

PAKISTAN

OMAR AYUB KHAN, Governor

It is indeed a great honor and privilege for me to address the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) in this historic and cultural city of Hyderabad. I would like to welcome the new member countries, Armenia and Brunei Darussalam, to ADB. We believe that this is an important occasion which provides a useful platform for all member countries
to share their development experiences.

Let me also take this opportunity to extend my heartiest felicitations to Mr. Kuroda for successfully steering ADB toward the achievement of its goals. We sincerely hope that under his able stewardship ADB will flourish and further accelerate its efforts to make Asia a more prosperous region. Let me also join my colleagues in expressing my deep appreciation to the Government of India for its warm welcome and gracious hospitality. The staff of the ADB also deserve our appreciation for the excellent arrangements for this very important meeting.

I would like to take this opportunity to express our heartfelt sympathy for those in India who were hit by the October 2005 earthquake. In the context of Pakistan, the Asian Development Bank’s role in immediately setting up Pakistan Earthquake Fund to help the earthquake victims is commendable. The ADB President’s commitment of $1 billion for the earthquake reconstruction and rehabilitation activities during the Donors’ Conference held in Islamabad in November 2005 was clearly in accordance with the goals and targets of ADB. We hope that this assistance will materialize as arrangements are worked out between the Government of Pakistan and ADB. Let me take this opportunity to thank the international community in general and ADB members in particular for the timely and generous assistance extended to us. We have now moved from the relief stage to reconstruction and rehabilitation.

ADB needs to take a critical look at the financial and non-financial costs to its clients, since these largely influence their borrowing decisions. Competing sources of infrastructure financing are available to the major borrowers from ADB’s ordinary capital sector, in order to increase its business. Competitive lending charges, with the least possible burden of policy baggage and non-financial costs, facilitated by simplified procedures and innovative lending products, need to be put in place. Reduced costs of doing business with DMCs will play a critical role as they determine the relevance of ADB. ADB needs to become more relevant, more responsive, and more results-oriented. This challenge requires strong commitments from ADB and its stakeholders.

Pakistan’s economy has continued to perform strongly over recent years with economic growth accelerating to 8.4% in 2004–2005, the fastest pace in two decades. The strong economic recovery since 2002–2003, accompanied by macroeconomic stability, has been underpinned by prudent macroeconomic policies, wide-ranging structural reforms, fiscal discipline and consistency, and continuity in policies. These policies have contributed to a marked improvement in productivity and in consumer and investor confidence. This has led to growing domestic demand, which should support growth at a robust level over the medium term.

There has been a substantial reduction in the unemployment rate, which has come down to 6.9% as a result of the creation of 5.54 million new jobs during the current fiscal year. This, in turn, has helped to reduce poverty incidence from 32.1% in 2000-2001 to 25.4% at present (a 6.7% reduction).

However, Pakistan’s economy has faced headwinds from rising energy prices.
The price of oil touched an all time high at over $70 per barrel from the beginning of the current fiscal year. Pakistan was then struck by the massive earthquake of 8 October, causing widespread destruction of areas and human lives. These two developments have so far had a limited impact on growth but the capacity of the economy to absorb shocks of such magnitudes is not unlimited.

Pakistan is a good example of a country that has benefited to some extent from globalization, with more open trade policies and more receptivity to direct foreign investment in the recent years. The priorities of the Government remain the continuation of second generation reforms, development of water reservoirs, energy security and development of new trade and transit routes (namely the North–South and East–West corridors), while poverty alleviation remains the overarching objective.

For Pakistan, the steadfast support of ADB remains critical for sustaining the growth momentum and improving the quality of lives of our people. The support of ADB is essential for strengthening the country’s physical infrastructure and vital for sustaining strong growth momentum. It also plays a critical role in improvements to governance, private sector development, capacity building, and in preparing an efficient and effective strategy to combat development challenges.

While we appreciate ADB’s recent efforts to reform, we believe that for ADB the major challenges remain simplifying procedures, empowering resident missions, and reducing the cost of doing business for developing member countries.

We are confident that ADB management will be focusing on these issues in near future.

PAPUA NEW GUINEA*
BART PHILEMON, Governor

I would like to take this opportunity to join my fellow governors and extend our appreciation to the President of the Asian Development Bank (ADB) and also to the Indian Government, and the people of Hyderabad for hosting this 39th Annual Meeting of the Board of Governors of the Asian Development Bank and for the warm welcome and excellent arrangements provided to us in this wonderful setting. It is truly a pleasure to see, alongside the India’s remarkable private sector development, the beauty of the country’s physical environment and the richness of its culture.

I would also like to thank ADB for its continued assistance in the development of Papua New Guinea (PNG). ADB is an important development partner and we appreciate the counsel and support that it provides. Like ADB itself, PNG is working through a critical phase in its development, transforming the way it

* Statement circulated but not delivered.
PNG operates through strong political leadership and a commitment to reform.

PNG, like other Pacific island countries, faces many challenges. Our people aspire to higher living standards and improved well-being. However, resources are limited and we continue to face a huge challenge in improving government services and fostering an environment where a competitive, dynamic private sector generates growth.

These challenges, however, are bringing opportunities. The Government and the private sector have an opportunity to work together to fashion a strong and robust economy that provides opportunities for businesses to invest and for people to have jobs and better incomes.

In recent years we have introduced a number of political reforms to give us much-needed political stability. The current government is likely to be the first government in our history to go its full term.

During the past few years our budgets have been framed around medium-term strategies—the medium-term fiscal strategy, the medium-term development strategy, and the medium-term debt strategy.

These strategies are key to the Government achieving stable and prudent economic management as the basis for a successful economy. We have worked hard over the past few years to bring much-needed stability to the economy and we are now starting to reap some rewards for these efforts. We have also embarked on a reform agenda, which is progressing well.

We are fortunate that the improved global environment has helped strengthen PNG’s economy, at a time when these initiatives are underway. These developments have been mutually reinforcing.

As I reported last year, we are already enjoying better macroeconomic and fiscal outcomes. Economic growth has resumed, and employment is increasing. Inflation has fallen sharply and interest rates have declined. Our external position is healthy, with foreign exchange reserves at record levels. The exchange rate has stabilized.

We recorded a budget surplus in 2004 and more than met the tight goals of our medium-term fiscal strategy for 2005. Debt has fallen sharply as a percentage of GDP over the past 3 years. Importantly, living standards are now rising.

However, we have not been lulled into a false sense of security by these early successes. We are fully aware, for example, of the danger of increasing our ongoing expenditure on the assumption that high commodity prices will continue to provide additional revenues over the medium term—we don’t want to squander the opportunities as we have in the past. The Government is committed to learning from past mistakes and is proactively pursuing a structural economic reform agenda from a position of strength, on our own terms, and in our own way. With funds now available, a major challenge is to ensure our reforms do not fail due to poor implementation.

Fundamentally, our plan is to create an environment that is conducive to private sector investment. We know that reducing poverty and promoting PNG’s economic and social development depends on a competitive and dynamic private sector, generating income and employment. As part of our broader reform agenda,
an immediate Government priority is to carry out much-needed reforms to the regulatory and institutional environment in which investment decisions are made. We expect to attract new foreign investment and greater domestic investment, which will drive economic growth. ADB is well placed to support countries moving down this path.

More generally, as a crucial development partner, ADB has an important role in supporting members develop and implement their own growth and development strategies. It is important for ADB to continue to draw on its special understanding of the Pacific region and its strong relationships with its Pacific island partners to ensure that the assistance provided is well focused and meets our special needs.

We do not, for example, want to take on more and more debt. We particularly appreciate the response of ADB to our call last year that support needs to be consistent with our own processes—for example, our medium-term fiscal strategy and our medium-term debt strategy. Financial and technical support need to focus on areas consistent with our needs identified in the medium-term development strategy. The support should also be consistent with our budgetary needs and reform processes.

Matching ADB’s strategies with a country’s own development strategies is an important challenge for ADB. Ownership of reform, and coherence of strategic direction between a country and its development partners, is an important ingredient to its success. We are very pleased by the outcome of recent discussions between ADB and PNG on a country strategy and program last week, which demonstrates that ADB is meeting the challenge.

We commend ADB’s good work in PNG and in Asia and the Pacific region more generally and look forward to a rewarding partnership with ADB as we address the challenge of implementing policies to improve the life of our people.

PHILIPPINES
MARGARITO B. TEVES, Governor

On behalf of the Philippine Government and delegation, allow me first to express our appreciation to the Government of India and its people for their splendid reception of the delegates and guests here in Hyderabad. The 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) in Hyderabad takes place at a time of great optimism about India. With its remarkable growth and progress in instituting economic reforms, India is now well positioned to bring long-term prosperity and improved welfare for its hard-working and talented people.

Let me extend a warm welcome to Armenia and Brunei Darussalam as new members of ADB.

While the region’s economic outlook remains favorable, significant risks
brought about by global imbalances pose threats to positive global prospects. It is imperative that the global economic community take concrete steps to address these risks, which have the potential to cause abrupt and disorderly adjustments in international trade and the financial markets. Such a discordant unwinding of global imbalances could arrest, or even reverse, the solid progress many countries have painstakingly achieved in increasing incomes and productivity, and uplifting living conditions of their poor.

Many economies in the Asian region are already doing their share to help pave the way for a smooth resolution of global imbalances. These countries continue to stimulate domestic demand while instituting further reforms, particularly in their fiscal, external, and capital sectors. In an increasingly borderless world, where the effects of adverse external shocks can be rapid, the continued economic resilience of countries and vigilance by economic managers are critical to mitigate the negative impact such risks may have on growth and people’s welfare.

The threats posed by global imbalances also highlight the importance of regional economic cooperation and integration to strengthen policy coordination among countries, deepen the region’s financial markets and network, and set up financing arrangements to assist affected economies in facing foreign exchange liquidity problems.

ADB plays a significant role in providing policy advice and special knowledge to members in efforts to reinforce their economies against external shocks emanating from global imbalances through, among others, the formation of regional economic partnerships and financial links among member countries. We urge ADB to continue to provide technical expertise and services to prepare member countries and the region as a whole to effectively address the serious threats that now hover over the horizon of the global economy.

The Chair earlier noted a new orientation being pursued by this great country to “look east”. This would undoubtedly open up new and vast opportunities for the whole of Asia and its members. It is high time for us to vigorously explore closer and greater economic relations between and among countries in the two major economic subregions of Asia. We commend the Chair for this initiative.

While economic growth in recent years has been remarkable for most of Asia, sustaining this performance by many developing member countries (DMCs) will be constrained by lack of or deteriorating infrastructure. Failure to meet the medium-term infrastructure requirements of these economies will decelerate or even arrest the growth momentum that has been essential to improving incomes and living conditions, and reducing poverty in the region. Major actions are called for to ensure that impediments to infrastructure development are squarely overcome.

DMCs such as the Philippines have to be steadfast in their fiscal consolidation program to create the “fiscal space” to expand expenditures for infrastructure and reduce the debt load to encourage capital inflows and long-term investment. Direct budgetary expenditures by the Government, however, will not be enough to generate the infrastructure investment requirement of many DMCs. Thus, improving the regulatory environment, including the setting up of political and
regulatory risk-mitigating measures in economic infrastructure sectors is needed to attract private capital to infrastructure projects, including those under public-private partnerships.

The Philippines appreciates ADB’s contribution to the task of mobilizing resources for infrastructure of DMCs, and we encourage it to step up its assistance in this regard. ADB’s provision of credit and credit enhancement for projects has not only generated funds for DMCs to pursue their infrastructure priorities but, in many cases, has catalyzed financing from other investors, particularly from the private sector. ADB has also been useful in providing policy advice to improve the investment environment in DMCs. We welcome ADB’s evolution into a knowledge bank, a repository of best practices and successful experiences in these specialized areas, which will enhance policy and regulatory formulation in DMCs.

Given the growing requirements of DMCs for long-term capital to fund infrastructure development, ADB’s more vigorous assistance for the development and integration of the financial sector and capital markets of the region’s economies will be relevant in responding to their emerging needs under a globalized economy.

While new global and development realities have called on ADB to expand coverage of its development work, the primary mandate of ADB in the fight against poverty should not be forgotten. While ADB has accomplished much in helping developing member countries in the battle to eradicate poverty, the task ahead remains daunting. ADB must continue broadening its skills, providing its services more efficiently and effectively and actively engaging member countries in this most challenging development crusade.

While the growth performance in the region has lifted hundreds of millions from poverty, hundreds of millions more remain impoverished and live under inhuman conditions. This is not acceptable and we need to muster all our resources toward the achievement of ADB’s ultimate goal. The benefits of strong economic performance must be pervasive and inclusive. They should uplift the lives of the widest segment of the impoverished population and narrow the gap in income and living conditions between the rich and the poor. The approaches, strategies, programs, and practices in pursuit of this mission for ADB continue to evolve, but only because we need to be responsive to emerging realities and more effective in our struggle to eradicate poverty in Asia.

We have reviewed the ADB’s second medium term strategy and find it relevant to the role demanded of ADB in these challenging times. We support the proposed strategy.

In closing, I would like to reiterate the Philippines’ commitment to pursue responsible reforms to strengthen our capacity to sustain economic growth and accomplish our development priorities. We are committed to meet the Millennium Development Goals (MDGs) by 2015 and will continue instituting responsible reforms that will strengthen our war chest against poverty. By steadfastly pursuing our reform program, we hope to create a virtuous cycle of fiscal responsibility, more MDG investments, and broad-based growth.
PORTUGAL

JOSE MORENO, Temporary Alternate Governor

It is a great honor for me to address this year’s Annual Meeting in the city of Hyderabad—known as the meeting point between the north and the south of India.

The year 2005 was one of tragedy for the people of Asia, who had to face both the Indian Ocean tsunami and the South Asia earthquake. Avian influenza is another example of the region’s constant vulnerability, which affects living standards.

Moreover, 2005 was also a year of increased awareness of the gap between countries that are making real progress in terms of eradicating extreme poverty, and those that are still lagging behind. Major challenges remain acute, namely poor and fragile nations, with weak political and economic performance.

Nine of the top ten recipient countries of Portuguese aid are considered to be fragile or conflict-affected states. Discussions in international forums on the issue of security and development, which is particularly relevant in the context of fragile states, have highlighted the need to adopt a more integrated and coherent approach through flexible aid instruments, taking into account the specific constraints of these countries.

Portugal would therefore welcome a more holistic approach toward “weakly performing states” ADB’s second medium-term strategy (MTS II) and we hope that the announced intention to adopt a distinct strategic approach to these countries will be translated into action.

In addition, and stressing what has already been said in the Development Committee, ADB should also strengthen its results orientation in order to contribute to improved country outcomes. In this sense, we recommend ADB to adopt, in the framework of MTS II, a clearer implementation framework for the three basic pillars of its poverty reduction strategy.

For ADB to improve its development effectiveness, it clearly needs to develop a time-bound action plan, to strengthen its human resource base and skills mix and to identify the budget resources needed to implement its strategy. In this context, the implementation of the reform agenda is crucial if ADB is to achieve better development results and become a more responsive and accountable regional development institution.

Furthermore, we believe that ADB should carry out an in-depth review of existing technical assistance programs in order to optimize existing human and financial resources, as well as ADB’s development performance at the country level. In this regard, special attention should be given to local capacity building activities, which are crucial tools for recipient countries in terms of their long-term sustainable development.

In another context, we note with satisfaction that ADB has included governance and anticorruption activities in its MTS II. Improving governance at all levels and containing corruption should, in fact, be one of the top strategic
priorities within ADB. We look forward to the conclusions of the review of the governance and anti-corruption strategy, as well as to its new action plan.

Portugal reiterates its support for ADB’s role as a leading development partner, focusing on its core objective of reducing poverty in Asia and the Pacific region. We particularly support ADB’s policy vis-à-vis country needs and we encourage Management to define leverage strategies in fragile states, so that ADB programs can be relevant and valued in these countries.

Timor Leste is a case in point. It is remarkable how this newly born country has successfully been able to undertake its state duties in a democratic and peaceful way. Notwithstanding these achievements, it still needs to make further efforts in fighting poverty, by promoting economic growth and social equity, as fundamental requisites to security and sustainable development.

Finally, let me also join previous speakers in congratulating Armenia and Brunei Darussalam on their new membership of ADB.

SINGAPORE*
RAYMOND LIM, Governor

On behalf of the Singapore delegation, may I express our heartfelt thanks to the Government of India, the people of Hyderabad, as well as the Asian Development Bank (ADB) for the warmth of their hospitality and efficiency of their organization.

Asia is on the rise. Bolstered by the People’s Republic of China and India, Asia is on track to achieve unprecedented levels of economic and social development. By the middle of this century, the global center of gravity will shift to Asia. Most of all, Asia has a historic opportunity to eradicate poverty within a generation.

The journey ahead will not be without obstacles. The last 10 years have seen the region buffeted by financial crisis, economic recession, terrorist attacks, natural disasters, and disease epidemics. Asian countries have largely overcome these obstacles, pressing on with economic reform and persisting on their growth trajectories, albeit not without setbacks and slippage.

While domestic resolve and resilience will remain key to countries achieving their potential, regional cooperation and integration will become an increasingly important factor in meeting the common challenges of globalization, terrorism, and pestilence facing us all. We must come together to forge shared solutions to address common threats and ride on common opportunities. In this, ADB, together with its member countries, has a key role and responsibility, to identify areas of cooperation, mobilize resources, and facilitate joint efforts to develop markets, infrastructure, and improve the quality of life of our people.

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* Statement circulated but not delivered.
First, we must enhance regional economic integration. We applaud the ADB’s efforts in this area through its Office of Regional Economic Integration. We must progressively reduce barriers to trade and investment flows within Asia, in order to enhance intra-regional trade and strengthen Asia’s importance as a market of final demand.

Second, we must work together to close the “infrastructure deficit” that still hobbles development in many parts of Asia. Our own experience in Singapore shows that an efficient infrastructure—in the form of well-connected transport networks, a dependable supply of basic utilities, and affordable internet and telecommunications facilities—is a key factor for attracting foreign investment. We must also continue to encourage increased private sector involvement in building and operating this infrastructure, and create the appropriate market conditions.

Third, we must strengthen cooperation to build efficient and robust financial markets. As Asia continues to experience dynamic and rapid economic growth, financial intermediation will become an increasingly important success factor. ADB has been playing a useful role in fostering such financial cooperation, through its support for regional cooperation agreements, such as the Chiang Mai Initiative and the Asian Bond Market Initiative.

A fourth area of concern facing the region that requires a coordinated solution is the threat of an avian influenza pandemic, which has already affected parts of East Asia. We commend ADB for its efforts to raise funds to combat avian influenza, and also for working with individual countries to prevent the spread of the virus. Among other projects, in March 2006, ADB and other major regional development partners, including the Association of Southeast Asian Nations (ASEAN), unveiled a $38 million grant project designed to provide urgent resources to prevent the infection and spread of avian influenza. We must draw up, as a regional community, robust contingency plans to deal with any possible outbreaks. We must help the private sector to put in place comprehensive business continuity plans so as to minimize the fallout from a potential influenza pandemic. Our governments must be transparent about the incidence of outbreaks in our respective countries so that we can take timely defensive measures to curb the spread of the disease.

Finally, ADB should continue to play a significant role in encouraging the practice of good governance amongst its member countries. Singapore is an ardent proponent of good governance as the most fundamental prerequisite for economic and social development. We stand ready to work with ADB to advance the cause of good governance in Asia. In this regard, Singapore is hosting the inaugural Raffles Forum on Good Governance and the Wealth of Nations on the sidelines of the Singapore 2006 International Monetary Fund (IMF) and World Bank Annual Meetings in September. The forum will gather a distinguished group of global leaders and experts to explore and elucidate the nexus between good governance and wealth creation.

Asia is going through bracing times. As globalization gathers pace, there is much work for regional institutions like ADB to do to ensure that Asia lives up
to its promise and potential in the coming decades. We have every confidence that ADB will continue to evolve and adapt its roles and strategies to suit the ever-changing environment and needs of Asia. We wish the ADB management every success in the year ahead.

SPAIN
ISABEL RIAÑO, Head of Delegation

It is a pleasure to address this 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) on behalf of Spain. First, I would like to express our gratitude to the Government of India for the cordial hospitality extended to us in the city of Hyderabad.

I would also like to take this opportunity to warmly welcome our new members in ADB, Armenia and Brunei Darussalam.

Recent Economic Performance in the Asia and Pacific Region

Once again, we can celebrate strong growth rates throughout most of Asia’s developing economies. The region remains impressively dynamic. In spite of a few risk factors, namely rising oil prices, worries over the financing of global imbalances, inflationary pressures in some countries, or the possibility of a major infectious disease outbreak, this growth momentum is expected to continue.

Unfortunately, in recent years the region has been seriously affected by natural disasters. After the tsunami in December 2004, the South Asia earthquake last October imposed a heavy cost in human and economic losses. Spain would like to take this opportunity to reiterate our condolences to the families of the victims and our appreciation and support to ADB management and staff for their efforts in providing a prompt response to these calamities.

Although the sustained high level of economic performance has provided the key for a very positive record in reducing income poverty and improving living standards, poverty remains widespread in many countries of Asia. The more than 1.9 billion people in the region who still live on less than $2 a day require our help and support. Poverty remains our biggest challenge.

ADB

Strong growth and economic dynamism is transforming Asia at a dramatic pace. Advances in communications and technologies are modifying the world’s production structures and supply chains. In this rapidly changing environment, we would like to underline the significant efforts undertaken by ADB to adapt the institution to the new realities of the region. A flexible approach is needed, aimed at catalyzing investment to the region, promoting the development of strong and competitive private sectors, and enhancing the effectiveness of ADB.

A lot has been already achieved through the implementation of the reform agenda. ADB needs to keep adapting its products and procedures in order to
better meet the demands of middle-income countries in Asia, be more competitive and efficient, and promote private sector development. In particular, we would like to express our support for the new instruments and business processes launched under the innovation and efficiency initiative. The removal of bottlenecks in business processes and the increase in ADB’s array of services should help enhance its role as a valuable partner for growth and development in the region. We believe reforms must go on and expand to ensure client and results orientation, efficiency, and responsiveness. Implementation is the key. In that sense we believe a clearer and better defined role for senior management has to be addressed.

The challenges to be addressed are still important. The process under way to establish the strategic framework for the next 3 years, under the second medium-term strategy (MTS II), has proved disappointing. We feel a broader consultation process should have been undertaken. We do support the priorities pointed out in the strategy, although its main building blocks still have to be addressed and discussed, especially the strategy for private sector development, regional cooperation and integration, middle-income countries and cofinancing. It is also fundamental that MTS II incorporates clear guidelines for implementation and accountability, to assure its effectiveness. We welcome the inclusion of governance as one of ADB’s strategic priorities for next year. Promoting inclusive development is a crucial priority, since we believe that reducing poverty should remain the core of ADB’s actions.

Private sector development is the key to foster growth and alleviate poverty in the region. There are great opportunities in this field that ADB has yet to engage in. The lessons learned from the implementation of the private sector policy should guide the new strategy under a clear framework of partnership and accountability. The development of small and medium-sized companies and the promotion of public-private partnerships have to be at the core of new activities. We also welcome the independent Risk Management Unit, which should be fully operational under its recently appointed head.

Regional cooperation is also critical for the region’s future economic development, and ADB has a clear role to play by concentrating on promoting regional and subregional economic cooperation programs, and in providing regional public goods such as cross-border infrastructure networks.

The environment and the risks related to global climate change are clearly an important global and regional public good that needs to be addressed. They represent a phenomenal challenge for the international community, but also open up interesting activities and business lines. In this field, we appreciate the work that has been undertaken by ADB under the clean development mechanism facility and we welcome the new carbon market initiative. We congratulate ADB for taking a proactive approach to the carbon market that will complement its activities in the areas of energy efficiency and renewable energy. Spain views this initiative with great interest and will study the possibility of participating in the Asian Pacific Carbon Fund.
Spain and Asia

Spain remains fully committed to the goal of fighting poverty in Asia and to contributing to inclusive and sustainable growth in the region. As you are well aware, Spain will increase its overall level of overseas development assistance to 0.5% of gross national income (GNI) by 2008. Some ADB developing members are among the leading recipients of our bilateral development assistance.

In recent years, our economic relations with the region have increased strongly and rapidly. Spain’s investments in Asia have been growing at an impressive pace and a large percentage of our imports come from developing Asia. We sincerely hope that this closer relationship will continue to strengthen, as we record the willingness of Spanish companies and citizens to participate in Asia’s development and prosperity.

Spain would like to reaffirm its commitment to contribute to ADB’s efforts to fight poverty and promote growth and development in the region. Our commitment is firm, not only as a growing and significant contributor to the Asian Development Fund (ADF) and other forms of grant financing, but also as an active contributor to the fundamental task of constructively helping shape ADB’s response to the region’s challenges and needs.

In this regard, we are delighted to announce that Spain has expressed interest in hosting ADB’s Annual Meeting in Madrid in 2008. We are looking forward to welcoming you all on that occasion.

SRI LANKA
SARATH AMUNUGAMA, Temporary Alternate Governor

On behalf of the Sri Lanka delegation, I wish to convey our sincere appreciation to the Government and the people of India for their gracious hospitality. I would also like to thank President Kuroda and his staff for the excellent arrangements that have been made for this meeting. I have no doubt that under our chair’s able leadership, our discussions will produce better mutual understanding, and the further fine-tuning of ADB’s strategies to promote rapid economic growth and reduce poverty in the region.

ADB has a unique role to play in the Asia and Pacific region. While growth in the regional economy last year attained a robust rate of 7.8%, nevertheless significant ground remains to be covered for the timely attainment of the Millennium Development Goals (MDGs). Sri Lanka therefore welcomes the new approach in ADB’s second medium-term strategy (MTS II), aimed at meeting the development challenges facing the region. We also endorse ADB’s selection of regional cooperation and integration as one of its key priorities.

ADB has been a strong and continuous supporter of Sri Lanka’s development efforts for more than three and half decades. In fact, the amount of assistance given by ADB has increased substantially during the last 3 years. In 2005, while ADB approved loans totaling $3.65 billion in South Asian countries, Sri Lanka’s
share of the approved loans amounted to $410 million. I wish to acknowledge
the generous response of ADB following the tsunami disaster, by providing $157
million for the recovery activities. The value of the portfolio of ADB-funded
projects in Sri Lanka has now reached $1.8 billion, including $215 million in
program loans. I am happy to report that many of these ADB-funded projects,
including those related to recovery from the tsunami, have been successfully
realized.

For Sri Lanka, 2005 marked a year of encouraging progress in the conduct of
fiscal policy and budget management, despite the tsunami shock and the sharp
escalation of world oil prices. The budget deficit excluding these externalities
declined from 8.2% in 2004 to 7.2% in 2005, providing more resources to other
development activities and contributing to overall economic growth. The
economic growth rate for 2005 was 6.2%, compared with 5.4% in 2004. The
balance of payments improved, with the deficit in the current account declining
and being replaced by a large overall surplus. The country’s overall debt indicators
also improved, with the overall public debt to GDP ratio declining from 104%
of GDP in 2004, to 92% at the end of 2005.

Let me now turn to the “Mahinda Chintana” which is the policy statement
of the government that assumed office after the November 2005 presidential
elections. The policy statement was encapsulated in the 2006 budget, giving
greater clarity to the roles of the private and public sectors in our mixed economy,
particularly with regard to the reform of the state-owned enterprises. The budget
also emphasized the need to protect vulnerable groups such as women and
children, and to promote rural and small and medium-sized enterprises. It seeks
to accelerate infrastructure development to achieve faster and more equitable
economic development.

Our medium-term development strategy is focused very much on improving
and expanding our infrastructure. It is clear that the development of physical
infrastructure is a prerequisite for the attainment of any country’s economic
goals.

Last May we successfully concluded the Sri Lanka Development Forum.
The government presented the medium-term economic framework and poverty
reduction strategy to its development partners. The Forum led to pledges of
$3.3 billion for post-tsunami recovery activities.

May I now turn to the all-important question of the peace process in Sri
Lanka. Discussions were held last February in Geneva between the
representatives of the Government of Sri Lanka and the Liberation Tigers of
Tamil Eelam (LTTE). The Government looks forward to the second round of
these talks in the near future. The Government will continue to devote all its
energies toward a negotiated political solution within an undivided country.

Sri Lanka holds ADB in high esteem. As Sri Lanka progresses on its path of
development, we are confident that it will do so in close dialogue with the
President and the staff of ADB.
I wish to echo previous speakers in thanking the Government of India and the city of Hyderabad for hosting this year’s Annual Meeting, for their warm hospitality and excellent meeting organization.

This year Sweden’s official development assistance will be 1% of our gross domestic income. In parallel, we are directing greater attention to managing this increase in the most efficient way. We are at an early stage of formulating a more strategic approach for our future support and allocation of funds to the multilateral development institutions. The performance of the multilaterals will be measured more systematically and cross-compared, taking into account poverty reduction focus, development effectiveness and impact, transparency and accountability. We have to make sure that Swedish development assistance is channeled to institutions with the best prospects of contributing to reducing poverty and fostering sustainable development, empowering poor people, and attaining the Millennium Development Goals (MDGs). I would like today to concentrate on a few points that Sweden considers important for the sustained relevance of ADB as one of the prime development institutions of the Asia and Pacific region.

First, ADB is operating in a rapidly changing and increasingly complex region. Like Sweden, ADB is actively assessing the options at hand for the optimal delivery of its future development assistance. Prevailing economic growth in the Asia and Pacific region is a powerful vehicle for reducing income poverty. Still, more than half of the world’s poor people are to be found here. Disparities and inequalities are growing between and within countries. Firm actions are needed to remedy this unacceptable situation and to make growth pro-poor and sustainable.

In this context we are encouraged that ADB’s second medium-term strategy (MTS II) firmly addresses the need for environmental sustainability. However, we would have welcomed more emphasis on growth inclusiveness, including the role of women in development. It is crucial that ADB demonstrates full alignment with its poverty reduction strategy, that its activities are demand-driven and contribute to clearer operational selectivity and focus, and that actions are implemented with a management for development results approach.

A second point that deserves special mention is governance. Promoting good governance and fighting corruption, complemented by mutual accountability and increased use of country systems, are essential to development and to efforts to achieve the MDGs. Commitments made by the heads of the multilateral development banks, recently reflected in the Development Committee Communiqué, clearly reconfirm this. With governance and anti-corruption activities prominently included as priorities in the MTS II and in ADB’s poverty reduction strategy, Sweden urges ADB to be more visible and to actively mainstream its commitments in all its operations, in close collaboration with its development partners.
Third, strong and strategic corporate leadership is essential to success for any organization undergoing transformation. A clear division of roles and responsibilities within the management and visible commitment to current reforms are prerequisites for successfully managing ADB’s change process and providing staff with firm strategic guidance. Without these we may fall short of implementing reforms aimed at changing the institutional culture and carrying out ADB’s development mandate. We also encourage management to engage in more systematic and strategic deliberations with ADB’s Board of Directors.

Finally, the midterm review of the Asian Development Fund later this year will be a major opportunity to take stock of the implementation of ADB’s reform agenda. In particular, we will look at progress in changing attitudes, bringing harmonization and results-based management to the country level. Demonstrated results will serve as an important platform for the next round of replenishment negotiations and for sustained donor support for the Fund.

Sweden is a staunch supporter of ADB’s guiding vision of the Asia and the Pacific free from poverty and it continues to see ADB as an important regional institution with a clear development mandate. In order to be successful, ADB must always ask who will benefit from its operations, and clearly demonstrate what impact its actions have on poor people and the possibilities of achieving the MDGs. Sweden encourages ADB to decisively pursue organizational, managerial, and policy reforms in this spirit.

SWITZERLAND

ADRIAN SCHLAEPFER, Alternate Governor

I would like to extend my sincere thanks to the Government of India as well as the authorities and people of Hyderabad for their warm welcome and good arrangements for this meeting in this beautiful city. Let me also extend my welcome to Brunei Darussalam as the newest member of ADB.

Nobody reviewing the major events in Asia during the past year can escape the notion that tragedy was a recurrent theme in 2005. Within months of the devastating tsunami in the Indian Ocean, the region was hit again by a major natural disaster, this time by a disastrous earthquake in South Asia that again caused human suffering on a staggering scale. I would like to use this opportunity to express my condolences to the many thousands of people affected by these disastrous events. At the same time, I would also like to commend the international community and in particular ADB for its swift and efficient reconstruction assistance. Without doubt, ADB’s remarkable responses both to the tsunami and to the earthquake in South Asia have shown ADB at its best.

The vulnerability of the region to recurrent natural disasters contrasts strongly with its unbroken economic dynamism and robustness. The many natural disasters, the avian influenza threat, and rising oil prices did not seriously affect the remarkable economic growth rates of most Asian economies. Moreover,
thanks to the region’s sustained economic growth, the proportion of the population surviving on $1 a day or less continued its downward trend in 2005 and has come close to being halved since 1990. I would like to draw three conclusions from these encouraging observations. First and foremost, the remarkable progress achieved by the region in terms of eradicating poverty should not be a reason for complacency. Asia is still home to two thirds of the world’s poor, income disparities both between and within countries are widening, and a host of Asian countries will have difficulties reaching all Millennium Development Goals (MDGs), in particular those on the human development front. That said, we should, second, regard this unprecedented success as testimony to the fact that developing Asia has changed radically during the past two decades and that the pace of change is likely to accelerate in the years ahead. Third, we must embrace change and welcome it as an opportunity. This in turn demands a determined willingness on our part to adapt lest our efforts become increasingly irrelevant to the evolving and diverse needs of the region.

Shortly after taking over the helm of this institution President Kuroda addressed the Governors at the Annual Meeting in Istanbul. In his inspiring statement back then he showed a thorough understanding of the need for ADB to adapt to a rapidly changing environment and to reinvent itself. This understanding, widely shared by shareholders, represented the basis of his much applauded vision to transform ADB into a more relevant, more responsive, and more results-focused institution. One year after the delivery of this inspiring speech is a good time to take stock of what has been achieved in terms of enhancing ADB’s relevance, responsiveness, and focus on results—the so-called three Rs.

**Enhancing ADB’s relevance**

Greater focus and selectivity were identified last year as the principal means to enhance the relevance of ADB. ADB has made significant progress in this respect. In the context of drafting the second medium-term strategy (MTS II), Management reassessed ADB’s role and proposed the five following strategic priorities: catalyzing investments, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and preventing corruption.

I generally agree with the strategic thrust of MTS II, in particular since Management elevated the promotion of governance and the prevention of corruption to one of ADB’s strategic priorities. I am also very supportive of ADB’s intention to adopt a more proactive, forward-looking role in managing the environment and the effects of climate change. ADB’s innovative carbon market initiative (CMI) deserves special praise in this respect. It is also a pleasure for me to announce that the Climate Cent Foundation—the independent Swiss agency set up to help Switzerland meet its CO2 emission reduction obligations under the Kyoto Protocol—has expressed an interest in investing up to €20 million into the Asia Pacific Carbon Fund. I would also like to commend ADB for its decision to further improve selectivity by defining core operational sectors and phasing out those sectors in which ADB’s performance has been patchy.
Notwithstanding its positive aspects, the latest version of the MTS II still contains a number of weaknesses which should be addressed.

By defining “strengthening inclusiveness” as one of five strategic priorities and placing all priorities on an equal footing, the MTS tends to dilute the overarching goal and cross-cutting relevance of poverty reduction. Needless to say, as a development bank, ADB must ensure that all its operations are directly or indirectly aimed at reducing poverty. Hence, I would like to urge Management to take this issue into account and to ensure that the revised MTS contains an unequivocal commitment by ADB to the overarching goal of poverty reduction. Moreover, the MTS should elaborate in more detail how ADB intends to assist governments of the region to make economic growth more beneficial to the poor and how income disparities can be reduced.

While I certainly appreciate that governance is now part of ADB’s strategic priorities, I would like to recall that even a well-crafted policy is useless if it is not followed through in practice. Given the strong foundation of mutual trust it enjoys with the governments of the region, there is no reason why ADB should not adopt a higher profile in helping its clients to improve governance and curb corruption. In this context I would also like to refer to the review of the implementation of ADB’s governance and anticorruption policies which was quite candid in its critique, indicating, among others, that ADB needed to do more in order to embed implementation of the governance and anticorruption policies in the mainstream of its operations. Hence, a revised version of the MTS II should show how ADB intends to follow up on the review’s recommendations and spell out in more detail what kind of activities it intends to pursue under this strategic priority. Furthermore, it should elaborate on how ADB will coordinate these activities with those of other international financial institutions.

I welcome the fact that the recommendations of the task force report on strengthening ADB’s involvement in private sector development and fostering teamwork between the Private Sector Operations Department and the regional departments have been included in the MTS. However, I am not sure what decisions Management has taken in this regard and who will be responsible for ensuring effective implementation of the task force’s recommendations and its 13 proposed actions. The revised version of MTS II should be more specific on these issues.

I also welcome the fact that ADB will promote regional cooperation and integration as a strategic priority. It has always been my conviction that regional cooperation and integration is an important comparative advantage of the regional development banks, and on various occasions I have invited ADB to scale up its efforts in this area. What exactly ADB should do in this broad area and the specific weight it attaches to these individual activities must of course be demand-driven. Furthermore, ADB needs to ensure that it has the necessary means to undertake such activities in an efficient and effective way and that it will not duplicate or even contravene the efforts of other international organizations. Against this background, I would like to invite Management to
reconsider the role it has foreseen for ADB in the area of monetary and financial integration, in particular its plans for ADB to pro-actively help set the stage for a single Asian currency.

Creating a More Responsive ADB

I would now like to turn my attention to the goal of creating a more responsive ADB. Measured by what was deemed necessary to advance towards this goal—enhanced timeliness, innovation, and flexibility—a good degree of progress has been achieved during the past 12 months. I would like to commend Management in particular for the removal of bottlenecks in various business processes and internal procedures, the introduction of new financial instruments and modalities, the creation of the independent Risk Management Unit and the adoption of less restrictive cost-sharing arrangements. All these measures have no doubt enhanced in one way or the other the responsiveness of ADB. Yet responsiveness does not only refer to how ADB interacts with its clients. Rather, it must be viewed in a larger context, in effect denoting the quality of the ADB’s interactions with all its shareholders and stakeholders.

Applying this yardstick, ADB certainly deserves praise for holding wide-ranging consultations both for the review of its governance and anticorruption policies and for the drafting of a new public communications strategy. However, when it came to drafting and adopting the MTS II, arguably the most important institutional strategy for the years to come, the momentum towards participatory processes and constructive dialogue subsided. I welcome President Kuroda’s decision to reopen the MTS drafting process and invite Governors to express their views on the MTS here in Hyderabad. I understand this step to be a commitment that in future Management will actively seek to promote a culture of dialogue, both within ADB and with its external stakeholders.

ADB as a Results-Focused institution

Where do we now stand with respect to the goal of transforming ADB into a more results-focused institution? ADB has no doubt made a commendable effort to mainstream the managing for development results (MfDR) agenda across all operations, particularly through its results-based country strategies and programs and the project performance management systems. ADB has also made progress in further implementing the new human resources strategy, even though the outcome of this process has so far failed to meet the expectations of all relevant parties.

Nevertheless, while fully acknowledging the inherent difficulties in instilling a results-oriented culture at all levels of the institution, I do see possibilities for Management to step up its efforts and make further progress on this front. A case in point is the MTS II, which tends to evade any strong commitments on how to implement the proposed strategic priorities and to achieve measurable results. Management could clearly signal that it attaches sufficient importance to the results agenda by adopting the sensible proposal by various shareholders to introduce into the MTS II a responsibility and accountability framework
with a time-bound results framework. Another means to enhance the efficiency and effectiveness of ADB would be a larger degree of decision-making authority at senior management level, possibly including a more clearly defined managerial role for the vice presidents.

**Conclusion**

To conclude, I agree with the view expressed in this year’s Annual Report that 2005 was a year of transition for ADB. Transition always holds the prospect that things will improve. Yet transition is rarely a smooth process–doing new things or doing things differently can entail misunderstandings and provoke resistance. In transition periods it is essential that decision-makers take good note of their environment. I am convinced that such open mindedness will prevail at ADB. In further implementing the President’s inspiring vision, ADB can continue to count on the full support of Switzerland.

**TAIPEI, CHINA**

FAI-NAN PERNG, Governor

On behalf of the delegation of Taipei, China,* I would like to thank the government and people of India for their generous hospitality, and the staff of the Asian Development Bank (ADB) for their thoughtful arrangements. Hyderabad offers a fascinating blend of the old and the new. The 400-year-old city mixes rich cultural traditions with cutting-edge technology. It is a choice venue for the annual get-together of the ADB family. I join my fellow governors in welcoming Armenia and Brunei Darussalam to ADB.

Since its founding nearly 40 years ago, ADB has contributed greatly to the development of the Asia and Pacific region. During President Kuroda’s more than one year in office, ADB has crossed many important milestones. It sent relief to tsunami-affected countries, helped rebuild earthquake-hit Pakistan, and set up a $300 million Pakistan Earthquake Fund. ADB formed regional partnerships with WHO, the Food and Agricultural Organization of the UN, and ASEAN to launch a $38 million project to combat the avian influenza threat. It also actively assisted developing member countries to reduce poverty as part of its efforts to fulfill the Millennium Development Goals by 2015. Through its internal reform agenda, ADB is becoming more relevant, responsive, and results-focused in all its operations. The Office of Regional Economic Integration commenced operations to promote regional cooperation. I believe that under President Kuroda’s leadership, ADB will continue to steer a course for sustainable growth and prosperity for Asia.

From its work in disaster prevention, preparedness, and rehabilitation, ADB has gained valuable experience in coordinating with other international

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* Changed by Meeting Secretariat.
organizations and has established a model that functions well and can be used in the future. While paying compliments to ADB, I would, however, like to suggest how it could do much better. During the decade to 2003, half of ADB’s income was from loan business and half of it from liquidity investment. Loan business accounted for 42% of the income in 2004 and 31% in 2005. A liquidity investment to income ratio as high as 70% implies a diversion from ADB’s role as a development bank. I propose that ADB gear up the allocation of its resources towards the development needs of the region.

Efforts undertaken by Asian countries after the 1997 financial crisis have contributed significantly to regional financial stability. These include the Chiang Mai Initiative, the Asian Bond Fund and the Asian Bellagio Group. ADB is taking an important further step by planning to introduce the Asian currency unit (ACU). A weighted index of a basket of Asian currencies, the ACU will serve as a benchmark to monitor movements in the values of currencies in the region. I give my full support to the idea of launching the ACU. However, its currency composition is very important if the ACU is to represent the true economic configuration and financial structure of Asia. It seems to me that the currently proposed ACU has left out some major currencies, such as the NT dollar.

As economic integration has accelerated in recent years, Asian countries have become closely linked with each other. Nevertheless, more can be done. For example, the Chiang Mai Initiative can be expanded into a multilateral swap mechanism across Asia, with ADB as the intermediary. This will pave the way for an Asian Monetary Fund. In addition, Asian countries may jointly establish a formal regional exchange-rate coordination mechanism. Such an arrangement would enhance the stability of Asian currencies, decrease transaction costs, and reduce uncertainties incurred by exchange rate volatility, thus furthering regional economic and trade development.

Most importantly, regional cooperation should be inclusive. All economies with adequate strength and financial resources should be allowed to participate. What’s more, regional integration is multilateral in nature. ADB possesses 40 years’ of experience, quality human resources, technology, and other resources. I heartily recommend it actively establish itself as the platform for regional economic integration. This will save the costs of establishing a new transnational institution, and members will be able to engage in more extensive cooperative relationships through this platform.

I will briefly update you on the Taipei, China,* economy. GDP increased by 4.1% in 2005 and is projected to grow further by 4.5% in 2006. Prices are stable. The increase in the consumer price index (CPI) was 2.3% in 2005 and will likely fall below 2% this year. The government’s fiscal reforms in recent years have achieved positive results. The balance of payments has been in good shape. The current account and overall balance remain in sustained surplus. Foreign exchange reserves have been building up. The private sector maintains a net external claims position.

* Changed by Meeting Secretariat.
I would like to reiterate that Taipei, China, is a founding member of ADB and has fully carried out its membership responsibilities. My delegation continues to protest against the unilateral alteration of our membership designation. I would also like to call on members to respect each other concerning the equal opportunities of hosting meetings and workshops of ADB. Lastly, I wish the meeting every success.

TAJIKISTAN
DAVLATOV MATLUBKHON, Governor

Let me thank President Kuroda and the Asian Development Bank (ADB) team for this opportunity to greet all the participants at this Annual Meeting, in a country characterized by such warm hospitality. I would like to express special gratitude to the Indian Government for its support in organizing and conducting today’s meeting.

On behalf of Tajikistan, we welcome the new ADB members, Armenia and Brunei Darussalam. We consider the meeting to be a further important step in strengthening mutual cooperation and enhancing the solid relationship between Tajikistan and ADB.

I am very happy to acknowledge that ADB is one of Tajikistan’s major donors, and its support has allowed our country to achieve a great deal in its economic reforms. We have been able to stabilize the economy. The annual average GDP increase in recent years was 9.4%.

The external debt situation has improved. In the past, this problem limited Tajikistan’s capacity to accelerate economic growth and reduce poverty. Our progress was possible with the assistance of the donor community, and with its support we will continue to further improve external debt management. In the medium term, we aim to implement more economic reforms in order to ensure more sustainable growth.

We greatly appreciate the efforts of ADB as a major partner in formulating the long-term national development and medium-term poverty reduction strategies of Tajikistan. Cooperation with ADB within the ongoing programs will be expanded in line with our priorities.

We very much support ADB’s new experimental activity on the multitranche financing facility (MFF) and hope that this will be replicated for ADF operations. However, although lending for Tajikistan currently amounts to $262 million so far, this still does not satisfy the development needs of the country. Let me express our appreciation of ADB’s commencement of operations in Tajikistan’s private sector through trade development programs. Your efforts to extend financing for private sector development and enhance public-private partnerships would be highly appreciated.

* Changed by Meeting Secretariat.
It is no secret that at present developing countries feel the need for extended financing to maintain a strong growth and further development. These countries are at risk from unstable financial markets, fluctuations in world prices for energy products, natural calamities, and, recently, avian influenza.

Taking into account the Government’s shortage of internal resources and delays in development project implementation, I would like to propose that the Board of Directors of ADB consider the possibility of financing projects in developing countries without counterpart financing by the Government. In this context, we welcome the timely multilateral initiative by the international community to increase grant financing.

These measures should improve the economic conditions of beneficiary countries and speed up implementation of development projects. ADB should take the lead role and do its best to eliminate deficit financing through extended grant assistance.

I also wish to acknowledge ADB’s contribution toward developing regional cooperation under its current projects, and to express our thanks for its promotion of solutions to many interstate issues that frequently arise because of lack of coordination.

In this period of economic globalization, we consider that ADB’s initiatives need to be expanded, using the economic capacity in the region. The activities of ADB in realizing regional programs in Central Asia may be expanded for the generation of ecologically clean energy, transport and communication projects. Tajikistan could take the lead in establishing new economic relations for regional cooperation in Central Asia. If we are to do that, we need the support of both individual countries and of international financial institutions, especially ADB.

Thailand
THANONG BIDAYA, Governor

I should like to begin by extending my sincere appreciation to the Government of India and ADB’s management and staff for the excellent arrangements for this 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB), and to the city of Hyderabad for its generous hospitality and warm welcome.

As we have all experienced, the world economy is facing downside risks, such as volatile oil prices, persistently large imbalances, and catastrophic events such as natural disasters and avian influenza outbreaks. Despite these external shocks, I am delighted to report that the Thai economy continues to remain strong and resilient, with first quarter growth likely to exceed 5.5%. Inflation is expected to be kept in check at under 4%. International reserves remain strong.

Thailand is certainly not alone. Tremendous growth opportunities are evident everywhere in Asia, and there is generally greater resilience against shocks.
Individually, Asian countries possess many diverse strengths that have been crucial to our progress. Together, our diversity creates great synergy through our various regional initiatives. Undoubtedly, much credit belongs to ADB, which has long facilitated regional cooperation and successful policy implementation.

ADB, as the biggest multilateral development bank in the region, deserves much praise both for a job well done and for its efforts to further improve its performance. New proactive policy initiatives proposed by ADB in pursuit of “open regionalism” are in the pipeline and are currently under consideration by the Board of Directors. These policy initiatives follow guidelines articulated in ADB’s regional cooperation and integration framework, which Thailand fully supports.

Better training for officials is vital to the success of those policy initiatives. Thanks to ADB, a Regional Financial Integration Training Center will be set up in response to the need for greater capacity development for policy makers. The new center will fill in the communication and knowledge void between researchers and policy makers, it will provide a bridge between global and local knowledge to meet development challenges. Thailand’s values this initiative for two reasons, first for the network of officials the center will create and second for choosing Thailand as its location. For our part, we promise to deliver a haven for shared knowledge and shared goals, and we will strive to prove ourselves worthy of your selection.

One noteworthy change in the long-standing relationship between Thailand and ADB in recent years is Thailand’s growing role as a donor country. Since ADB’s establishment, Thailand has achieved great socioeconomic progress through both financial and technical assistance. In return, we hope to share our experiences—be they progress or pitfalls—and resources with other member countries.

Among ADB’s middle-income members, Thailand will soon embark upon an enhanced partnership through the establishment of a partnership framework between the Royal Thai Government and ADB. Spearheading our shift to a donor role, the partnership framework will provide a road map for cooperation in addressing development priorities, at national and regional levels, over the next 5 years.

At the national level, Thailand values ADB’s role in promoting public–private partnerships, specifically in the context of infrastructure and capital market development. At the regional level, this will contribute to strengthening Thailand’s position as a development partner by cofinancing cross-border infrastructure, promoting subregional trade and investment, and supporting the development of Asian bond markets.

In parallel with the multilateralism of ADB, Thailand has increased financial support and technical assistance to neighboring countries through bilateral and subregional initiatives. An agency has been established in Thailand called the Neighboring Countries Economic Development Cooperation Agency (NEDA).

We are very pleased to be working closely with ADB to help direct NEDA on the road to an effective aid strategy. Equipped with the ADB’s extensive
expertise, NEDA will move toward a more effective allocation of aid resources with “the right timing and the right mix of money and ideas”, to paraphrase Nobel laureate Joseph Stiglitz.

Finally, I would like to thank ADB for its support in every aspect in the region, including the Asian Bond Markets Initiative, the Chiang Mai Initiative and other examples of financial cooperation. I hope this support will be maintained for a long time to come.

TURKEY

ÝBRAHIM H. ÇANAKÇI, Alternate Governor

It is a great pleasure for me to be here in Hyderabad for the 39th Annual Meeting of the Board of the Governors of the Asian Development Bank (ADB), and I extend my deepest thanks to our Indian hosts for their splendid arrangements.

Today, Asia is the most dynamic region in the world in terms of economic growth. Despite its impressive economic growth performance, 1.9 billion people in the region still survive on less than $2 a day. It is still a major challenge to reduce income disparities, to ensure the benefits of growth are more equitably distributed, both across countries and within countries, and to attain the Millennium Development Goals (MDGs). Therefore, ADB’s unique role in the Asia and Pacific Region is very important to support poverty reduction and development in its developing member countries (DMCs).

It is our responsibility as shareholders to give our utmost support to make ADB a more transparent, responsive, and results-oriented institution. ADB’s wide-ranging reform agenda is a challenging framework for its institutional change and renewal in this respect. Although there has been some progress since last year on the agenda, ADB has to continue with determination to build on this progress to assist developing member countries to meet their development goals. While doing this, it is important to enable the full involvement of all stakeholders, taking all views and comments into consideration. We are well aware that transforming the institutional culture of an organization is a difficult task and requires deep commitment and decisiveness to actively manage the change process. In this sense, we are pleased to have heard from President Kuroda that the finalization of the second medium-term strategy has been postponed to best serve the diverse and evolving needs of developing member countries.

Reducing poverty should be the prime objective of ADB’s comprehensive reform agenda. Coherence and compatibility among the reform initiatives must be ensured, and between individual reforms and the medium term strategy as well. This requires a multidimensional approach, and an effective and focused ADB that delivers tangible results. Budget implications and human resource requirements for the implementation of this comprehensive reform agenda are also issues that require in-depth analysis.
We welcome ADB’s recent work on middle-income countries (MIC) and ordinary capital resources (OCR) borrowers. As was stated in that study, all multilateral development banks (MDBs) have been facing in recent years is the relatively stagnant lending levels to MICs, home to more than 70% of the developing world’s poor and ADB’s principal client-base for its OCR operations. Concerted action is needed with other MDBs so there is continued support for MICs to further raise development effectiveness, without ignoring the specificities of the region. What happens in the MICs matters a lot to the global picture, since they are critical to the achievement of the MDGs and they have the potential to make a significant impact on poverty reduction.

The issue of regional cooperation and integration deserves special attention. As a leading development partner in the region in terms of global knowledge, skills, as well as technical assistance and advice, we appreciate plans to enhance ADB’s role as a promoter of regional economic cooperation and integration. However, the pillars of this initiative should be thoroughly discussed with all regional member countries so as to achieve a consensus.

We place great emphasis on promoting good governance and the fight against corruption. We also support recent efforts by all MDBs in February to work together to tackle corruption, a development issue that hampers economic growth, disproportionately burdens the poor, and undermines the effectiveness of investment and aid. Although the roots of corruption run very deep in many countries’ political cultures, making it difficult to overcome the problem, ADB should stay the course on its governance and anti-corruption strategy. We support ADB’s close cooperation with other MDBs in this area.

We are content with the emphasis on private sector development in ADB’s medium-term strategy. We believe ADB has a role in promoting sound policies and continued reforms, enabling an improved environment for the development of the private sector. However, increasing lending volumes for private sector need to be accompanied by a substantial strengthening of ADB’s financial risk management.

On a final note, I would like to stress how important it is to implement a far reaching reform agenda and deliver concrete development results, which will make ADB a more relevant and effective partner in the region. Turkey values its partnership and engagement with ADB highly. In this sense, I would like to extend my deepest appreciation to Mr. Kuroda, the Management and staff of ADB for their dedicated work for the future of ADB and give them best wishes for the next year of operations.
TURKMENISTAN
GELDMURAD ABILIOV, Governor

On behalf of the Government of Turkmenistan, I would like to greet this distinguished gathering and to express gratitude to the President of the Asian Development Bank, Mr. Kuroda and the staff of the Asian Development Bank (ADB). I would also like to thank the Government of India and the city of Hyderabad for the organization of the 39th Annual Meeting of the Board of Governors of ADB.

I would like to begin my statement with a brief description of the recent achievements of the economy of Turkmenistan. Having chosen from the outset a phased approach to structural reforms and to the transition to a market economy, Turkmenistan intends to continue these reforms with the aim of building a developed and socially-oriented state.

This year is significant for Turkmenistan, as we will celebrate the fifteenth anniversary of our independence. Over this rather short period of time, Turkmenistan has transformed itself into an intensively developing country with significant industrial potential, a powerful fuel and energy sector, and a developed infrastructure. These successes have been due to the socioeconomic reforms that have taken place since the first day of the independence. The Turkmenistan economy is now very market-oriented and is open for the entire world.

Over recent years, the economy of Turkmenistan has achieved impressive results. Rates of real GDP growth were 17% over the past 5 years. At the same time, practically all sectors of the national economy experienced growth. Inflation rates were insignificant and remained within the targeted limits. The tough monetary policy of the Central Bank of Turkmenistan has stabilized the economy and restrained inflationary tendencies. A steady fiscal policy helped to balance the state budget in 2005. The state budget for this year is within the projected parameters.

Over the past 5 years, the balance of payments has improved significantly. The current account improved, partly because of increases in oil and gas exports, but also because of the surge in exports of electricity, light industrial products, and cotton fiber. Foreign trade continues to increase rapidly. In 2005, the volume of foreign trade was twice that of 2000. In 2005, the foreign trade surplus of Turkmenistan was $1.3 billion.

It should be noted that over recent years, state and private capital has been invested in increases in manufacturing efficiency and labor productivity, including growth in the quantity and quality of new jobs. In line with investments in the fuel and energy sector, significant investments have also been made in processing industries, procurement of machinery and equipment for the construction sector, agriculture, and transport. In 2005, investments in manufacturing and the sociocultural sector represented 26% of the GDP. The economic results over the recent years created a good base for further strengthening of economic growth.
At present, the development of the private sector is a priority. Here, tax reforms will play a very important role. Following tax system reforms, the tax on the gross income of private producers and entrepreneurs was reduced to 2% at the end of 2005. Agriculture was exempted from taxes. These measures are a strong incentive for the development of private enterprises and individual entrepreneurs.

Turkmenistan’s national “Strategy of economic, political and cultural development of Turkmenistan until 2020” has made an important contribution to the prosperity and social security of the population. The strategy aims to transform the economy and deals mainly with the development of natural resources in a multi-structured, socially-oriented economy. According to the strategy, considerable investments have been made in modernizing the infrastructure, including roads, high-quality housing, medical facilities, and communal networks.

The Government of Turkmenistan greatly appreciates its cooperation with ADB. The results of our cooperation over recent years will be a strong basis for our mutually beneficial relationship.

UNITED KINGDOM
CHARLOTTE SEYMOUR-SMITH, Temporary Alternate Governor

It is a real pleasure to be in this cosmopolitan city with its rich history and culture, and I wish to join other colleagues in thanking the Indian Government, the Government of Andhra Pradesh and the people of Hyderabad for their kind hospitality.

The recent conference, Asia 2015, co-hosted by the Asian Development Bank (ADB), the World Bank and the Department for International development (DFID) in London, reviewed the remarkable development achievements that many regional countries have made in the past two decades and also looked forward to the challenges ahead in achieving the goal of ending extreme poverty within a generation.

Asia 2015 re-affirmed the important role which all development partners must continue to play to support national and regional efforts to promote broad-based sustainable growth and social development. Helping borrowers to achieve the Millennium Development Goals will make a lasting difference to the lives of some 620 million people in the region who today still subsist on less than $1 per day.

ADB has served its members well over the past four decades. However, in a dynamic and rapidly changing world, it faces its own challenge to remain, as President Kuroda has characterized it, responsive, relevant and focused on achieving results. I have three specific comments in this regard.

First, ADB needs to focus on its strengths. This was a key theme in Istanbul last year. Focusing means making difficult decisions on disengaging from areas
and sectors where ADB will add little or no value, and concentrating on those where it enjoys a comparative advantage. The United Kingdom (UK) is convinced that ADB has a proven capability in infrastructure; we are keen to see ADB responding to developing member countries’ requirements in this area and to take on a more evidence-based and pro-poor approach. As last year’s excellent report “Connecting East Asia” noted, infrastructure does not lead to inclusive development on its own, it requires actions that support the delivery of services to the poor, and that underpin the growth dynamics on which improvements in welfare depend.

The new draft medium-term strategy moves some way toward selectivity and prioritizing core operational activities for the future. However, we were disappointed that the draft strategy did not address the different needs of middle-income, low-income and weakly performing borrowers. We remain concerned about ADB’s capacity and willingness to implement an agenda for both its public and private operations which emphasizes support for pro-poor policies and delivery of services to tackle social exclusion and inequality—all issues of major concern to borrowers.

In this regard, ADB is a pivotal organization in promoting regional cooperation, and in particular providing a range of regional public goods. The energy sector is a case in point. Over a billion people in Asia still have no electricity and 2.3 billion rely on basic biomass for their heating and cooking. ADB is to review its energy policy this year and the UK urges it to consider in particular how best to support the region’s ambitious targets to achieve electricity for all; for example, 2012 in India and 2010 in Pakistan. It is important that new investments in energy include provisions for improving access for the poor.

All countries, not just in Asia, must give much greater attention to energy efficiency and to opportunities to use low carbon technologies. The UK strongly supports ADB’s intention to ensure indicative targets are set for decreasing greenhouse gas emissions in the region, in line with the UN Convention on Climate Change. This is an area where ADB can and should play a proactive role, by thinking about, and acting creatively on, its existing balance sheet and financial instruments to deliver quick climate friendly investments. To pull all of this together, we are calling on ADB to develop a comprehensive and innovative Asian Clean Energy Investment Framework to meet the climate-friendly investment needs of its borrowers.

As ADB increasingly focuses on its strengths, it will be imperative to implement vigorously its commitments under the Paris Declaration on Aid Effectiveness. It will be important, for instance, for ADB to harmonize its operating practices and programs with other partners to reduce the burden on borrowers, and to build capacity in local systems. The UK plans to work with ADB, the World Bank and other bilateral donors to try and accelerate the harmonization process in the region. We hope that early action will be possible on this, including more joint work on specific country strategies and sectoral programs.
My second comment relates to ADB’s strategic priority of preventing corruption. The recent internal review of this subject was admirable for its open and candid description of the difficulties encountered in mainstreaming ADB policy. The conclusions of the review—on the need to renew ADB’s corporate commitment to anticorruption action and to reduce corruption risks in projects—must be given top priority by management. We call for these to be comprehensively addressed in the new action plan, including the provision of adequate professional staff resources in regional departments and resident missions. More broadly, however, ADB should maintain a constructive but frank dialogue on governance issues with borrowing countries.

My third and final point relates to ADB’s internal reform agenda. The Asian Development Fund (ADF) review at the end of this year will provide an important opportunity to discuss and assess the progress made to date. However, I wish to underline here the critical role that senior management has to play in defining ADB’s operating culture, ensuring that the principles of transparency, accountability for results and cohesive teamwork are deeply rooted across the entire organization. This is why the UK is calling for ADB’s vice presidents to be given greater direct responsibility for delivering results and to be held accountable for this.

In a speech a few weeks ago, the Prime Minister of India said that his country was engaged on a Himalayan adventure of pursuing development which will provide a social and economic environment to unleash the creativity and enterprise of every Indian. Such creativity and enterprise is already manifest here and in many other countries in the region, and we believe the Asian Development Bank can play its full part in helping all its borrowing members scale those high mountains and finally eradicate poverty.

UNITED STATES
KENNETH L. PEEL, Temporary Alternate Governor

I am honored to be in Hyderabad for the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). My colleague, Under Secretary Adams, unfortunately had to return to the United States late last night due to an unexpected event. On his behalf, I would like to thank our gracious hosts—Indian Finance Minister Chidambaram and ADB’s President Kuroda. We have felt very welcome here. ADB is a very important institution in a very important part of the world for the United States, and I am pleased to have this opportunity to address its role in promoting private sector-led growth and reducing poverty in Asia.

Regional Economic Developments

Asia’s dynamism is apparent. Economies in the region have grown rapidly in the last few years, more than simply rebounding from the economic turmoil
that rocked the region less than a decade ago. Today, three of the world’s four largest economies are in Asia. In recognition of this, the United States has intensified its economic relationship with the region. Of course, many countries in Asia still face a number of core development challenges, such as how to move rural products to urban markets and to provide universal access to primary education.

Over the last week Tim Adams and our team have met with top Indian and foreign business leaders in Mumbai and Kolkata to discuss their experiences in growing their businesses. India should now focus its development efforts on rural areas in order to extend the benefits of economic growth to the countryside. South Asia has shown that expanding the role of the private sector brings great benefits to growth and productivity.

In transitioning to a market economy, the People’s Republic of China (PRC) has seen its standard of living surge. The PRC’s efforts to reform its economy are key as it becomes a major player in the global economy. Along with that of the United States, the PRC’s growth has contributed significantly to global growth since 2000.

However, Asia’s dynamism extends beyond India and the PRC. Southeast Asia has demonstrated that political will helps lead to faster domestic growth. Two months ago Under Secretary Adams traveled through this region and was impressed by the monetary, fiscal, and structural reforms that Malaysia, Philippines, and Singapore are implementing. We also welcome the policy initiatives in Indonesia, focusing on improving the investment climate, strengthening infrastructure, and modernizing the financial system.

But the strong growth and low inflation of the last few years also came with an emergence of global imbalances that should be addressed so that rapid global growth can be sustained.

Economic adjustment is a shared responsibility to improve global imbalances and economic development. Asian economies have a critical role to play in global adjustment through pursuing greater exchange rate flexibility, strengthening domestic demand, and financial sector reform.

Role of the Asian Development Bank

Over the last year, ADB has played a valuable role in responding to the region’s urgent needs. ADB’s flexible and skilled responses to the tragedies of the tsunami and the South Asia earthquake and the looming threat of avian influenza are to be applauded. These efforts are continuing, of course, and the hard work of the hundreds of staff members involved is truly appreciated by the United States.

Regional economic integration is certainly a key part of Asian growth. Much of ADB’s work in this area over the years has been valuable. Good examples include promoting regional trade and infrastructure linkages and regional public goods, and we encourage continuing efforts along these lines, consistent with ADB’s core focus: poverty reduction through growth. While regional surveillance and the study of potential regional currencies are certainly worthy endeavors, we cannot afford to divert scarce human and financial resources from ADB’s core mission.
Ensuring accountability, transparency, and strong development impact are the cornerstones of the Bush Administration’s economic development agenda. The Asian Development Fund (ADF) replenishment in 2004 was a significant milestone for ADB through its commitments to better results measurement and a new grant financing window for poorer countries. As shareholders, we must encourage ADB to become even more transparent, responsive, and results-oriented. I want to highlight three critical elements of ADB’s agenda: measuring results, fighting corruption, and supporting private sector growth.

While there has been some progress, overall actual implementation of the ADF IX commitments remains disappointingly slow. We appreciate the good work being done, such as the results-based country strategies, but want quantitative targets to be incorporated consistently in all projects and we need progress in implementing a new incentive system that rewards staff for development impacts, not increasing lending targets. Senior-level leadership and accountability are needed to make progress on ADB’s reform agenda. We look forward to the ADF IX midterm review—which should be held this summer but in any event no later than September in Singapore—to take full stock of progress.

Fighting corruption remains a top priority across the multilateral development banks (MDBs), and we were encouraged by the recent agreement in Washington, DC, by President Kuroda and his colleagues to work together on this endeavor. Corruption compromises development like no other impediment, resulting in squandered resources and ineffective efforts to combat illiteracy, disease, high infant mortality, and a polluted environment. Put simply, corruption is a tax on the poor and we will not tolerate it. ADB has made progress in its anticorruption work through more spending on governance programs, strengthening the governance indicator in the performance-based allocation system, and bolstering the internal investigations capacity. Yet more work remains. The key areas include: harmonizing anti-corruption and procurement efforts across MDBs to the highest international standards (including cross-debarment and published lists of disqualified firms), increasing transparency and access to information, and building internal mechanisms to ensure accountability.

ADB’s private sector operations—which have grown quickly in recent years—have reaped positive results as more companies are able to access resources and expertise. ADB should continue to create the right regulatory environment to foster strong public–private partnerships to support growth, while ensuring development additionality rather than cherry picking the natural winners. The MDBs were established to blaze development trails by taking risks that the commercial markets were unprepared to assume, not to compete with or crowd out willing private-sector actors. ADB has demonstrated its capacity to promote private-sector growth, and it should continue to lead the way in this spirit.

In conclusion, ADB cannot be all things to all countries and all sectors. Selectively targeting ADB’s resources to its comparative advantage will help ADB fulfill its core mission and maintain its relevance in the region. The United States remains a supportive and willing partner with ADB in this quest, and we look forward to our continued good relationship.
Let me begin by joining others in welcoming Armenia and Brunei Darussalam as new members of ADB.

**Challenges for Asia and ADB’s Future Role**

It is unfortunate to note that in recent years we have held our Annual Meeting after being confronted by natural calamity and human tragedy in Asia. The year 2005 was no exception. Devastating earthquakes in South Asia and the continuing bloody conflicts in Iraq and Afghanistan have caused many causalities and tremendous human suffering.

In this regard we appreciate ADB’s prompt response to the sudden catastrophes in the region, such as the Indian Ocean tsunami, the South Asia earthquake, and the avian influenza outbreak. ADB acted swiftly to serve the needs of people affected by such tragedies and helped revive economic activities in the areas affected.

Despite this devastation and the prevailing uncertainties, Asia continues to be the most dynamic region in the world, with strong and sustainable economic performance. Central Asia, for example, witnessed 11% growth in the past year.

Meanwhile, we have to recognize that there are a number of serious challenges and impediments to sustaining the current economic trend in Asia and the Pacific. These major challenges are: the continuing global terrorism threat, oil price increases and price volatility, life-threatening communicable diseases such as avian influenza, natural disasters, poor infrastructure, and poverty.

**Recent Developments in Uzbekistan**

Uzbekistan has posted very strong growth of about 8% in recent years, with significant contributions from its agriculture and industrial sectors, and robust performance from external trade. In 2005, foreign trade increased by 30%, while the trade surplus exceeded $1.3 billion.

This promising progress in the economy was achieved because of the Government’s prudent monetary and fiscal policy, comprehensive agricultural and private sector reforms, liberalization of markets for goods and currency, and successful implementation of administrative reforms.

Aided by greater foreign direct investments in the textile and hydrocarbon sectors and the critical reforms needed for private sector-led growth, similar high growth is expected to continue in 2006-2007 with a projected annual GDP growth of 7%-8%.

To sustain high economic growth in the future, the Government intends to launch broader structural reforms which will include the following measures:

- further broadening of the private sector, strengthening guarantees and forming a favorable environment for businesses;
• ensuring job generation and creating employment as major conditions to increase incomes and improve living standards;
• promoting export expansion;
• expanding reform in agriculture;
• deepening reforms in the public communal utilities sector; and
• further improving taxation policy.

In this context we greatly appreciate ADB’s contributions to strengthening the reform process in our country, and for the recently approved country strategy and program for Uzbekistan which will provide financial assistance in the amount of more that $100 million a year.

ADB’s Role

We welcome the proactive leadership of President Kuroda and the actions that have been taken by the new Management team over the last 14 months to further enhance ADB’s efficiency, to simplify and streamline business procedures, and to work out innovative and more attractive technical assistance products for borrowers.

We particularly support the recent realignment of regional departments, which will enable a stronger synergy between country and regional operations as well as a better country focus. The establishment of the Central and West Asia Department will enable ADB to strengthen its assistance to the Central Asia countries together with Afghanistan and Pakistan.

We believe that ADB’s future plans should focus on the following priorities.

First, infrastructure development, in particular transport, agriculture, and water resources, should remain the highest priorities of ADB’s operations. This is the foundation of the sustainable economic growth and poverty reduction in developing member countries (DMCs).

Second, ADB should promote social development, for example by establishing modern education and health care systems that will be the most effective and promising long-term investments for future prosperity.

Third, ADB should support private sector investments and boost infrastructure development and sustainable economic growth. ADB should provide assistance and share knowledge in Uzbekistan through equity investments and lending facilities to banking and private enterprises, microfinance, housing and mortgage facilities for the poor.

Fourth, ADB should promote the strengthening of regional economic cooperation and integration. The Government of Uzbekistan greatly values ADB’s contribution to strengthening economic integration among Central Asian states, as well as cooperation between South and Central Asia.

In this context, we urge Management to accelerate the process to establish a Central Asia Investment Fund to support small and medium-sized enterprises and private sector development in the region.
Finally, we are confident that ADB will remain attentive to the voices of the region and implement its own strategies for each member country based on experience, knowledge, client orientation. In response to the dynamic and rapid changes being experienced by Asian countries, we believe ADB should be a “family doctor”, addressing their needs in a flexible and timely manner.

**Conclusion**

On behalf of the Government of Uzbekistan, I would like to express our appreciation for ADB’s continuing efforts to improve the quality of life in Asia, and express my gratitude to our hosts, the Government of India and the people of Hyderabad, for their warm hospitality and gracious arrangements.

**VIET NAM**

PHUNG KHAC KE, Alternate Governor

It is an honor to speak at the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). First, I would like to congratulate ADB and the host country India on successfully organizing this meeting. It is my pleasure to visit Hyderabad, which is rich in culture and famous for technological developments. I would also like to welcome Armenia and Brunei Darussalam to ADB.

In 2005, the world experienced a number of unexpected and complicated incidents, including earthquakes, droughts, typhoons, floods, a resurgence of avian influenza, and especially an increase in the price of oil to two-decade highs, together with political and economic unrest in some areas of the world. These factors and the cyclical upward trend of inflation and interest rates weakened global economic growth from 5.1% in 2004 to 4.3% in 2005.

These adverse global and regional impacts and domestic developments, such as unfavorable weather, a resurgence of avian influenza, and the unexpected price hike of essential raw commodities had a considerable impact on the Vietnamese economy, pushing up the domestic consumer price index (CPI) upward and having an impact on the achievement of socioeconomic targets. However, because of well-defined and flexibly implemented macroeconomic policies and measures, in 2005, the final year of the Socioeconomic Development Plan for 2001-2005, the Vietnamese economy performed well, which was acknowledged by our international development partners.

In 2005, the Vietnamese economy maintained a high growth rate of 8.4%, thus contributing to the achievement of a GDP average annual growth rate of 7.5% as set out for the 2001-2005 period. The total export value in 2005 reached $69.42 billion, an increase of 18.8% against 2004, while the import deficit narrowed significantly in terms of both absolute number and portion of the total import value. Total budget revenues in 2005 were estimated at $13.2 billion, an increase of 16% against 2004, supplementing the resources for
infrastructure, production, economic growth and poverty reduction. The ratio of poor households was significantly reduced. However, according to Viet Nam’s new poverty line, this percentage was still high: 23% in 2005 against 24.1% in 2004. The developing economic environment helped to generate 1.14 million new jobs in 2005, hence reducing the urban unemployment rate from 17.5% in 2001 to 5.3% in 2005.

In addition, in 2005, the Vietnamese Government continued its strong reform efforts in order to accelerate our international economic integration. It also carried out reforms to state-owned enterprises (SOEs) and the financial sector, namely the passage by the National Assembly of the Unified Enterprise Law, the Common Investment Law, the Procurement Law, and the Anti-Corruption Law. These laws were in line with international practices and were designed to create a favourable investment environment and a level playing field for enterprises; to support the development of the private sector; to issue prudential banking regulations in line with international practices; and to make efforts to resolve non-performing loans in the banking system in parallel with the restructuring of state-owned commercial banks (socBs), notably the Government’s decision to equitize two SOCBs.

In the new 5-year Socioeconomic Development Plan for the 2006-2010 period, the Government consulted and worked closely with bilateral and multilateral development partners in order to define new development directives. The general development objectives in this period are: (i) socially fair and sustainable development with the targeted GDP average growth rate of 7.5%-8%; (ii) generation of around 8 million new jobs with an average of 1.6 million per year, and a reduction in the percentage of poor households to 10% by 2010, according to the new poverty line; (iii) a focus on economic restructuring, with the industrial, construction and service sectors accounting for 80% of GDP; (iv) completion of the SOE restructuring process and continuation of the restructuring of the financial sector; (v) support for the development of the private sector, particularly small- and medium-sized enterprises (SMEs); (vi) stronger international economic integration and cooperation, and cooperation with bilateral and multilateral strategic partners; and (vii) stronger administrative management and resolution to fight against corruption.

In order to achieve these objectives in the 2006-2010 period, the Government will have to encounter a number of challenges, particularly fair and sustainable development, improving the competitiveness of the economy, promoting changes to the economic structure, effective mobilization and usage of resources, and completing negotiations for World Trade Organization (WTO) accession. We would therefore greatly appreciate further support from the international community in order to achieve our set targets.

The Vietnamese Government values the efforts and support of ADB to member countries highly. Under the medium-term strategy for the 2001-2005 period (MTS I), ADB made remarkable achievements, particularly in such areas as infrastructure, agriculture and rural development, human resources
development, and poverty reduction support in regional member countries. However, a strongly developing economic environment and deeper international economic integration in regional member countries requires ADB to face new challenges and operational targets. These include (i) further improvement of the investment environment to meet increasing and more diversified investment demand in order to maintain a high economic growth rate; (ii) socially comprehensive economic development, narrowing the increasing gap between the rich and the poor; (iii) further promoting regional cooperation and integration; (iv) development of a sustainable environment; and (v) improving governance and the anti-corruption fight. Against this background, the second medium-term strategy for the 2006-2008 period (MTS II) identified five priority strategic areas that ADB must pursue in the next period, especially measures to improve the investment environment and socially comprehensive development. We fully agree and support ADB’s efforts to implement MTS II, which will define its overall operational direction for the 2006-2008 period. In addition, the Greater Mekong Subregion Program (GMS) initiated by ADB is a successful model of subregional cooperation. Viet Nam hopes to enjoy further support from ADB for GMS projects to improve the effectiveness of this initiative.

We acknowledge that ADB and regional member countries face common challenges. With the supportive and catalytic role of ADB, and strong cooperation from member countries, together we can resolve issues of common interest and, thereby, contribute to the achievement of sustainable poverty reduction objectives and comprehensive economic development targets. The Vietnamese people and Government acknowledge and appreciate the importance of ADB’s support for our programs and projects in key areas over the past years. In future, we hope to enjoy more support from ADB to help us achieve the targets of development, poverty reduction and integration, in line with the operational directions of MTS II in the 2006-2008 period.

On behalf of the Vietnamese people and Government, I would like to extend my sincere thanks and appreciation to ADB’s Board of Directors and staff for your continuous and much appreciated support given to Viet Nam.
I would like to take this opportunity to thank Governors for offering your views on the region’s development challenges and opportunities. I particularly appreciate your insights on how ADB can best help developing member countries respond.

The Region

It is clear from our discussions that the Asia and Pacific region is in a period of immense change. If economic growth remains strong and its benefits are more widely shared, we can now envision our region approaching eradication of extreme poverty in the not-too-distant future. As I noted in my opening address, the number of people living on less than a dollar a day could fall to around 100 million by 2015—the critical target year for meeting the Millennium Development Goals (MDGs).

Still, nearly 1.9 billion people in the region are poor, living on less than $2 a day. As the region grows more prosperous, the widening gap between rich and poor becomes less tolerable to all of us.

We all agree that more must be done to include the poor in the region’s plans for growth. Including the poor means investing in people: investing in rural development and basic human services, like health and education; and investing in infrastructure that directly benefits the poor by providing access to markets and services that can improve their standard of living.

As many Governors pointed out, progress on many non-income measures of poverty is frustratingly slow. All of us—the international community, developing member countries, development institutions and civil society—must work more closely together, with increased support for meeting the MDGs.

We all recognize, too, the critical importance of drawing more investment into the region to accomplish these large tasks, and of ensuring that the region’s further development is managed in an economically, socially and environmentally sustainable manner.

The Asia and Pacific region appears poised to continue on its fast track of economic growth. But the positive outlook is clouded by a number of significant risks, including oil prices and energy security, global payments imbalances, health threats like avian flu, environmental threats, and the growing multitude of the unemployed and underemployed.

Looking at these challenges as a whole, we all recognize that working together is key to a future of stability, widespread prosperity and peace.

ADB in the Region

I appreciate the strong support Governors have voiced for ADB’s work in the past year. In particular, Governors praised ADB’s fast and effective response to
Over the last two days, Governors expressed support for ADB’s strategic priorities, which are set out in the second medium-term strategy (MTS II): catalyzing investment, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and preventing corruption. Several Governors noted the efforts ADB has made to be more selective and focused.

Clearly, there is a broad consensus that ADB should continue to focus on inclusiveness and pro-poor growth. I am confident that MTS II will strengthen the impact of our assistance on poverty reduction, and better support the efforts of developing member countries to reduce poverty and attain the MDGs.

The provision of infrastructure is essential to ensure the poor can participate in and benefit from the region’s prosperity. As Governors noted, much more assistance is needed to meet the region’s huge infrastructure demands. In response, ADB is already scaling up infrastructure investments, particularly in the water and energy sectors.

We cannot overemphasize, however, the crucial role of the private sector in meeting Asia’s infrastructure and other investment needs, improving productivity, and reducing poverty. MTS II recognizes private sector development as a core business for ADB and proposes to increase our efforts to help build vibrant, dynamic private sector environments in our developing member countries (DMCs).

Governors appreciated the specific emphasis of MTS II on improving governance and preventing corruption. In response to our recent review of ADB policies, we are developing an action plan to enhance ADB’s effectiveness in these areas. And, we are working closely with other MDBs to develop a common framework on anti-corruption.

I am gratified by Governors’ support for ADB’s efforts in regional cooperation and integration. We will further strengthen our support in this area, recognizing the different needs of various countries and subregions. We will remain in close consultation with our shareholders and other partners as we finalize our updated strategy on regional cooperation and development (RCI strategy).

I thank Governors and our development partners for their strong support for ADB’s major new initiatives, particularly the energy efficiency initiative and the Carbon Fund, the innovation and efficiency initiative, and our post-emergency reconstruction programs. These initiatives will make a substantial contribution to attainment of MDGs, and strong partnerships are essential to make them successful.

Some of these initiatives are enabling us to be more responsive to the needs of middle-income countries. We now intend to follow through with similar efforts to address the specific needs of weakly-performing countries.

As several Governors noted, ADB must continue to implement internal reforms, strengthen its focus on results, and improve transparency and accountability. I assure you that we are fully committed to doing so. Ongoing change and institutional renewal is critical for any organization involved in such
a dynamic region of the world. Our Asian Development Fund (ADF) IX mid-term review, to be conducted in December of this year, will give us an opportunity to provide a full accounting of our progress.

Concluding Remarks

As our 39th Annual Meeting draws to a close, I would like to reaffirm, on behalf of the ADB Board of Directors, Management and staff, our continued commitment to working with all of you to achieve the MDGs and realize the dream of a region free of poverty.

It has been a privilege to meet with you to discuss the great progress of the Asia and Pacific region, and how we will ensure this progress continues.

I would like to express our deep appreciation and gratitude to the Chairman, the Honorable Sri P. Chidambaram, Minister of Finance of India, for the excellent arrangements. And I especially want to thank the city and the people of Hyderabad, including the many who have supported this meeting, for their warm hospitality and assistance throughout our stay.

I congratulate the Governor for Japan, who will serve as Chair of the Board of Governors for the coming year.

Finally, I want to wish all of you a safe and pleasant journey home. I look forward to seeing you next year when we will meet in Kyoto to celebrate ADB’s 40th Annual Meeting.
Wholeheartedly and with great pleasure, I join President Kuroda in thanking all of you for your participation in this year’s Annual Meeting of the Asian Development Bank (ADB). It has been four days of lively discussion, and I am gratified that we emerge from our deliberations with a broad-based consensus on ADB’s continuing key role in the development of Asia and the Pacific.

As President Kuroda has emphasized, the strong economic performance of the last decade and the prospects for continued, steady growth place the Asia and Pacific region at a moment of great opportunity in its fight against poverty. Much has been achieved, but there is much yet to be done.

We share, across the region, the common objective of accelerating poverty reduction and improving the standard of living for all our citizens, especially the poor. The Asian Development Bank has been an important partner in this endeavor. It is clear that ADB is firmly committed to improving its operations to assist the region in attaining higher levels of economic and social development.

The needs of ADB’s various shareholders are diverse and changing. ADB needs the full support and commitment of all its members—regional and non-regional, developing and developed—to effectively meet these needs. I stand with my fellow Governors in strong support of ADB’s vital mission, its goals and its achievements.

I would like to take this opportunity to thank President Kuroda for his strong leadership in a time of rapid change and growth. I commend the President, Board of Directors, Management and staff of ADB on the milestones reached last year, and wish them success in the years ahead.

I would also like to thank the meeting secretariat for their hard work in making this annual event a success.

It has been a distinct pleasure and honor for India to host this Annual Meeting in Hyderabad. The warmth and hospitality of the people of Hyderabad and Andhra Pradesh have been essential to the success of our meeting. I join President Kuroda in thanking all of you for your participation and contribution. We wish you a safe journey home, and look forward to another fruitful meeting next year in Kyoto.
Reports of the Board of Directors
Presented at the Meeting
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS’ REPORTS

REPORT OF THE BOARD OF DIRECTORS

In accordance with Article 31 (iii) of the Articles of Agreement and Section 15 of the By-Laws, the audited financial statements of ADB for 2005, including the financial statements for the operations of Special Funds, as contained in the Annual Report for 2005, are submitted for approval, together with the text of a draft Resolution.
ALLOCATION OF NET INCOME

REPORT OF THE BOARD OF DIRECTORS

1. ADB’s net income from its ordinary capital resources for the year ended 31 December 2005 after appropriations of guarantee fees of $4,092,291 to the Special Reserve in accordance with Article 17 of the Articles of Agreement, amounted to $105,201,927. With respect to such amount, the Board of Directors, after due consideration, recommends that the Board of Governors adds from Cumulative Revaluation Adjustments and Loan Loss Reserve accounts $308,743,207 and $36,900,000, respectively; and allocates $70,845,134 to Ordinary Reserve; $320,000,000 to Surplus; $20,000,000 to the Technical Assistance Special Fund; and $40,000,000 to the Asian Development Fund.

2. The net income from the Asian Development Fund (the Fund) for the year ended 31 December 2005 amounted to $210,611,237. Under the regulations governing the Fund, the net income of the Fund is required to be retained in the Fund, except that the Board of Governors may transfer some of the net income to be applied towards technical assistance grants. Owing to the need for further resources for concessional lending, no such transfer is recommended by the Board of Directors.

3. A draft Resolution implementing the recommendation in paragraph 1 above is attached.
BUDGET FOR 2006

REPORT OF THE BOARD OF DIRECTORS

A. Asian Development Bank

1. A report on the Budget for 2005 was submitted to the Board of Governors at the Thirty-Eighth Annual Meeting.¹

2. Actual internal administrative expenses (IAE) for 2005, as presented in Appendix 1, amounted to $294.3 million, reflecting a saving of $5.5 million (or 2%) against the original budget of $299.8 million. Despite unanticipated increases in activities in relation to the Asian Development Bank’s (ADB) emergency assistance to tsunami-affected areas in India, Indonesia, Maldives, and Sri Lanka, as well as to earthquake-affected areas in Pakistan, the overall savings were mainly the result of lower than expected staff-related costs,² business travel, and administrative expenses. These savings were partially offset by higher requirements for consultants and staff relocation. To meet unexpected increases in staff-related costs of the Operations Evaluation Department and higher relocation expenses of the offices of the directors, an amount of $0.7 million was transferred from the general contingency.³

3. The 2006 IAE budget of $312.9 million, including a general contingency of 1%, was approved by the Board on 16 December 2005. Starting from 2006, the budget is presented net of $3.8 million estimated to be recoverable from fee reimbursement from trust funds of multilateral and bilateral institutions. The 2006 budget, which has been formulated through a zero real growth scenario with no increase in professional staff, will fund a prioritized work program to provide more effective development assistance to each developing member country in the region. Incremental resources to support the priority work program will be met through sequestration of resources, trade-offs, productivity gains, and efficiency measures.

¹ DOC. BG38-6, 12 April 2005.
² Overruns in staff benefits due mainly to accrued severance pay (including for those staff leaving under the Enhanced Separation Program) were offset by savings in (i) actual salary costs due to lower than expected staff years and (ii) staff development.
³ Starting with 2005 budget, the Board of Directors budget category includes three subcategories: offices of the directors, accountability mechanism, and operations evaluation. As the budget for each of these subcategories is separate, any overrun in each subcategory will have to be funded from the general contingency.
4. A comparison of the 2006 work program with the actual results for 2004 and 2005 is shown in Appendix 2.

5. Appendix 3 presents a distribution of the operational expenses by department or office, and Appendix 4 provides a comparison of operational expenses by program category for 2005 and 2006.

6. In addition to the IAE budget, the 2006 budget also includes an annual capital budget of $4.1 million, mainly (i) to fund cyclical capital expenditures for the headquarters facilities and information technology equipment, and (ii) to meet the capital replacement and acquisition requirements of field offices.

B. Asian Development Bank Institute

7. Actual program expenses of ADB Institute for 2005, as presented in Appendix 5, amounted to $2.9 million. This represents a saving of $0.9 million or 76% utilization of the 2005 budget. Savings were largely due to lower than expected expenses of the visiting researchers program and a slight delay in filling research fellow posts.

8. Actual IAE of ADB Institute for 2005 amounted to $8.4 million. This represents a saving of $2.2 million, or 79% utilization of the original budget. Savings were mainly because of lower expenditure on staff costs, business travel, office equipment, and non-utilization of the general contingency.

9. ADB Institute’s budget for 2006 was approved by the Board of Directors on 16 December 2005. The 2006 budget of $14.17 million (Appendix 5) comprises program expenses ($3.95 million) and IAE ($10.22 million).

10. The program expenses budget of $3.95 million comprises research ($2.35 million) and capacity building and training ($1.6 million). The IAE budget of $10.2 million includes a 3% general contingency provision of $0.3 million.

11. The program expenses budget accounts for 28% of the total ADB Institute’s budget. Operational and general support-related expenses such as staff costs, business travel, and staff consultants are included in the IAE. The budget for program expenses and program-related IAE represents 52% of the total budget of ADB Institute for 2006 (Appendix 6).
## ASIAN DEVELOPMENT BANK
### COMPARISON OF 2006 BUDGET WITH 2005 BUDGET AND ACTUAL RESULTS
#### INTERNAL ADMINISTRATIVE EXPENSES ($'000)

<table>
<thead>
<tr>
<th>Item</th>
<th>2004 Actual</th>
<th>2005 Actual</th>
<th>2006 Program/Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Outputs</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Portfolio Management (number) a</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Projects (public sector)</td>
<td>415</td>
<td>436</td>
<td>434</td>
</tr>
<tr>
<td>Private Sector Operations</td>
<td>97</td>
<td>109</td>
<td>100–110</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>1,016</td>
<td>977</td>
<td>773</td>
</tr>
<tr>
<td><strong>Loan Disbursements ($ million) b</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Loans</td>
<td>19</td>
<td>7</td>
<td>18</td>
</tr>
<tr>
<td>Project Loans</td>
<td>12</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td><strong>Technical Assistance Disbursements ($ million)</strong></td>
<td>133.2</td>
<td>200.7</td>
<td>162.0</td>
</tr>
<tr>
<td><strong>B. Public Sector Lending</strong></td>
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<tr>
<td>Projects (number)</td>
<td>58</td>
<td>67</td>
<td>88</td>
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<tr>
<td>Amount ($ million)</td>
<td>4,946.5</td>
<td>7,027.4</td>
<td>7,231.7</td>
</tr>
<tr>
<td>OCR and ADF Loans</td>
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<td>5,260.8</td>
<td>7,174.8</td>
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<tr>
<td>ADF Grants</td>
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<td>246.6</td>
<td>56.9</td>
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<td>IEI Multitranche</td>
<td>–</td>
<td>1,520.0</td>
<td>–</td>
</tr>
<tr>
<td><strong>C. Private Sector Operations c</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Approvals (number)</td>
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<td>17</td>
<td>19–21</td>
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<tr>
<td>Amount ($ million)</td>
<td>807.2</td>
<td>821.5</td>
<td>1,100.0</td>
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<td><strong>C. Cofinancing, Guarantee, and Grant Operations</strong></td>
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<tr>
<td><strong>Cofinancing/Guarantee</strong></td>
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<tr>
<td>Projects (number)</td>
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<td>34</td>
<td>40–45</td>
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<tr>
<td>Amount ($ million)</td>
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<td>7,385</td>
<td>2,500–3,100</td>
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<td>Grants–Regular (GEF, JFICT, JFPR)</td>
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<tr>
<td>Projects (number)</td>
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<tr>
<td>Amount ($ million)</td>
<td>43.9</td>
<td>114.9 d</td>
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<tr>
<td>Grants–Emergency (ATF, JFPR, PEF)</td>
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<tr>
<td>Projects (number)</td>
<td>–</td>
<td>10</td>
<td>–</td>
</tr>
<tr>
<td>Amount ($ million)</td>
<td>–</td>
<td>789.9 d</td>
<td>–</td>
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<td><strong>D. Technical Assistance Processing</strong></td>
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<tr>
<td>Projects (number)</td>
<td>323</td>
<td>299</td>
<td>256</td>
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<tr>
<td>Amount ($ million)</td>
<td>196.6</td>
<td>198.7</td>
<td>180.0</td>
</tr>
</tbody>
</table>

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**Notes:**

- 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.
- 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 post-retirement group medical insurance plan will be reclassified from the operational expenses category (benefits) to administrative expenses category (insurance).
- The fee reimbursement received by ADB from administering trust funds of multilateral and bilateral institutions is netted off to derive the net IAE budget starting with the 2006 budget.
- 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 post-retirement medical benefits ($20,349,000); (iii) expenses related to the Enhanced Separation Program ($4,681,000); and (iv) adjustments related to the Afghanistan Resident Mission Guest House (-$367,000). Total administrative expenses, as shown in the financial statements, amounted to $337,478,000. This amount, after deducting $522,000 directly charged to Japan Scholarship Program ($69,000) and Japan Fund for Poverty Reduction ($453,000), has been distributed as follows: OCR - $135,089,000 (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).
### Appendix 2

**ASIAN DEVELOPMENT BANK**

**COMPARISON OF 2006 PROGRAM WITH ACTUAL RESULTS IN 2004 AND 2005**

<table>
<thead>
<tr>
<th>Item</th>
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<td>1,016</td>
<td>977</td>
<td>773</td>
</tr>
<tr>
<td><strong>Loan Disbursements ($ million) b</strong></td>
<td>3,563</td>
<td>4,745</td>
<td>4,520</td>
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<tr>
<td><strong>Project at Risk (%) by number of loan</strong></td>
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<td></td>
</tr>
<tr>
<td>Program Loans</td>
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</tr>
<tr>
<td><strong>Public Sector Lending</strong></td>
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<td></td>
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<tr>
<td>Projects (number)</td>
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<td>67</td>
<td>88</td>
</tr>
<tr>
<td>Amount ($ million)</td>
<td>4,946.5</td>
<td>7,027.4</td>
<td>7,231.7</td>
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<tr>
<td>OCR and ADF Loans</td>
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<td>5,260.8</td>
<td>7,174.8</td>
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<tr>
<td>ADF Grants</td>
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<td>246.6</td>
<td>56.9</td>
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<tr>
<td>IEl Multitranche</td>
<td>–</td>
<td>1,520.0</td>
<td>–</td>
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<td><strong>Private Sector Operations c</strong></td>
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<td>Approvals (number)</td>
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<td>Amount ($ million)</td>
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<td>821.5</td>
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<td><strong>Cofinancing, Guarantee, and Grant Operations</strong></td>
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<td><strong>Cofinancing/Guarantee</strong></td>
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<tr>
<td>Projects (number)</td>
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<td>Amount ($ million)</td>
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<td>7,385</td>
<td>2,500–3,100</td>
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<td><strong>Grants–Regular (GEF, JFICT, JFPR)</strong></td>
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<td>Projects (number)</td>
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<td>Amount ($ million)</td>
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<td><strong>Grants–Emergency (ATF, JFPR, PEF)</strong></td>
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<tr>
<td>Amount ($ million)</td>
<td>–</td>
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<td>–</td>
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<td><strong>Technical Assistance Processing</strong></td>
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<tr>
<td>Projects (number)</td>
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<td>299</td>
<td>256</td>
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<tr>
<td>Amount ($ million)</td>
<td>196.6</td>
<td>198.7</td>
<td>180.0</td>
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</table>
Country Strategic, Economic, Thematic and Sector Work (number)

<table>
<thead>
<tr>
<th>Item</th>
<th>2004 Actual</th>
<th>2005 Actual</th>
<th>Program/ Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSP/RCSP</td>
<td>3</td>
<td>6</td>
<td>12</td>
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<tr>
<td>CSPU/RCSPU</td>
<td>26</td>
<td>18</td>
<td>24</td>
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<td>Economic, Thematic, and Sector Works</td>
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<td>126</td>
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Research and General Economic Work (number)

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<th>Program/ Budget</th>
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<tr>
<td>Studies/Research Papers</td>
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<td>85</td>
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Operations Evaluation (number)

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<th>2005 Actual</th>
<th>Program/ Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Performance Audit Reports</td>
<td>18</td>
<td>19</td>
<td>24</td>
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<tr>
<td>Special Studies, CAPE, and Other Studies</td>
<td>15</td>
<td>18</td>
<td>26</td>
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</table>

Borrowings ($ million)

<table>
<thead>
<tr>
<th>Item</th>
<th>2004 Actual</th>
<th>2005 Actual</th>
<th>Program/ Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings</td>
<td>1,629.5</td>
<td>4,230.0</td>
<td>7,350.0</td>
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B. Resources

<table>
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<tr>
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<th>2004 Actual</th>
<th>2005 Actual</th>
<th>Program/ Budget</th>
</tr>
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<tbody>
<tr>
<td>Authorized Staff Positions (number)</td>
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<tr>
<td>Professional Staff</td>
<td>797</td>
<td>824</td>
<td>824</td>
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<tr>
<td>National Officers</td>
<td>392</td>
<td>429</td>
<td>452</td>
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<tr>
<td>Administrative Staff</td>
<td>1,040</td>
<td>1,057</td>
<td>1,064</td>
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Internal Administrative Expenses ($ million)

<table>
<thead>
<tr>
<th>Item</th>
<th>2004 Actual</th>
<th>2005 Actual</th>
<th>Program/ Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Administrative Expenses</td>
<td>275.0</td>
<td>294.3</td>
<td>312.9</td>
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C. Net Income ($ million)

<table>
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<th>Item</th>
<th>2004 Actual</th>
<th>2005 Actual</th>
<th>Program/ Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinay Capital Resources</td>
<td>387.1</td>
<td>413.9</td>
<td>390.7</td>
</tr>
<tr>
<td>Ordinary Capital Resources</td>
<td>386.1</td>
<td>413.9</td>
<td>390.7</td>
</tr>
<tr>
<td>Asian Development Fund</td>
<td>200.7</td>
<td>210.6</td>
<td>227.7</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, ATF = Asian Tsunami Fund, CAPE = country assistance program evaluation, CSP/U = country strategy and program/update, GEF = global environment facility, IEI = Innovation and Efficiency Initiative, JFICT = Japan Fund for Information and Communications Technology, JFPR = Japan Fund for Poverty Reduction, OCR = Ordinary Capital Resources, PEF = Pakistan Earthquake Fund, RCSP/U = regional cooperation strategy program/update.

As of end of the year.

Public and private sector loans.

A private sector project may involve loan, equity investment, guarantees, and other financing instruments.

Not including ADF grants.

Non-TA funded studies and policy or strategy papers.

Net income before FAS 133 and after appropriation of guarantee fees to special reserve.

Excludes the impact of grants that were introduced in ADF IX (2005–2008).
# ASIAN DEVELOPMENT BANK
## 2006 BUDGET
### DISTRIBUTION OF OPERATIONAL EXPENSES BY DEPARTMENT/OFFICE ($’000)

<table>
<thead>
<tr>
<th>Department/Office</th>
<th>2005 Actual</th>
<th>% of Total</th>
<th>2006 Budget</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. President</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offices of Management</td>
<td>4,346</td>
<td>2</td>
<td>4,018</td>
<td>2</td>
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<tr>
<td>Risk Management Unit</td>
<td>523</td>
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<td>1,674</td>
<td>1</td>
</tr>
<tr>
<td>Office of Regional Economic Integration</td>
<td>2,435</td>
<td>1</td>
<td>2,779</td>
<td>1</td>
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<tr>
<td>Department of External Relations</td>
<td>4,361</td>
<td>2</td>
<td>4,444</td>
<td>2</td>
</tr>
<tr>
<td>European Representative Office</td>
<td>910</td>
<td></td>
<td>911</td>
<td></td>
</tr>
<tr>
<td>Japanese Representative Office</td>
<td>800</td>
<td></td>
<td>815</td>
<td></td>
</tr>
<tr>
<td>North American Representative Office</td>
<td>789</td>
<td></td>
<td>849</td>
<td></td>
</tr>
<tr>
<td>Office of the Auditor General</td>
<td>3,468</td>
<td>2</td>
<td>3,752</td>
<td>2</td>
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<tr>
<td>Strategy and Policy Department</td>
<td>5,330</td>
<td>2</td>
<td>5,207</td>
<td>2</td>
</tr>
<tr>
<td><strong>B. Knowledge Management and Sustainable Development Group</strong></td>
<td>21,471</td>
<td>10</td>
<td>21,970</td>
<td>9</td>
</tr>
<tr>
<td>Regional and Sustainable Development Department</td>
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<td>6</td>
<td>13,147</td>
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<tr>
<td>Economics and Research Department</td>
<td>5,876</td>
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<td>6,234</td>
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<tr>
<td>Office of Cofinancing Operations</td>
<td>2,796</td>
<td>1</td>
<td>2,589</td>
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<tr>
<td><strong>C. Operations 1</strong></td>
<td>68,706</td>
<td>31</td>
<td>72,703</td>
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<tr>
<td>South Asia Department</td>
<td>39,243</td>
<td>18</td>
<td>43,197</td>
<td>18</td>
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<tr>
<td>Mekong Department</td>
<td>21,378</td>
<td>10</td>
<td>20,868</td>
<td>9</td>
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<tr>
<td>Private Sector Operations Department</td>
<td>8,085</td>
<td>4</td>
<td>8,637</td>
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<tr>
<td><strong>D. Operations 2</strong></td>
<td>60,513</td>
<td>27</td>
<td>64,721</td>
<td>27</td>
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<tr>
<td>East and Central Asia Department</td>
<td>28,669</td>
<td>13</td>
<td>31,134</td>
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<tr>
<td>Southeast Asia Department</td>
<td>16,220</td>
<td>7</td>
<td>16,980</td>
<td>7</td>
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<tr>
<td>Pacific Division</td>
<td>9,389</td>
<td>4</td>
<td>9,907</td>
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<tr>
<td>Central Operations Services Office</td>
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<td>6,700</td>
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<tr>
<td><strong>E. Finance and Administration</strong></td>
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<td>47,078</td>
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<tr>
<td>Office of the Secretary</td>
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<td>2</td>
<td>3,418</td>
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<tr>
<td>Office of the General Counsel</td>
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<td>3</td>
<td>7,509</td>
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<tr>
<td>Budget, Personnel and Management Systems Department</td>
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<td>4</td>
<td>9,061</td>
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<tr>
<td>Office of Administrative Services</td>
<td>7,379</td>
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<td>7,410</td>
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<tr>
<td>Controller's Department</td>
<td>6,722</td>
<td>3</td>
<td>6,900</td>
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<tr>
<td>Treasury Department</td>
<td>6,983</td>
<td>3</td>
<td>7,101</td>
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<tr>
<td>Office of Information Systems and Technology</td>
<td>6,272</td>
<td>3</td>
<td>5,679</td>
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<tr>
<td><strong>F. Unassigned</strong></td>
<td>1,244</td>
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<td>4,524</td>
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<tr>
<td><strong>Subtotal</strong></td>
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<td>100</td>
<td>235,444</td>
<td>100</td>
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<tr>
<td><strong>G. Young Professionals Program</strong></td>
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<td></td>
<td>680</td>
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<tr>
<td><strong>Total</strong></td>
<td>221,916</td>
<td>100</td>
<td>236,123</td>
<td>100</td>
</tr>
</tbody>
</table>

- = 0 or not applicable.

Note. Figures may not add to totals because of rounding.
## ASIAN DEVELOPMENT BANK
### COMPARISON OF OPERATIONAL EXPENSES BY PROGRAM CATEGORY
#### 2006 BUDGET WITH 2005 ACTUAL
($'000)

<table>
<thead>
<tr>
<th>Program Category</th>
<th>2005 Actual</th>
<th>% of Total</th>
<th>2006 Budget a</th>
<th>% of Total</th>
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</thead>
<tbody>
<tr>
<td>Portfolio Management</td>
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<td>52,040</td>
<td>22</td>
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<td>Loan and Technical Assistance Processing, Equity Operations, Cofinancing, and Guarantee Operations</td>
<td>43,888</td>
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<td>48,586</td>
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<td>Country/Regional Strategy and Programming</td>
<td>19,682</td>
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<td>19,939</td>
<td>8</td>
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<tr>
<td>Direct Operational Support</td>
<td>18,809</td>
<td>8</td>
<td>19,560</td>
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<td>Operations Overhead</td>
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<td>11</td>
<td>23,429</td>
<td>10</td>
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<tr>
<td>Knowledge Management</td>
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<td>22,266</td>
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<tr>
<td>Support Services</td>
<td>48,006</td>
<td>22</td>
<td>50,302</td>
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<td><strong>Total</strong></td>
<td><strong>221,916</strong></td>
<td><strong>100</strong></td>
<td><strong>236,123</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Note: Figures may not add to totals because of rounding.

a  Indicative estimate.
# ASIAN DEVELOPMENT BANK INSTITUTE
## COMPARISON OF 2006 BUDGET WITH 2005 BUDGET AND ACTUAL RESULTS ($’000)

<table>
<thead>
<tr>
<th>Item</th>
<th>2005 Budget (A)</th>
<th>2005 Actual (B)</th>
<th>2006 Budget (C)</th>
<th>Percent Increase/Decrease</th>
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<td>2006 Utilization (B/A)</td>
<td>2006 Utilization (C/A)</td>
<td>2006 Utilization (C/B)</td>
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<td>Research</td>
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<td>3,950</td>
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<td>Capacity Building/Training</td>
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<td>1,333</td>
<td>1,600</td>
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<td><strong>II. Internal Administrative Expenses</strong></td>
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<td>8,391</td>
<td>10,222</td>
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<td>3,852</td>
<td>4,934</td>
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<td>Staff Consultants</td>
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<td>11</td>
<td>64</td>
<td>11</td>
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<td>Business Travel</td>
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<td>51</td>
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<td>Representation</td>
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<td>5</td>
<td>10</td>
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<tr>
<td>Other Administrative Expenses</td>
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<td>4,251</td>
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<td>3,295</td>
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<tr>
<td>Depreciation</td>
<td>253</td>
<td>253</td>
<td>257</td>
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<td>All Others</td>
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<td>801</td>
<td>993</td>
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<td>211</td>
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<td>Library</td>
<td>136</td>
<td>93</td>
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<td>68</td>
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<td>Communication</td>
<td>107</td>
<td>59</td>
<td>79</td>
<td>55</td>
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<tr>
<td>Office Supply</td>
<td>59</td>
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<td>100</td>
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<tr>
<td>Bank Charge</td>
<td>20</td>
<td>13</td>
<td>20</td>
<td>65</td>
</tr>
<tr>
<td>General Contingency</td>
<td>503</td>
<td>–</td>
<td>298</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
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<td>11,327</td>
<td>14,172</td>
<td>79</td>
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</tbody>
</table>

= 0 or not applicable.

Note. Figures may not add to totals because of rounding.
## ASIAN DEVELOPMENT BANK INSTITUTE
### 2006 BUDGET
### DISTRIBUTION OF EXPENSES BY PROGRAM
#### ($’000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Capacity Building and Training</th>
<th>Administration, Management and Coordination</th>
<th>Total Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Program Expenses</strong></td>
<td>2,350</td>
<td>1,600</td>
<td>120</td>
<td>4,070</td>
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<tr>
<td><strong>B. Program-Related Internal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>1,481</td>
<td>1,927</td>
<td>1,895</td>
<td>5,303</td>
</tr>
<tr>
<td>Operational Support</td>
<td>1,481</td>
<td>1,927</td>
<td>1,895</td>
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<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Business Travel</td>
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<td>120</td>
<td>240</td>
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</tr>
<tr>
<td><strong>General Support</strong></td>
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<td>1,895</td>
<td>1,895</td>
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<tr>
<td>Staff Cost</td>
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<td>1,766</td>
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</tr>
<tr>
<td>Staff Consultants</td>
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<td></td>
</tr>
<tr>
<td>Business Travel</td>
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<td>60</td>
<td></td>
</tr>
<tr>
<td>Representation</td>
<td>5</td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>3,831</td>
<td>3,527</td>
<td>2,015</td>
<td>9,373</td>
</tr>
<tr>
<td><strong>C. Other Internal Administrative Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4,799</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>14,172</td>
<td>100</td>
</tr>
</tbody>
</table>

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* Public affairs program activities of Asian development journalism program.

* Excluding operational and general support.

* Total program expense is $7.358 million ($3.831 million for research and $3.527 for capacity building and training).
RESOURCES OF ADB

Report of the Board of Directors

1. In May 2000, the Board of Governors of the Asian Development Bank (ADB) adopted Resolution 270, requesting the Board of Directors to study ADB’s resource requirements and to report its findings to the Board of Governors for consideration. Since 2000, an annual report has been submitted to the Board of Governors on the resource position of ADB.\(^1\)

2. Recently, Management submitted a review of ADB’s resource position to the Board of Directors. The review analyzed the current and prospective capital adequacy positions of ADB and indicated that ADB’s lending headroom at the end of 2005 was $18.8 billion, which was $3.7 billion lower than that of 2004. The main contributors to the decline were the adverse exchange rate movements and the net positive cash outflows to the borrowing countries.

3. The results of the review indicate that ADB’s lending headroom for 2006–2008 is sufficient to (i) meet any planned level of lending within the indicated range of operational capabilities, (ii) absorb capital erosion caused by exchange rate movements, and (iii) maintain some margin for unutilized lending capacity that ADB can employ to meet unexpected needs.

4. In view of the sufficiency of lending headroom for the operational needs of ordinary capital resources for 2006–2008, consideration of the timing and size of the next general capital increase could be reassessed in 2007.

REVIEW OF RULES AND REGULATIONS

REPORT OF THE BOARD OF DIRECTORS

A. Amendments to the Regulations of the Asian Development Fund and the Special Operations Loan Regulations

1. On 28 November 2005, Resolution No. 311 was adopted by the Board of Governors wherein the Board of Governors authorized ADB to (i) convert Asian Development Fund (ADF) resources held in various currencies into the currencies which constitute the SDR, (ii) to value disbursements, repayments and charges under loans from ADF resources in terms of SDR, and (iii) to determine in case of withdrawal of a contributor or the termination of the ADF, as set forth in Article V of the ADF Regulations, the value of contributors’ paid-in contributions and all other ADF resources in terms of SDR. To implement that decision of the Board of Governors, the Board of Directors adopted on 19 December 2005 revisions to the ADF Regulations and the Special Operations Loan Regulations (DOC.R359-05), to take effect on 1 January 2006 (Appendixes 1 and 2).

B. Adoption of Pakistan Earthquake Fund Technical Assistance Grant Regulations and the Pakistan Earthquake Fund Grant Regulations

2. On 14 November 2005, the Board of Directors approved the establishment and administration by ADB of the Pakistan Earthquake Fund and adopted the Pakistan Earthquake Fund Grant Regulations and the Pakistan Earthquake Fund Technical Assistance Grant Regulations (DOC.R300-05), which are attached hereto as Appendices 3 and 4.

3. The aforementioned regulations and revisions to regulations adopted by the Board of Directors are presented to the Board of Governors for review in accordance with Section 11 of the By-Laws.
Appendix 1

REGULATIONS OF THE ASIAN DEVELOPMENT FUND
DATED 1 JANUARY 2006

The ASIAN DEVELOPMENT BANK (hereinafter called ADB) is empowered by its Articles of Agreement (hereinafter called the Articles) to establish and administer Special Funds and to carry out special operations financed from such Funds, including the making of loans of high developmental priority, with longer maturities, longer deferred commencement of repayment and lower interest rates than those established by ADB for its ordinary operations;

The Board of Governors of ADB, by Resolution No. 62, has authorized the establishment of a Special Fund to be known as the ASIAN DEVELOPMENT FUND (hereinafter called the Fund) which is intended to serve as an instrument for carrying out the concessional lending operations of ADB;

The Board of Governors, by Resolution No. 67 and Resolution No. 68, has approved arrangements for the establishment of the Fund and for the initial mobilization of resources in the form of contributions from developed member countries of ADB, and has directed the Board of Directors of ADB to make Regulations to govern the Fund and the administration of its resources;

The Board of Governors has from time to time adopted resolutions authorizing replenishments of the Fund, subject to the terms and conditions contained in the relevant authorizing Resolutions;

The Board of Governors has authorized ADB to provide, in addition to loans, financing in the form of grants for certain types of projects and programs as specified in the relevant authorizing Resolutions;

The Board of Governors has authorized ADB, in accordance with such determinations as may be made by the Board of Directors, (i) to convert ADF resources held in various currencies into the currencies which constitute the Special Drawing Right (SDR), (ii) to value disbursements, repayments and charges under loans from resources of the Fund in terms of SDR, and (iii) to determine in case of the withdrawal of a Contributor from the Fund or the termination of the Fund, the value of Contributors’ paid-in contributions and the value of all other resources of the Fund, including set-aside resources and net income and surplus from ADB’s ordinary capital resources transferred to the Fund, in terms of SDR;

The Board of Directors, pursuant to the foregoing authority, has adopted the following Regulations for the administration of the Fund and the resources thereof.
ARTICLE I: THE FUND

Section 1.01. Purpose of the Fund

The purpose of the Fund shall be to enable ADB more effectively to carry out its purpose and functions by providing resources on concessional terms for the economic and social development of the developing member countries of ADB, having due regard to the economic situation of such countries and to the needs of the less developed members.

Section 1.02. Application of Regulations

(a) The Fund and the resources thereof shall be governed by, and such resources shall be received, administered, used and disposed of in accordance with, these Regulations, as amended from time to time pursuant to Section 6.01, unless the relevant authorizing Resolution of the Board of Governors provides otherwise.

(b) The Special Funds Rules and Regulations adopted by the Board of Directors on 17 September 1968 shall not apply to the Fund or the resources thereof.

(c) For purposes of these Regulations, a Special Resolution of the Board of Directors is a resolution which is approved by a majority of Directors, representing not less than two-thirds of the total voting power of the members of ADB.

Section 1.03. Administration of the Fund

(a) Subject to the express provisions of these Regulation, the respective functions of the Board of Governors, the Board of Directors, the President and the staff of ADB in carrying out the responsibilities and exercising the powers of ADB with respect to the Fund, and the procedures to be followed in the exercise of such functions, shall be the same as those which apply in similar circumstances in the ordinary operations of ADB.

(b) The Board of Directors may adopt such guidelines and operating procedures, not inconsistent with these Regulations, as it shall consider necessary or appropriate for the efficient administration of the Fund.
ARTICLE II: RESOURCES OF THE FUND

Section 2.01. Types of Resources

The resources of the Fund shall consist of:

(a) amounts contributed to the Fund as provided in Section 2.02 and Section 2.04;

(b) amounts set aside from the ordinary capital resources of ADB and allocated to the Fund as provided in Section 2.05;

(c) amounts accepted by ADB for the Fund as provided in Section 2.06;

(d) amounts initially allocated to other Special Funds of ADB and transferred to the Fund;

(e) amounts received from borrowers in repayment of loans made from the resources of the Fund;

(f) amounts accruing to the Fund by way of income or otherwise derived from operations of the Fund; and

(g) amounts transferred from ordinary capital resources net income or surplus with the approval of the Board of Governors, as provided in Section 2.07.

Section 2.02. Contributions

(a) Any member of ADB may become a Contributor to the Fund by making a Contribution in such amount as may be specified by an authorizing Resolution of the Board of Governors; provided that no member shall be obligated by reason of such authorizing Resolution to make a Contribution.

(b) Each Contribution shall be made by the member depositing with ADB, in conformity with the relevant authorizing Resolution, an Instrument of Contribution specifying the amount of its Contribution, the manner in which payment thereof will be made to ADB, and such other matters as may be required or permitted by the authorizing Resolution.

(c) By depositing an Instrument of Contribution, the member shall be deemed to accept the application of these Regulations to the resources contributed under such Instrument.
Section 2.03. Payment of Contributions

Except as the Board of Governors in the authorizing Resolution may otherwise determine, each Contribution shall be paid in the currency of the Contributor, and shall be made available to ADB, at the option of the Contributor, either in cash or in notes or similar obligations issued by the Contributor or by the depository of the Contributor designated pursuant to Article 38, paragraph 2, of the Articles. Such notes or obligations shall be non-negotiable, non-interest-bearing and encashable by ADB at par upon demand, as required by ADB for the conduct of the operations of the Fund and to meet liabilities of the Fund.

Section 2.04. Increases in Contributions

(a) A Contributor may at any time, by agreement with ADB, increase the amount of its Contribution.

(b) The Board of Directors shall at appropriate intervals review the resource position of the Fund. If on the basis of such review it appears that a general increase in the amount of Contributions is warranted, the Board of Directors shall make recommendations to the Board of Governors, which may authorize such a general increase upon such terms and conditions as it shall determine.

(c) Except as the Board of Governors in authorizing a general increase under paragraph (b) of this Section 2.04 may otherwise determine, the provisions of the Regulations relating to Contributions shall apply equally to increased amounts contributed as contemplated by this Section 2.04.

Section 2.05. Set-Aside Resources

(a) The Board of Governors may at any time allocate to the Fund resources set aside from the ordinary capital resources of ADB pursuant to the Articles. Set-aside resources shall be used in such manner, not inconsistent with these Regulations, as the Board of Governors in allocating such resources to the Fund may specify.

(b) Nothing in these Regulations shall prevent the making of such adjustments in the amount of set-aside resources held from time to time in the Fund as are necessary to comply with the provisions of Article 25 of the Articles.

Section 2.06. Supplementary Resources

(a) ADB, with the approval of the Board of Directors, may accept Supplementary Resources for the Fund from any member of ADB and, if authorized by a Special Resolution of the Board of Directors, from any non-member government or from any national or international entity, public or private.
(b) Supplementary Resources shall normally be accepted only in a freely convertible currency. Where the donor of such Resources is a government, however, the Board of Directors may agree to accept such Resources in the currency of the donor even if this is not freely convertible, provided that satisfactory assurances are received concerning the application of such Resources of the principles laid down in Section 4.02.

(c) Notwithstanding the provisions of paragraph (b) of Section 4.03, Supplementary Resources accepted from a non-member may be used to finance procurement, in the territories of the donor of such Resources and of all member countries of ADB, of goods produced in and services supplied from such territories.

(d) The other terms and conditions governing ADB’s administration and use of Supplementary Resources shall be consistent with the provisions of these Regulations relating generally to resources of the Fund. For the purposes of Section 5.01, Section 5.03 and Section 6.02, the term “Contributor” shall be deemed to include a donor of Supplementary Resources, and the term “Contribution” shall be deemed to include Supplementary Resources donated by such donor.

Section 2.07. Income and Surplus from Ordinary Capital Resources

After making provision for reserves pursuant to the Articles, the Board of Governors may transfer to the Fund net income or surplus from ordinary capital resources. The net income and surplus so transferred shall be used in such manner, not inconsistent with these Regulations, as the Board of Governors in making such resources available to the Fund may direct.

ARTICLE III: OPERATIONS OF THE FUND

Section 3.01. Methods of Operations

(a) The resources of the Fund may be used by ADB, alone or in combination with any other Special Funds resources of ADB, to provide financing under loans (including technical assistance loans) on concessional terms, for projects and programs of high developmental priority. The term “project” as hereinafter used refers equally to a program.

(b) The resources of the Fund may be used by ADB, alone or in combination with any other Special Funds resources of ADB, to provide financing for grants for projects and programs of high developmental priority, in the event and to the extent that the relevant authorizing Resolution of the Board of Governors provides for such grant financing.
(c) Loans and grants shall be provided principally for specific projects, including those forming part of a national, sub-regional, or regional development program. ADB may also make loans and grants to national development banks and other suitable entities, in order that these entities may finance specific development projects whose individual financing requirements are not, in the opinion of ADB, large enough to warrant the direct supervision of ADB.

(d) Subject to the provisions of these Regulations, the policies and procedures to be applied by ADB in making loans and grants financed from the Fund shall be determined by the Board of Directors, giving particular recognition to the special responsibility of ADB to assist the less developed of its developing member countries.

Section 3.02. Eligible Recipients

Financing may be provided, in accordance with these Regulations, to developing members of ADB, to any agency, instrumentality or political subdivision of a developing member, or to any entity or enterprise operating in the territory of such a member, as well as to any international, regional or subregional agency or entity concerned with development in the region served by ADB.

Section 3.03. Commitment Authority

(a) ADB shall make loan commitments from its resources pursuant to Section 2.01, including commitments based on amounts projected to be received by the Fund as repayments, services charges and investment income, pursuant to such procedures in respect of such commitment authority as the Board of Directors may authorize from time to time.

(b) ADB shall make commitments for grants in accordance with the terms and conditions set forth in the relevant authorizing Resolution of the Board of Governors and pursuant to such procedures in respect of such commitment authority as the Board of Directors may authorize from time to time.

Section 3.04. Considerations Precedent to Financing

(a) Before any loan or grant is made, the applicant shall have submitted an adequate proposal and the President shall have presented to the Board of Directors a written report concerning the proposal, together with his recommendations, on the basis of a staff study.

(b) In considering an application for a loan or grant to be financed from the Fund, ADB shall pay due regard
(i) to the ability of the borrower to obtain other financing, including financing from other sources of ADB, on terms and conditions which ADB considers reasonable for the recipient, taking into account all pertinent factors;

(ii) to the relevant self-help measures being taken by the recipient and, where the recipient is not a member of ADB, by both the recipient and the member in whose territory the project is to be carried out;

(iii) for loan applications, to the prospects that the borrower and the guarantor, if any, will be in a position to meet their respective obligations under the loan agreement and the guarantee agreement; and

(iv) to the desirability of avoiding a disproportionate amount of the resources of the Fund being used for the benefit of any particular developing member of ADB.

(c) ADB shall not make a loan or grant unless it is satisfied that the project for which such loan or grant is intended is sound, and that financing the project would thus be consistent with the requirement that ADB shall be guided by sound development banking principles in its operations.

(d) ADB shall not finance any undertaking in the territory of a member of ADB if that member objects to such financing.

Section 3.05. Use of Loan and Grant Proceeds

(a) The proceeds of a loan or grant financed from the Fund shall be drawn upon by the recipient only to meet expenditures in connection with the project as such expenditures are actually incurred; provided that the Board of Directors may decide, in special circumstances, that some reasonable portion of such proceeds may be drawn upon to reimburse past expenditures.

(b) ADB shall take the necessary measures to ensure that the proceeds of each loan or grant are used only for the purposes for which the loan or grant operation was undertaken, and with due attention to considerations of economy and efficiency.

Section 3.06. Provision of Currencies

(a) In making loans financed from the Fund, ADB shall furnish its borrowers with one or more of the currencies which constitute the SDR.
(b) In making grants from the Fund in accordance with the relevant authorizing Resolutions of the Board of Governors, ADB shall provide to recipients of grants under these Regulations United States dollars, or such other currency or currencies as may be determined by the Board of Directors from time to time.

Section 3.07. Procurement Arrangements

Procurement arrangements and procedures to be followed by borrowers shall be determined by the Board of Directors from time to time, having regard in particular to the availability of Contributions for financing such procurement. Such arrangements and procedures shall apply *mutatis mutandis* for procurement by recipients of grants under these Regulations.

Section 3.08. Other Terms and Conditions of Loans

(a) The grace period and maturities of loans financed from the Fund, and any fees and charges payable in respect thereof, shall be such as the Board of Directors determines to be appropriate, having regard to the concessional nature of such loans.

(b) Each loan agreement entered into before 1 January 2006 shall require the borrower to repay the loan in the currency or currencies disbursed to the borrower, except that where ADB has used another currency to purchase a currency disbursed, repayment shall to that extent be made in such other currency. In either case ADB may agree with the borrower to substitute any convertible currency as the currency of repayment.

(c) Each loan agreement entered into on or after 1 January 2006 shall require the borrower to repay the loan in one of the currencies which constitute the SDR, except where it is specified in the loan agreement that the provisions set forth in paragraph (b) of this Section shall apply.

(d) Where the borrower is not a member of ADB, ADB may, when it deems it advisable, require that the member in whose territory the project is to be carried out, or a public agency or an instrumentality of that member acceptable to ADB, guarantee the repayment of the principal of, and the payment of any fees and charges on, the loan, in accordance with the terms of the loan agreement.

(e) Where the borrower or guarantor is a member of ADB, or the central bank or an agency, instrumentality or political subdivision of a member, the loan or guarantee agreement, as the case may be, shall provide:

(i) that if the member concerned ceases to be a member of ADB, any amount due to it for its shares repurchased by ADB shall be
withheld so long as that country, its central bank or any of its agencies, instrumentalities or political subdivisions remains liable to ADB, as recipient or guarantor of a loan made from Special Funds resources of ADB or a loan made in the ordinary operations of ADB, and such amount may, at the option of ADB, be applied on any such liability as it matures; and

(ii) that in the event of a distribution of the assets of ADB, the member shall not be entitled to receive its share in such distribution until it has settled all of its obligations to ADB.

ARTICLE IV: ADMINISTRATION AND USE OF RESOURCES OF THE FUND

Section 4.01. Separation of Operations

(a) The resources of the Fund shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separate from the ordinary capital resources of ADB.

(b) Under no circumstances shall the ordinary capital resources of ADB be charged with, or used to discharge, losses or liabilities arising out of the operations or other activities for which resources of the Fund were originally used or committed.

(c) No action authorized by the Board of Governors or the Board of Directors in application of Article 10 of the Articles shall be deemed to contravene the provisions of paragraphs (a) or (b) of this Section 4.01.

Section 4.02. Freedom of Resources from Restrictions

Except as otherwise provided in or permitted by these Regulations,

(a) the resources of the Fund shall be freely available for use by ADB in the conduct of the operations of the Fund and to meet liabilities of the Fund; and

(b) currencies paid into the Fund may be used by ADB, without restriction, for payments in any country and to purchase other currencies as required for the conduct of the operations of the Fund and to meet liabilities of the Fund.

Section 4.03. Use of Resources for Financing Procurement

ADB may draw upon resources of the Fund to finance procurement expenditures under loans and grants in accordance with the following principles:
(a) Contributions may be drawn down by ADB to finance expenditures in the territories of all Contributors and of all developing member countries of ADB, for goods produced in and services supplied from such territories;

(b) Other resources of the Fund, including all amounts received from borrowers in repayment of loans, may be used to finance expenditures in the territories of all member countries of ADB, for goods produced in and services supplied from such territories; and

(c) All resources of the Fund shall be available, without restriction, to finance transportation and insurance costs associated with the procurement of goods and services.

Section 4.04. Drawdown of Contributions

As far as practicable, ADB shall draw upon Contributions in such a manner that, over reasonable periods of time, the proportion of all Contributions drawn down, shall be uniform, regardless of whether such Contributions are made available to ADB in cash or in notes.

Section 4.05. Investment

ADB may invest any resources of the Fund which are not immediately required for the conduct of the operations of the Fund or to meet liabilities of the Fund. Except as otherwise authorized by the Board of Directors, such investment shall be made in accordance with the guidelines approved by the Board of Directors for investment of the ordinary capital resources of ADB, except that Supplementary Resources accepted in the currency of a non-member may be invested in the territories of such non-member.

Section 4.06. Charging of Administrative Expenses

The Fund shall bear all administrative expenses appertaining directly to operations financed from the resources of the Fund, and such reasonable share of the other administrative expenses of ADB as the Board of Directors shall from time to time determine. Such expenses shall be charged first to the income of the Fund.

Section 4.07. Allocation of Net Income

Net income accruing on the resources of the Fund shall be retained in the Fund; provided that, if authorized by the Board of Governors, a portion of such net income accruing in any year may be transferred from the Fund and applied towards financing the cost of technical assistance provided by ADB on a grant basis.
Section 4.08. Valuation of Currencies
Whenever it shall be necessary to determine the value of SDR in terms of any currency or the value of any currency in terms of SDR or another currency, the valuation shall be reasonably made by ADB, applying as far as practicable the principles applicable to valuation of currencies forming part of the ordinary capital resources of ADB.

Section 4.09. Accounts and Audit
(a) ADB shall maintain accounts of the Fund in accordance with generally accepted sound accounting principles, and shall prepare and submit to the Board of Directors financial statements of the Fund on a quarterly basis.

(b) The accounts of the Fund shall be audited at the close of each financial year by the outside auditors of ADB, and shall be subject to the same audit requirements by internal and outside auditors of ADB as apply to the accounts of ADB’s ordinary capital resources.

(c) The Board of Directors shall submit to the Board of Governors, for approval at the Annual Meeting of Governors, the audited financial statements of the Fund for the previous financial year, including a balance sheet and a statement of revenue and expenses.

Section 4.10. Reports
(a) ADB shall include in its Annual Reports a separate section in respect of the Fund, containing appropriate information on the resources of the Fund and on projects financed from the Fund.

(b) ADB shall report periodically to each Contributor on the current status and anticipated use of its Contribution, and shall provide such other information regarding its administration of the Contribution as the Contributor may reasonably request.

ARTICLE V: WITHDRAWAL AND TERMINATION

Section 5.01. Withdrawal
(a) A Contributor may at any time, after consultation with ADB, withdraw from the Fund by delivering a written withdrawal notice to ADB at its principal office. Withdrawal shall become effective at the end of the calendar quarter following the quarter in which the withdrawal notice is received by ADB, or on such later quarterly date as may be specified in such notice.
(b) As from the date of withdrawal, the Contributor shall have no rights under these Regulations except those set forth in this Section 5.01 and in Section 6.02, and shall be relieved of any further liability to pay to ADB any amounts of its Contribution not paid in at the date of withdrawal except such amounts as, in the opinion of ADB, will be required to meet commitments under loans or grants made by ADB as of that date.

(c) Upon withdrawal, ADB shall proceed to a settlement of accounts with the Contributor on the basis of the following principles:

(i) As used in the following sub-paragraphs, the term “existing loans” means loans made by ADB from resources of the Fund as of the date of withdrawal; the term “total net assets” means total net assets of the Fund, including principal amounts outstanding under existing loans, as shown in the books of ADB as of the date of withdrawal; and the term “surplus assets” means such part of the total net assets as, in the opinion of ADB, will not be required to meet commitments under existing loans. For the purpose of this Article V, and except as otherwise specified in the Regulations, the value of existing loans, total net assets and surplus assets shall be determined in SDR in accordance with the exchange rates used by ADB for translation purposes in its books of account on the date of withdrawal.

(ii) For the purposes of this Article V, the value of any paid-in Contribution shall be the equivalent in terms of SDR of the amount paid-in by a Contributor, determined in accordance with the exchange rates set forth in the relevant authorizing Resolution of the Board of Governors, except that for Contributions made pursuant to Resolutions Nos. 67, 68, 92 and 121 of the Board of Governors and the amendments thereto, the value of the Contributor’s Contribution shall be calculated based on an exchange rate of SDR1.20635 per United States dollar of the weight and fineness in effect on 31 January 1966, as used by ADB for the valuation of its capital in accordance with Article 4, paragraph 1, of the Articles.

(iii) For the purposes of this Article V, the value of set-aside resources from ADB’s ordinary capital resources shall be the equivalent in terms of SDR of the amount of any such resources transferred to the Fund, determined in accordance with the relevant authorizing Resolution of the Board of Governors, except that for the set-aside resources transferred to the ADF
pursuant to Resolution No. 85 of the Board of Governors, the value of such resources in terms of SDR shall be calculated based on an exchange rate of SDR 1.20635 per United States dollar of the weight and fineness in effect on 31 January 1966, as used by ADB for the valuation of its capital in accordance with Article 4, paragraph 1, of the Articles.

(iv) For the purposes of this Article V, the value of net income and surplus from ordinary capital resources transferred to the Fund shall be the equivalent in terms of SDR of the amounts transferred to the Fund, determined on the basis on the exchange rates used by ADB for translation purposes in its books of account at the time when the relevant Resolution authorizing such transfer was adopted.

(v) ADB shall determine the Contributor’s share in the Fund, the amount of which shall be such proportion of the total net assets, after deducting accruals, as the paid-in amount of the Contributor’s Contribution at the date of withdrawal bears to the aggregate amount of all paid-in Contributions, set-aside resources and net income and surplus from ordinary capital resources transferred to the Fund; provided that if the Contributor’s Contribution comprises or includes capital transferred from the Multi-Purpose Special Fund as contemplated in Section 7.03, the Contributor may, in special circumstances relating to the terms on which such capital was originally made available to the Multi-Purpose Special Fund, require that its share be increased by not more than an amount bearing the same proportion to the total of (A) all accumulated net income retained in the Fund and (B) any portions of net income transferred from the Fund pursuant to Section 4.07, as the capital so transferred bears to the aggregate amount of all paid-in Contributions and of set-aside resources. Such share shall be subsequently adjusted as necessary to take account of any amounts paid into the Fund after the date of withdrawal which are required to meet commitments under existing loans.

(vi) A portion of the Contributor’s share bearing the same proportion to the whole as the amount of the surplus assets bears to the total net assets shall be paid by ADB to the Contributor, within a reasonable time after withdrawal, from the surplus assets. In making such payment, ADB shall draw first upon such of the surplus assets as have been paid into the Fund (in cash or in notes) by the Contributor.
(vii) The balance of the Contributor’s share shall be paid by ADB to the Contributor, in installments not more frequent than every six months, from amounts allocated by ADB for the purpose from the proceeds of principal repayments and cancellations occurring under existing loans after the date of withdrawal. Unless the Board of Directors otherwise determines, such allocations shall be made pro rata from each repayment and cancellation, as and when such repayment is received and cancellation made.

(viii) In no event shall total payments made to the Contributor hereunder exceed the equivalent in terms of SDR of the total amount paid into the Fund by the Contributor, calculated in accordance with the exchange rates used by ADB for translation purposes in its books of account on the date of withdrawal, except to the extent and in the circumstances contemplated in the proviso in sub-paragraph (v) above.

(d) All calculations, determinations and allocations required for purposes of paragraph (c) of this Section 5.01 shall be made on such basis, consistent with the principles set out in that paragraph, as ADB shall reasonably determine. For purposes of such calculations, determinations and allocations, amounts committed or expended as grants in accordance with these Regulations shall not be considered as portion of a Contributor’s share.

Section 5.02. Termination

(a) The Board of Governors may, after consultation between ADB and the Contributors, decide to terminate the Fund.

(b) The Fund shall terminate automatically upon termination by ADB of its operations pursuant to Article 45 of the Articles.

Section 5.03. Disposal of Resources on Termination

Upon termination of the Fund, the following provisions shall apply with respect to the resources of the Fund:

(a) ADB shall forthwith cease all activities relating to such resources, except those incident to the orderly realization, conservation and preservation of such resources and the settlement of the direct or contingent obligations to which they may be subject.

(b) Subject to paragraph (c) of this Section 5.03, ADB shall distribute the net assets of the Fund among Contributors and ADB in proportion to
the amounts respectively made available by them to the Fund as Contributions, as set-aside resources and as net income and surplus from ordinary capital resources transferred to the Fund. Such distribution shall be effected at such times, in such currencies and in such types of assets as ADB shall deem fair and equitable. Distribution need not be uniform as to type of asset or as to currency.

(c) No distribution shall be made until all liabilities to creditors (including liabilities to ADB in respect of administrative expenses) shall have been discharged or provided for, and until the Board of Directors shall have decided that such distribution should be made; provided that a Contributor whose Contribution comprises or includes capital transferred from the Multi-Purpose Special Fund may, in special circumstances relating to the terms on which such capital was originally made available to the Multi-Purpose Special Fund, require that the amount to be distributed to it in respect of that part of its Contribution be determined as if the net assets of the Fund included net income transferred from the Fund pursuant to Section 4.07, and the amounts of all other distributions shall be adjusted accordingly. Any distribution to a Contributor shall be subject to prior settlement of all outstanding claims by ADB against such Contributor in respect of its Contribution.

(d) Until final distribution of the assets of the Fund, all rights and obligations of ADB and of Contributors under these Regulations shall continue unimpaired, except that no Contributor may withdraw after the date of termination.

ARTICLE VI: AMENDMENTS; ARBITRATION

Section 6.01. Amendments

These Regulations may be amended, after consultation between ADB and the Contributors, by Special Resolution of the Board of Directors; provided that the prior consent in writing of every Contributor shall be required before the coming into effect of any amendment modifying

(a) the provisions of Section 3.01(a), which specify the manner in which ADB may use the resources of the Fund in its operations;

(b) the provisions on use and drawdown of Contributions contained in Section 4.03 and Section 4.04;

(c) the provisions on charging of administrative expenses contained in Section 4.06;
(d) the rights of a Contributor upon withdrawal from the Fund under Section 5.01, and upon termination of the Fund under Section 5.03; and

(e) the arbitration procedure provided in Section 6.02.

Section 6.02. Arbitration

If a dispute outside the scope of Article 60 of the Articles should arise between ADB and a Contributor concerning any matter arising out of or in connection with the Contribution of that Contributor, and such dispute cannot be settled by consultation between the parties, the dispute shall be submitted to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by ADB, another by the Contributor, and the third, unless the parties otherwise agree, by the President of the International Court of Justice, or such other authority as may have been prescribed by regulations adopted by the Board of Governors for the purposes of Article 61 of the Articles. A majority vote of the arbitrators shall be sufficient to reach a decision which shall be final and binding upon the parties. The third arbitrator shall be empowered to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

ARTICLE VII: EFFECTIVENESS; TRANSITIONAL PROVISIONS

Section 7.01. Effectiveness of Regulations

These Regulations shall become effective forthwith upon the establishment of the Fund.

Section 7.02. Application of Preceding Governors’ Resolutions

(a) For purposes of these Regulations, Resolution No. 67 and Resolution No. 68 of the Board of Governors shall be deemed to be Resolutions contemplated by Section 2.02 and Section 2.04, respectively.

(b) Notwithstanding the provisions of Section 4.03, the Board of Directors, acting under the authority of Resolution No. 67, may accept a procurement restriction upon the initial use of part or all of a Contribution made as contemplated in such Resolution. If the whole of a Contribution, or the balance thereof remaining unused at any time, is subject to such restriction, the concerned Contributor shall not be deemed to be a Contributor for the purposes of paragraph (a) of Section 4.03. Any such restriction shall be subject to periodic review by, and consultation with, ADB.
Section 7.03. Transfers from Multi-Purpose Fund

(a) ADB shall transfer to the Fund, pursuant to the provisions of paragraph 8 of Resolution No. 67 of the Board of Governors, amounts initially contributed to the Multi-Purpose Special Fund of ADB which have been the subject of a crediting declaration as provided in such paragraph.

(b) ADB may arrange for other amounts contributed to the Multi-Purpose Special Fund, including amounts drawn down under loans, to be reallocated and transferred to the Fund as soon as possible after its establishment. Amounts so reallocated shall be consolidated with and accounted for as part of the Contribution (if any) made by the same Contributor to the Fund, and otherwise shall be deemed to be Supplementary Resources until such time as the Contributor makes its initial Contribution to the Fund.

(c) The Board of Governors may authorize the reallocation and transfer to the Fund of set-aside resources initially allocated to the Multi-Purpose Special Fund.

(d) As from the date of transfer, all amounts transferred as contemplated in this Section shall constitute or form part of Contributions, set-aside resources or Supplementary Resources under these Regulations as the case may be, and the use, administration and disposition of such amounts shall be governed by these Regulations accordingly. Portions thereof outstanding under loans shall become receivables of the Fund. Liabilities to which such amounts were subject at the date of transfer shall become liabilities of the Fund.
ARTICLE I

Purpose; Application to Loan Agreements and Guarantee Agreements

Section 1.01. **Purpose.** The purpose of these Regulations is to set forth certain terms and conditions generally applicable to loans made by ADB from its Special Funds resources.

Section 1.02. **Application of Regulations.** Any loan agreement with ADB and any guarantee agreement with ADB relating to a loan made by ADB from its Special Funds resources may provide that the parties thereto accept the provisions of these Regulations. To the extent so provided in any such agreement, these Regulations shall apply and shall govern the rights and obligations of the parties thereto with the same force and effect as if they were fully set forth therein. No revocation or amendment of these Regulations shall be effective in respect of any such agreement unless the parties shall so agree in writing.

Section 1.03. **Inconsistency with Loan Agreements and Guarantee Agreements.** If any provision of a loan agreement or guarantee agreement is inconsistent with a provision of these Regulations, the provision of the loan agreement or guarantee agreement, as the case may be, shall govern.

ARTICLE II

Definitions; Interpretation

Section 2.01. **Definitions.** Except where the context otherwise requires, the following terms have the following meanings wherever used in these Regulations or in a loan agreement or guarantee agreement to which these Regulations have been made applicable:

1. “ADB” means Asian Development Bank;
2. “assets” includes property, revenues and claims of any kind;
3. “Borrower” means the party to the Loan Agreement to which ADB has agreed to make the Loan;
4. “convertible currency” means any currency so designated by ADB at any time;
5. “currency” of a country or a territory means such currency as at the time referred to is legal tender for the payment of public and private debts in that country or territory;
6. “Dollar” or the sign “$” each means the lawful currency of the United States of America;
7. “Effective Date” means the date on which the Loan Agreement and the Guarantee Agreement, if any, shall have come into force and effect pursuant to Section 9.03;
8. “external debt” means any debt payable in any medium other than local currency whether such debt is or may become payable absolutely or at the option of the creditor in such other medium;
9. “foreign currency” means any currency other than local currency;
10. “foreign expenditure” means any expenditure other than local expenditure;
11. “guarantee” includes, as the case requires, any counter-guarantee, indemnity or any other arrangement which has the effect of a guarantee, counter-guarantee or indemnity, given by a member in favor, or for the benefit of ADB;
12. “Guarantee Agreement” means the particular guarantee agreement, if any, which provides for the guarantee of the Loan and to which these Regulations shall have been made applicable, as such agreement may be amended from time to time; and such term includes these Regulations as thus made applicable, all agreements supplementary to the Guarantee Agreement and all schedules to the Guarantee Agreement;
13. “Guarantor” means a party to the Guarantee Agreement which guarantees to ADB the repayment of the Loan and payment of all outstanding amounts under the Loan Agreement;
14. “interest charge” means a charge made on the Loan pursuant to Section 3.02;
15. “lien” includes mortgages, pledge, charges, privileges and priorities of any kind;
16. “Loan” means the loan provided for in the Loan Agreement;
17. “Loan Account” means the account opened or to be opened by ADB on its books in the name of the Borrower to which the amount of the Loan has been or will be credited;
18. “Loan Agreement” means the particular loan agreement to which these Regulations shall have been made applicable, as such agreement may be amended from time to time; and such term includes these Regulations as thus made applicable, all agreements supplementary to the Loan Agreement and all schedules to the Loan Agreement;
19. “Loan Closing Date” means the date specified by ADB that is not later than the first Principal Payment Date shown in the amortization schedule to the Loan Agreement, or such other date as may be agreed between ADB and the Borrower for such purpose;
20. “local currency” means the currency of the member in whose territory the Project is to be carried out;
21. “local expenditure” means expenditure incurred, or to be incurred, in the currency of the member in whose territory the Project is to be carried out for goods produced in, and services supplied from, the territory of such member, excluding, however, expenditure on the import content of such goods and services;
22. “member” means a member of ADB;
23. “Principal Payment Date” means each date specified in the Loan Agreement on which all or any portion of the principal amount of the Loan is payable;
24. “Project” means the project or program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as such description may be amended from time to time by agreement between ADB and the Borrower;
25. “Project Agreement” means the project agreement, if any, between ADB and the Project Executing Agency, being the Project Agreement referred to in the Loan Agreement, as such agreement may be amended from time to time; and such term includes all agreements supplementary to the Project Agreement and all schedules to the Project Agreement;
26. “Project Executing Agency” means any entity responsible for the carrying out of the Project as specified in the Loan Agreement;
27. “Special Drawing Right” or “SDR” means a special drawing right as valued by the International Monetary Fund in accordance with its Articles of Agreement;
28. “Special Funds resources” means “Special Funds resources” of ADB as defined in Article 20 of the Articles of Agreement of ADB; and
29. “taxes” includes imposts, levies, fees and duties of any nature, whether in effect at the date of the Loan Agreement or Guarantee Agreement, if any, or thereafter imposed.

Section 2.02. Interpretation. Except where the context otherwise requires, (i) a reference to the incurring of debt includes the assumption and guarantee of debt; (ii) references in these Regulations to Articles or Sections are to Articles or Sections of these Regulations; (iii) the headings of the Articles and Sections and the Table of Contents are inserted for convenience of reference only and are not a part of these Regulations; (iv) singular may include plural and vice versa; and (v) a reference to any gender includes any other gender.
ARTICLE III

Loan Account; Interest Charge; Repayment; Place of Payment

Section 3.01. Loan Account. The principal amount of the Loan shall be credited to the Loan Account in Special Drawing Rights and may be withdrawn therefrom in accordance with the provisions of the Loan Agreement and these Regulations.

Section 3.02. Interest charge. An interest charge at the rate specified in the Loan Agreement shall be payable on the principal amount of the Loan withdrawn from the Loan Account and outstanding from time to time. The interest charge shall accrue from the respective dates on which amounts shall be withdrawn from the Loan Account. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet interest charge payments, when and if due.

Section 3.03. Computation of Interest Charge. The interest charge shall be computed on the basis of a 360-day year of twelve 30-day months.

Section 3.04. Repayment and Prepayment. (a) The Borrower shall pay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule to the Loan Agreement.

(b) After giving not less than 45 days’ written notice to ADB, the Borrower shall have the right to repay in advance of maturity, as of a date acceptable to ADB (provided, that the Borrower shall have paid all amounts due under the Loan Agreement as such date): (i) all of the principal amount of the Loan then outstanding; or (ii) all of the principal amount of any one or more maturities of the Loan.

(c) If ADB shall at any time receive from the Borrower an amount which is less than the full amount then due and payable to ADB under the Loan Agreement, ADB shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Loan Agreement as ADB shall in its sole discretion determine.

Section 3.05. GNP Operational Cutoff. (a) If ADB shall determine, after due consideration by its Board of Directors, that (i) the Borrower’s gross national product per capita (per capita GNP) has exceeded ADB’s per capita GNP operational cutoff in respect of ADB’s Special Funds resources for five consecutive years, and (ii) the Borrower has achieved the capacity to borrow from ADB’s ordinary capital resources, ADB may, by notice to the Borrower, modify the terms of repayment of the Loan by increasing by 100 percent the amount of each maturity due thereafter until the principal amount of the Loan shall have been fully repaid. However, at the request of the Borrower, ADB may,
in lieu of so increasing any such maturity amounts, charge interest, at an annual rate to be agreed between the Borrower and ADB, on the principal amount of the Loan withdrawn and outstanding from time to time in such a manner and to such extent as to yield the same grant element as would be obtained under the above-stated increase of maturity amounts.

(b) If, at any time after a modification of the lending terms pursuant to the provisions of paragraph (a) of this Section, ADB shall, after due consideration by its Board of Directors, determine that the Borrower’s economic condition has deteriorated significantly, ADB may, at the request of the Borrower, restore the original lending terms with respect to the remaining amount of the Loan withdrawn and outstanding.

Section 3.06. Place of Payment. The principal of, and interest charge on, the Loan shall be paid at such places as ADB shall reasonably request.

ARTICLE IV

Currency Provisions

Section 4.01. Denomination of the Loan. The Loan shall be denominated in Special Drawing Rights.

Section 4.02. Currency of Withdrawal. Withdrawals from the Loan Account shall be made in one or more of the currencies which constitute the SDR, as ADB may from time to time select. The amount of each withdrawal from the Loan Account shall be calculated as the SDR equivalent (determined as of the date of withdrawal) of the currency or currencies withdrawn from the Loan Account.

Section 4.03. Currency of Payment of Principal. (a) The principal of the Loan shall be expressed in SDR and shall be repayable in one of the currencies which constitute the SDR as shall be specified in the Loan Agreement. The Borrower may at any time request that the principal of the Loan shall be repayable in any other of the currencies which constitute the SDR. Each such request shall be made in writing in such form and by giving such notice as ADB shall from time to time determine. Upon acceptance by ADB of such request, ADB shall notify the Borrower and the Guarantor of the modified provision providing for the currency of repayment.

(b) The Borrower shall repay the equivalent in SDR of the amount or the amounts withdrawn from the Loan Account determined as of the date, or the respective dates, of repayment. Such equivalent shall be calculated based on the value of the currency or currencies withdrawn
from the Loan Account expressed in SDR as of the respective date or dates of withdrawal.

Section 4.04. **Currency of Payment of Interest Charge.** The interest charge on any portion of the Loan shall be payable in the currency in which the principal of such portion of the Loan is repayable.

Section 4.05. **Purchase of Currencies.** ADB shall, at the request of the Borrower and on such terms and conditions as ADB shall determine, use its best efforts to purchase any currency needed by the Borrower for payment of items of expenditure to be financed from the Loan, repayment of principal, and payment of interest charge required under the Loan Agreement upon payment by the Borrower of sufficient funds therefor in a currency or currencies to be specified by ADB from time to time. In purchasing the currencies required, ADB shall be acting as agent of the Borrower and the Borrower shall be deemed to have made any payment required under the Loan Agreement only when and to the extent that ADB has received such payment in the currency or currencies required.

Section 4.06. **Valuation of Currencies.** Whenever it shall be necessary for the purposes of the Loan Agreement or the Guarantee Agreement to determine the value of one currency in terms of another, the value of the Special Drawing Right in terms of a currency, or the value of a currency in terms of the Special Drawing Right, such value shall be as reasonably determined by ADB.

Section 4.07. **Manner of Payment.** (a) Any payment required under the Loan Agreement or the Guarantee Agreement to be made to ADB in the currency of any country shall be made in such manner, and in currency acquired in such manner, as shall be permitted under the laws of such country for the purpose of making such payment and effecting the deposit of such currency to the account of ADB with a depository of ADB in such country.

(b) Where either the Borrower or the Guarantor is a member, such member shall ensure that the principal of, and the interest charge on, the Loan are paid without restrictions of any kind imposed by, or in the territory of, such member. When neither the Borrower nor the Guarantor is a member, the Borrower shall obtain from the member in whose territory the Project is to be carried out and furnish to ADB, prior to the Effective Date, evidence, satisfactory to ADB, that the principal of, and the interest charge on, the Loan will be paid without restrictions of any kind imposed by, or in the territory of, such member.
ARTICLE V

Withdrawal of Loan Proceeds

Section 5.01. **Withdrawal from the Loan Account.** (a) Loan proceeds shall be used only for the purposes of the Project. Subject to any conditions or restrictions specified in the Loan Agreement, the Borrower shall be entitled to withdraw from the Loan Account such amounts as shall have been paid, or, if ADB shall so agree, such amounts as shall be required to meet payments to be made, for the reasonable cost of goods, services and any other expenditures required for the Project and to be financed under the Loan Agreement.

(b) Except as ADB and the Borrower shall otherwise agree, no withdrawals shall be made on account of (i) payments made prior to the Effective Date; and (ii) expenditures in the territory of any country which is not a member or for goods produced in, or services supplied from, such territory. ADB may refuse to finance a contract where goods and services have not been procured in accordance with procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 5.02. **Commitment Letters by ADB.** Upon the Borrower’s request, ADB may issue commitment letters to pay amounts in respect of the cost of goods and services to be financed under the Loan notwithstanding any subsequent suspension or cancellation.

Section 5.03. **Application for Withdrawal.** When the Borrower shall desire to withdraw any amount from the Loan Account or to request ADB to issue commitment letters pursuant to Section 5.02, the Borrower shall promptly deliver to ADB an application in such form and containing such statements, representations, warranties and agreements, as ADB shall reasonably request.

Section 5.04. **Evidence of Authority to Sign Applications.** The Borrower shall furnish to ADB sufficient evidence of the authority of the person authorized to sign applications for withdrawal and the authenticated specimen signature of each person.

Section 5.05. **Supporting Evidence.** The Borrower shall furnish to ADB such documents and other evidence in support of the application for withdrawal as ADB shall reasonably request, whether before or after ADB shall have permitted any withdrawal requested in the application.

Section 5.06. **Sufficiency of Applications and Documents.** Each application for withdrawal and the accompanying documents and all other evidence must be sufficient in form and substance to satisfy ADB that the Borrower is entitled to
withdraw from the Loan Account the amount applied for and that the amount
to be withdrawn from the Loan Account is to be used only for the purposes
specified in the Loan Agreement.

Section 5.07. **Payment by ADB.** Payment by ADB of amounts which the Borrower
is entitled to withdraw from the Loan Account shall be made to or on the order
of the Borrower.

**ARTICLE VI**

**Particular Covenants**

Section 6.01. **Cooperation and Information.** (a) ADB, the Borrower and the
Guarantor shall cooperate fully to ensure that the purposes of the Loan will be
accomplished. To that end, ADB, the Borrower and the Guarantor shall:

(i) from time to time, at the request of any one of them, exchange
views with regard to any matters relating to the progress of the
Project, the purposes of the Loan or the maintenance of the service
thereof, the performance of their respective obligations under the
Loan Agreement and the Guarantee Agreement, the performance
by the Project Executing Agency of its obligations under the Project
Agreement, and furnish to the other party all such related
information as it shall reasonably request; and

(ii) promptly inform each other of any condition which interferes with,
or threatens to interfere with, the matters referred to in paragraph
(a)(i) above. In respect of a Loan to a Borrower which is not a
member, the Borrower shall promptly inform ADB in advance of
any proposed changes in the ownership or control of the Borrower
or its assets, or any transaction or arrangement which will have or
is likely to have such effect.

(b) Where either the Borrower or the Guarantor is a member, such member
shall afford all reasonable opportunity for ADB’s representatives to visit
any part of its territory for purposes related to the Loan.

Section 6.02. **Negative Pledge.** (a) If the Borrower shall create or permit the
creation of any lien on any of its assets as security for any foreign currency debt,
the Borrower undertakes to expressly provide that such lien will ipso facto equally
and ratably secure the payment of the principal of, and interest charge on, the
Loan. If any statutory lien shall be created on any assets of the Borrower (as
hereinafter defined), as security for any foreign currency debt, the Borrower
shall grant to ADB an equivalent lien satisfactory to ADB.
(b) The provisions of paragraph (a) of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

c) The term “assets of the Borrower” as used in paragraph (a) of this Section includes assets of any political subdivision or any agency of the Borrower and assets of any agency of any such political subdivision, and assets of any entity owned or controlled by, or operating for the account or benefit of, the Borrower or any such political subdivision or agency, including any other institution performing the functions of a central bank for the Borrower.

Section 6.03. Insurance. (a) The Borrower shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance against such risks and in such amounts as shall be consistent with sound practice. The Borrower shall be deemed to have opted for self-insurance in the absence of any specific insurance for the Project.

(b) Without limiting the generality of the foregoing, the Borrower undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.

Section 6.04. Records, Accounts and Audits. The Borrower shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of the Borrower.

Section 6.05. Reports. (a) The Borrower, and the Guarantor shall furnish, or cause to be furnished, to ADB all such reports as ADB shall reasonably request concerning (i) the Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods and services and other items of expenditure financed out of the proceeds of the Loan; (iii) the Project and the Project Executing Agency; (iv) the administration, operations and financial condition of the Borrower; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, the Borrower shall furnish to ADB quarterly reports, or reports at such other later interval
as may be agreed for this purpose between ADB and the Borrower on the execution of the Project, on the accomplishment of the targets and actions agreed between ADB and the Borrower, and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after physical completion of the Project, but in any event not later than three months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by the Borrower of its obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.

Section 6.06. Counterpart Obligations and Land Acquisition. The Borrower shall make available, promptly as and when needed, the funds, facilities, services, land, and other resources as shall be necessary or required, in addition to the proceeds of the Loan, for the carrying out of the Project and for the operation and maintenance of the Project facilities. The Borrower shall furnish to ADB, promptly at its request, evidence satisfactory to ADB that such funds, facilities, services, land, and other resources are available for purposes related to the Project.

Section 6.07. Work Schedules, Plans and Design Standards. The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to the Borrower and ADB, as applicable. When required by ADB, the Borrower shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 6.08. General Undertakings. (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound applicable financial, business and development practices.

(b) The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.
Section 6.09. **Contractors and Consultants.** Whenever applicable, in the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to the Borrower and ADB, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.

Section 6.10. **Maintenance.** The Borrower shall ensure that any facilities relevant to the Project are operated, maintained and repaired in accordance with sound operational and maintenance practices. The Borrower shall promptly as needed, make or cause to be made all necessary repairs and renewals thereof.

**ARTICLE VII**

**Exemption from Taxation**

Section 7.01. **Exemption from Taxation.** (a) Where either the Borrower or the Guarantor is a member, such member shall ensure that:

(i) the principal of, and interest charge on the Loan are exempt from, and are paid without deduction for, any taxes levied by, or in the territory of, such member; and

(ii) the Loan Agreement, the Guarantee Agreement, and the Project Agreement, are exempt from any taxes levied by, or in the territory of, such member on or in connection with the execution, delivery or registration thereof.

(b) Where neither the Borrower nor the Guarantor is a member, the Borrower shall obtain from the member in whose territory the Project is to be carried out and furnish to ADB, prior to the Effective Date, evidence, satisfactory to ADB, that:

(i) the principal of, and interest charge on, the Loan will be exempt from, and be paid without deduction for, any taxes levied by, or in the territory of, such member; and

(ii) the Loan Agreement, the Guarantee Agreement, and the Project Agreement, will be exempt from any taxes levied by, or in the territory of, such member on or in connection with the execution, delivery or registration thereof.
ARTICLE VIII

Suspension; Cancellation; Acceleration of Maturity

Section 8.01. Suspension by ADB. If any of the following events shall have occurred at any time after the date of the Loan Agreement and be continuing, ADB may by notice to the Borrower and the Guarantor suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account:

(a) The Borrower shall have failed to make payment (notwithstanding the fact that such payment may have been made by the Guarantor or a third party) of principal, interest charge or any other charge required under (i) the Loan Agreement or (ii) any other loan agreement or guarantee agreement with ADB; or (iii) in consequence of any guarantee or other financial obligation of any kind extended by ADB to any third party with the agreement of the Borrower.

(b) The Guarantor shall have failed to make payment of principal, interest charge or any other charge required under (i) the Guarantee Agreement; (ii) any other loan agreement or guarantee agreement with ADB; or (iii) in consequence of any guarantee or other financial obligation of any kind extended by ADB to any third party with the agreement of the Borrower.

(c) The Borrower or the Guarantor shall have failed to perform any other of their respective obligations under the Loan Agreement or the Guarantee Agreement.

(d) The Project Executing Agency shall have failed to perform any of its obligations under the Project Agreement.

(e) ADB shall have suspended in whole or in part the right of the Borrower or the Guarantor to make withdrawals under any other loan agreement with ADB because of a failure by the Borrower or the Guarantor to perform any of its obligations under such loan agreement or any related guarantee agreement with ADB.

(f) A situation shall have arisen or developed which in the reasonable opinion of ADB will or may make it improbable that the Project can be successfully carried out or that the Borrower, the Guarantor, or the Project Executing Agency will be able to perform any of its obligations under the Loan Agreement, the Guarantee Agreement or the Project Agreement.

(g) The member in whose territory the Project is to be carried out shall have been suspended from membership in, or ceased to be a member of, ADB, or shall have delivered a notice to withdraw from ADB.
(h) A representation made by the Borrower or the Guarantor in or pursuant to the Loan Agreement or the Guarantee Agreement, or any statement furnished in connection therewith and intended to be relied upon by ADB in making the Loan, shall have been incorrect in any material respect, or, where the Borrower is not a member, any material adverse change in the condition of the Borrower as so represented by the Borrower shall have occurred in the reasonable opinion of ADB.

(i) Where the Borrower is not a member, the Borrower shall have been unable to pay its debts as they mature or any action or proceeding shall have been taken by the Borrower or by others whereby any of the assets of the Borrower shall or may be distributed among its creditors.

(j) Where the Borrower is not a member, the member in whose territory the Project is to be carried out or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower, the alienation or transfer of any of its assets other than in the normal course of business, or for the suspension of its operations.

(k) Any authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Project Executing Agency, the alienation or transfer of any of its assets other than in the normal course of business, or for the suspension of its operations.

(l) ADB shall have determined, with respect to any contract to be financed in full or in part out of the proceeds of the Loan, that corrupt or fraudulent practices, as determined by ADB, were engaged in by representatives of the Borrower, the Guarantor, or any beneficiary of the Loan during the procurement of goods and services, consultants’ selection or the execution of a contract, without the Borrower or Guarantor having taken timely and appropriate action satisfactory to ADB to remedy the situation; or ADB shall have determined that the procurement of any goods or services to be financed out of the proceeds of the Loan is inconsistent with the relevant procedure set out in the Loan Agreement.

(m) Any other event specified in the Loan Agreement for the purposes of this Section shall have occurred.

The right of the Borrower to make withdrawals from the Loan Account shall continue to be suspended in whole or in part, as the case may be, until the event which gave rise to such suspension shall have, in the reasonable opinion of ADB, ceased to exist or until ADB shall have notified the Borrower that the right to make withdrawals has been restored in whole or in part, whichever is the earlier.
Section 8.02. **Cancellation by ADB.** If (i) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of 30 days; or (ii) at any time ADB determines, after consultation with the Borrower, that any amount of the Loan will not be required for the purposes of the Project; (iii) by the date specified in the Loan Agreement as the Loan Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account; or (iv) at any time ADB determines, with respect to any contract to be financed in full or in part out of the proceeds of the Loan, that corrupt or fraudulent practices, as determined by ADB, were engaged in by representatives of the Borrower, the Guarantor, or any beneficiary of the Loan during the procurement of goods and services, consultants’ selection or the execution of a contract, without the Borrower or Guarantor having taken timely and appropriate action satisfactory to ADB to remedy the situation; or (v) at any time, ADB determines that the procurement of any goods or services to be financed out of the proceeds of the Loan is inconsistent with the procedure set out in the Loan Agreement, ADB may by notice to the Borrower and the Guarantor terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled.

Section 8.03. **Cancellation by the Borrower.** After consultation with ADB and with the concurrence of the Guarantor the Borrower may by notice to ADB cancel any amount of the Loan which the Borrower shall not have withdrawn prior to the giving of such notice.

Section 8.04. **Amounts Subject to Commitment Letters.** No suspension or cancellation shall apply to amounts subject to any commitment letter issued by ADB pursuant to Section 5.02 except as expressly provided in such commitment letter.

Section 8.05. **Application of Cancellation.** Except as ADB and the Borrower shall otherwise agree, any cancellation shall be applied pro rata to the remaining maturities of the principal amount of the Loan which shall mature after the date of such cancellation.

Section 8.06. **Effectiveness of Provisions After Suspension or Cancellation.** Notwithstanding any cancellation or suspension, all the provisions of the Loan Agreement, the Guarantee Agreement and the Project Agreement shall continue in full force and effect except as specifically provided in this Article.

Section 8.07. **Acceleration of Maturity.** If any of the following events shall have occurred and continued for the period, if any, specified below, then at any subsequent time during the continuance thereof ADB may by notice to the Borrower and the Guarantor declare the principal of the Loan then outstanding, together with all accrued interest charge thereon, to be due and payable...
immediately, and upon any such declaration such principal and interest charge shall become due and payable immediately:

(a) Any event specified in paragraph (a) or paragraph (b) of Section 8.01 shall have occurred and continued for a period of 30 days.

(b) Any event specified in paragraph (c) or paragraph (d) of Section 8.01 shall have occurred and continued for a period of 60 days after notice thereof shall have been given by ADB to the Borrower and the Guarantor.

(c) Any event specified in paragraph (h), paragraph (i), paragraph (j) or paragraph (k) of Section 8.01 shall have occurred.

(d) Any other event specified in the Loan Agreement for the purposes of this Section shall have occurred and continued for the period, if any, specified in the Loan Agreement.

ARTICLE IX

Effectiveness; Termination

Section 9.01. Conditions Precedent to Effectiveness. The Loan Agreement and the Guarantee Agreement shall not become effective until evidence satisfactory to ADB shall have been furnished to ADB that:

(a) the execution and delivery of the Loan Agreement on behalf of the Borrower have been duly authorized or ratified by all necessary corporate and governmental action;

(b) where there is a Guarantee Agreement, the execution and delivery of the Guarantee Agreement on behalf of the Guarantor have been duly authorized or ratified by all necessary corporate and governmental action;

(c) where there is a Project Agreement, the execution and delivery of the Project Agreement on behalf of the Project Executing Agency shall have been duly authorized or ratified by all necessary corporate, administrative and governmental action;

(d) where the Borrower is not a member, the condition of the Borrower, as represented to ADB at the date of the Loan Agreement, has undergone no material adverse change between such date and the date agreed upon between the Borrower and ADB for the purposes of this Section, provided that ADB shall have requested such evidence;
(e) where neither the Borrower nor the Guarantor, is a member, the requirements of Section 4.07(b) and Section 7.01(b) have been fulfilled; and

(f) all other events specified in the Loan Agreement as additional conditions to its effectiveness have occurred.

Section 9.02. **Legal Opinions.** As part of the evidence to be furnished pursuant to Section 9.01, the Borrower shall furnish, or cause to be furnished, to ADB an opinion or opinions satisfactory to ADB of counsel acceptable to ADB showing:

(a) on behalf of the Borrower, that the Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms;

(b) on behalf of the Guarantor that the Guarantee Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Guarantor and is legally binding upon the Guarantor in accordance with its terms;

(c) on behalf of the Project Executing Agency where there is a Project Agreement, that the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Project Executing Agency and is legally binding upon the Project Executing Agency in accordance with its terms; and

(d) such other matters as shall be specified in the Loan Agreement.

Section 9.03. **Effective Date.** (a) Except as ADB and the Borrower shall otherwise agree, the Loan Agreement and the Guarantee Agreement shall come into force and effect on the date upon which ADB dispatches to the Borrower and to the Guarantor notice of its acceptance of the evidence required by Section 9.01.

(b) If, before the Effective Date, any event shall have occurred which would have entitled ADB to suspend the right of the Borrower to make withdrawals from the Loan Account if the Loan Agreement had been effective, ADB may postpone the dispatch of the notice referred to in paragraph (a) of this Section until such event shall have ceased to exist.

Section 9.04. **Termination for Failure to Become Effective.** If the Loan Agreement shall not have come into force and effect by the date specified in the Loan Agreement for the purposes of this Section, the Loan Agreement and the Guarantee Agreement, and all obligations of the parties thereunder shall terminate, unless ADB, after consideration of the reasons for the delay, shall
establish a later date for the purposes of this Section. ADB shall promptly notify the Borrower and the Guarantor of such later date.

Section 9.05. **Termination on Full Payment.** If and when the entire principal amount of the Loan withdrawn from the Loan Account and all interest charges which shall have accrued on the Loan shall have been paid, the Loan Agreement and the Guarantee Agreement, and all obligations of the parties thereunder shall forthwith terminate.

**ARTICLE X**

Enforceability; Failure to Exercise Rights; Arbitration

Section 10.01. **Enforceability.** (a) The rights and obligations of ADB and the Borrower under the Loan Agreement and of ADB and the Guarantor under the Guarantee Agreement, shall be valid and enforceable in accordance with their terms and, where either the Borrower or the Guarantor is a member, notwithstanding the law of any state, or political subdivision thereof, to the contrary.

(b) Neither ADB nor the Borrower nor the Guarantor shall be entitled in any proceeding under this Article to assert any claim that any provision of the Loan Agreement or the Guarantee Agreement is invalid or unenforceable because of any provision of the Articles of Agreement Establishing the Asian Development Bank or for any other reason.

Section 10.02. **Obligations of the Guarantor.** The obligations of the Guarantor under the Guarantee Agreement shall not be discharged except by performance and then only to the extent of such performance. Such obligations shall not be subject to any prior notice to or demand upon or action against the Borrower or to any prior notice to or demand upon the Guarantor with regard to any default by the Borrower, and shall not be impaired by any of the following: any extension of time, forbearance or concession given to the Borrower; any assertion of, or failure to assert, or delay in asserting, any right, power or remedy against the Borrower or in respect of any security for the Loan; any modification of the provisions of the Loan Agreement contemplated by the terms thereof; or any failure of the Borrower to comply with any requirement of any law, regulation or order of the member in whose territory the Project is to be carried out or of any political subdivision or agency of such member.

Section 10.03. **Failure to Exercise Rights.** No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under the Loan Agreement or Guarantee Agreement upon any default shall impair any such right, power or remedy, or be construed to be a waiver thereof or an acquiescence.
in any such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 10.04. Arbitration. (a) Any controversy between the parties to the Loan Agreement or the parties to the Guarantee Agreement and any claim by any such party against any other such party arising under the Loan Agreement or the Guarantee Agreement which shall not be settled by agreement of the parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.

(b) The parties to such arbitration shall be ADB on the one side, and the Borrower and the Guarantor, on the other side.

c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by ADB; a second arbitrator shall be appointed by the Borrower and the Guarantor or, if they shall not agree, by the Guarantor; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by him, by the Secretary-General of the United Nations. If either side shall fail to appoint an arbitrator, the Umpire shall appoint such arbitrator. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party or parties. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought and the name of the arbitrator appointed by the party instituting such proceeding. Within 30 days after the giving of such notice, the other party or parties shall notify the party instituting the proceeding of the name of the arbitrator appointed by such other party or parties.

e) If within 60 days after the giving of the notice instituting the arbitration proceeding the parties shall not have agreed upon an Umpire, any party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.
(g) The law to be applied by the Arbitral Tribunal shall be public international law, the sources of which shall be taken for these purposes to include:

   (i) any relevant treaty obligations that are binding reciprocally on the parties;

   (ii) the provisions of any international conventions and treaties (whether or not binding directly as such on the parties) generally recognized as having codified or ripened into binding rules of customary law applicable to states and international institutions, as appropriate;

   (iii) other forms of international custom, including the practice of states and international institutions of such generality, consistency and duration as to create legal obligations; and

   (iv) applicable general principles of law.

(h) Subject to the provisions of this Section and except as the parties shall otherwise agree, the Arbitral Tribunal shall decide all questions relating to its competence and shall determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(i) The Arbitral Tribunal shall afford to all parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the Loan Agreement and the Guarantee Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(j) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by ADB on the one side, and the Borrower and the Guarantor on the other side. The Arbitral Tribunal shall determine any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs.
(k) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to the Loan Agreement and the Guarantee Agreement, and any claim by either party against the other such party arising thereunder.

(l) If within 30 days after the counterparts of the award have been delivered to the parties the award shall not be complied with, any party may enter judgment upon, or institute a proceeding to enforce, the award in any court of competent jurisdiction against any other party, and may enforce such judgment by execution or may pursue any other appropriate remedy against such other party for the enforcement of the award and the provisions of the Loan Agreement or the Guarantee Agreement. Notwithstanding the foregoing, this Section shall not authorize any entry of judgment or enforcement of the award against any party that is a member except as such procedure may be available otherwise than by reason of the provisions of this Section.

(m) Service of any notice or process in connection with any proceeding under this Section or (to the extent that such remedy shall be available) in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 11.01. The parties to the Loan Agreement and the Guarantee Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE XI

Miscellaneous Provisions

Section 11.01. Notices and Requests. Any notice or request required or permitted to be given or made under the Loan Agreement or the Guarantee Agreement, and any other agreement between any of the parties contemplated by the Loan Agreement or the Guarantee Agreement, shall be in writing. Except as otherwise provided in Section 9.03 such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, facsimile or electronic mail to the party to which it is required or permitted to be given or made at such party’s address specified in the Loan Agreement or the Guarantee Agreement or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

Section 11.02. Authority to Take Action. Any action required or permitted to be taken, and any documents required or permitted to be executed, under the Loan Agreement or the Guarantee Agreement, on behalf of the Borrower or the Guarantor, as the case may be, may be taken or executed by the representative
of the Borrower or the Guarantor designated in the Loan Agreement or the Guarantee Agreement for the purposes of this Section or any person thereunto authorized in writing by him. Any modification of the provisions of the Loan Agreement or the Guarantee Agreement may be agreed to on behalf of the Borrower or the Guarantor, as the case may be, by written instrument executed on behalf of the Borrower or the Guarantor by the representative so designated or any person authorized in writing by such representative; provided that, in the opinion of such representative or other person, such modification is reasonable in the circumstances and will not substantially increase the obligations of the Borrower under the Loan Agreement or of the Guarantor under the Guarantee Agreement, as the case may be. ADB may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative or other person any modification of the provisions of the Loan Agreement or the Guarantee Agreement effected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the Borrower or of the Guarantor thereunder.

Section 11.03. Evidence of Authority. The Borrower and the Guarantor shall furnish to ADB sufficient evidence of the authority of the person or persons who will, on behalf of the Borrower or the Guarantor, respectively, take any action or execute any documents required or permitted to be taken or executed by the Borrower under the Loan Agreement or by the Guarantor under the Guarantee Agreement, and the authenticated specimen signature of each such person.

Section 11.04. Withholding of Payments to Members on Shares. (a) If the member in whose territory the Project is to be carried out ceases to be a member of ADB, any amount due to the member for its shares repurchased by ADB shall be withheld so long as the member, its central bank or any of its agencies, instrumentalities or political subdivisions remain liable to ADB under the Loan Agreement or the Guarantee Agreement, or under any other loan agreement or guarantee agreement with ADB, and such amount may, at the option of ADB, be applied on any such liability as it matures.

(b) In the event of a distribution of the assets of ADB, the member in whose territory the Project is to be carried out shall not be entitled to receive its share in such distribution until it has settled all of its obligations to ADB including its obligations under the Loan Agreement or the Guarantee Agreement, or under any other loan agreement or guarantee agreement with ADB.

Section 11.05. Execution in Counterparts. The Loan Agreement and the Guarantee Agreement may be executed in several counterparts, each of which shall be an original.


Appendix 3

PAKISTAN EARTHQUAKE FUND GRANT REGULATIONS
DATED 14 NOVEMBER 2005

ARTICLE I

Purpose, Application to Investment Project Grants

Section 1.01. Purpose. The purpose of these Regulations is to set forth certain terms and conditions generally applicable to grants for investment projects made by ADB from the Pakistan Earthquake Fund.

Section 1.02. Application of Regulations. Any grant agreement with ADB relating to a grant from the Pakistan Earthquake Fund may provide that the parties thereto accept the provisions of these Regulations. To the extent so provided in any such agreement, these Regulations shall apply and shall govern the rights and obligations of the parties thereto with the same force and effect as if they were fully set forth therein. No revocation or amendment of these Regulations shall be effective in respect of any such agreement unless the parties shall so agree in writing.

Section 1.03. Inconsistency with Grant Agreement. If any provision of a grant agreement is inconsistent with a provision of these Regulations, the provision of the grant agreement shall govern.

ARTICLE II

Definitions; Interpretation

Section 2.01. Definitions. Except where the context otherwise requires, the following terms have the following meanings wherever used in these Regulations or in a grant agreement to which these Regulations have been made applicable:

(a) “ADB” means Asian Development Bank.
(b) “Assets” includes property, revenues and claims of any kind.
(c) “Currency” of a country or a territory means such currency as at the time referred to is legal tender for the payment of public and private debts in that country or territory.
(d) “Dollar” or the sign “$” each means the lawful currency of the United States.
(e) “Effective Date” means the date on which the Grant Agreement shall have come into force and effect pursuant to Section 9.03.
(f) “Fund” means the Pakistan Earthquake Fund of ADB.
(g) “Grant” means the grant provided for in the Grant Agreement for investment projects.

(h) “Grant Account” means the account opened or to be opened by ADB on its books in the name of the Recipient to which the amount of the Grant has been or will be credited.

(i) “Grant Agreement” means the particular grant agreement to which these Regulations shall have been made applicable, all agreements supplementary to the Grant Agreement and all schedules thereto, as such agreement may be amended from time to time; and such term includes these Regulations as thus made applicable.

(j) “Grant Closing Date” means the date specified in the Grant Agreement, after which ADB may terminate the right of the Recipient to make any withdrawals from the Grant Account, or such other date as may be agreed between ADB and the Recipient for such purpose.

(k) “Member” means a member of ADB.

(l) “Project” means the investment project for which ADB has agreed to make the Grant, as described in the Grant Agreement and as such description may be amended from time to time by agreement between ADB and the Recipient.

(m) “Project Agreement” means the project agreement, if any, between ADB and the Project Executing Agency, being the Project Agreement referred to in the Grant Agreement, as such agreement may be amended from time to time; and such term includes all agreements supplementary to the Project Agreement and all schedules to the Project Agreement.

(n) “Project Executing Agency” means any entity responsible for the carrying out of the Project as specified in the Grant Agreement.

(o) “Recipient” means the party to the Grant Agreement to which ADB has agreed to provide the Grant.

(p) “Taxes” includes imposts, levies, fees and duties of any nature, whether in effect at the date of the Grant Agreement or thereafter imposed.

Section 2.02. Interpretation. Except where the context otherwise requires, (i) references in these Regulations to Articles or Sections are to Articles or Sections of these Regulations; (ii) the headings of the Articles and Sections and the Table of Contents are inserted for convenience of reference only and are not a part of these Regulations; (iii) singular may include plural and vice versa; and (iv) a reference to any gender includes any other gender.
ARTICLE III

Grant Account

Section 3.01. Grant Account. The principal amount of the Grant shall be credited to the Grant Account and may be withdrawn therefrom in accordance with the provisions of the Grant Agreement and these Regulations.

ARTICLE IV

Currency Provisions

Section 4.01. Denomination of the Grant. Except as the Board of Directors may otherwise determine, the Grant shall be denominated in Dollars.

Section 4.02. Currency of Withdrawal and Purchase of Currencies. Except as ADB and the Recipient shall otherwise agree, withdrawals from the Grant Account shall be made in the currency in which the Grant is denominated. ADB shall, at the request and acting as agent of the Recipient, use such currency to purchase the currencies in which the cost of goods and services to be financed out of the proceeds of the Grant has been paid or is payable.

ARTICLE V

Withdrawal of Grant Proceeds

Section 5.01. Withdrawal from the Grant Account. (a) Grant proceeds shall be used only for the purposes of the Project. Subject to any conditions or restrictions specified in the Grant Agreement, the Recipient shall be entitled to withdraw from the Grant Account such amounts as shall have been paid, or, if ADB shall so agree, such amounts as shall be required to meet payments to be made, for the reasonable cost of goods, services and any other expenditures required for the Project and to be financed under the Grant Agreement.

(b) Except as ADB and the Recipient shall otherwise agree, no withdrawals shall be made on account of (i) payments made prior to the Effective Date; and (ii) expenditures in the territory of any country which is not a member or for goods produced in, or services supplied from, such territory. ADB may refuse to finance a contract where goods and services have not been procured in accordance with procedures substantially in accordance with those agreed between the Recipient and ADB or where the terms and conditions of the contract are not satisfactory to ADB.
Section 5.02. **Commitment Letters by ADB.** Upon the Recipient’s request, ADB may issue commitment letters to pay amounts in respect of the cost of goods and services to be financed under the Grant notwithstanding any subsequent suspension or cancellation.

Section 5.03. **Application for Withdrawal.** When the Recipient shall desire to withdraw any amount from the Grant Account or to request ADB to issue commitment letters pursuant to Section 5.02, the Recipient shall promptly deliver to ADB an application in such form and containing such statements, representations, warranties and agreements, as ADB shall reasonably request.

Section 5.04. **Evidence of Authority to Sign Applications.** The Recipient shall furnish to ADB sufficient evidence of the authority of the person authorized to sign applications for withdrawal and the authenticated specimen signature of each person.

Section 5.05. **Supporting Evidence.** The Recipient shall furnish to ADB such documents and other evidence in support of the application for withdrawal as ADB shall reasonably request, whether before or after ADB shall have permitted any withdrawal requested in the application.

Section 5.06. **Sufficiency of Applications and Documents.** Each application for withdrawal and the accompanying documents and all other evidence must be sufficient in form and substance to satisfy ADB that the Recipient is entitled to withdraw from the Grant Account the amount applied for and that the amount to be withdrawn from the Grant Account is to be used only for the purposes specified in the Grant Agreement.

Section 5.07. **Payment by ADB.** Payment by ADB of amounts which the Recipient is entitled to withdraw from the Grant Account shall be made to or on the order of the Recipient.

**ARTICLE VI**

**Particular Covenants**

Section 6.01. **Cooperation and Information.** (a) ADB and the Recipient shall cooperate fully to ensure that the purposes of the Grant will be accomplished. To that end, ADB and the Recipient shall:

(i) from time to time, at the request of either one of them, exchange views with regard to any matters relating to the progress of the Grant, the purposes of the Grant, the performance of their respective obligations under the Grant Agreement and the
(ii) promptly inform each other of any condition which interferes with, or threatens to interfere with, the matters referred to in paragraph (a)(i) above.

(b) Where the Recipient is a member, such member shall afford all reasonable opportunity for ADB’s representatives to visit any part of its territory for purposes related to the Grant.

Section 6.02. Insurance. (a) The Recipient shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance against such risks and in such amounts as shall be consistent with sound practice. The Recipient shall be deemed to have opted for self-insurance in the absence of any specific insurance for the Project.

(b) Without limiting the generality of the foregoing, the Recipient undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Grant against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.

Section 6.03. Records, Accounts and Audits. The Recipient shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the Grant, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of the Recipient.

Section 6.04. Reports. (a) The Recipient shall furnish, or cause to be furnished, to ADB all such reports as ADB shall reasonably request concerning (i) the Grant, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods and services and other items of expenditure financed out of the proceeds of the Grant; (iii) the Project and the Project Executing Agency; (iv) the administration and operations of the Recipient; and (v) any other matters relating to the purposes of the Grant.

(b) Without limiting the generality of the foregoing, the Recipient shall furnish to ADB quarterly reports, or reports at such other later intervals as may be agreed for this purpose between ADB and the Recipient on the execution of the Project, on the accomplishment of the targets and actions agreed between the ADB and the Recipient, and on the operation
and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after physical completion of the Project, but in any event not later than three months thereafter or such later date as may be agreed for this purpose between the Recipient and ADB, the Recipient shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by the Recipient of its obligations under the Grant Agreement and the accomplishment of the purposes of the Grant.

Section 6.05. Counterpart Obligations and Land Acquisition. The Recipient shall make available, promptly as and when needed, the funds, facilities, services, land, and other resources as shall be necessary or required, in addition to the proceeds of the Grant, for the carrying out of the Project and for the operation and maintenance of the Project facilities. The Recipient shall furnish to ADB, promptly at its request, evidence satisfactory to ADB that such funds, facilities, services, land, and other resources are available for purposes related to the Project.

Section 6.06. Work Schedules, Plans and Design Standards. The Recipient shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to the Recipient and ADB, as applicable. When required by ADB, the Recipient shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 6.07. General Undertakings. (a) The Recipient shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound applicable financial, business and development practices.
(b) The Recipient shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 6.08. Contractors and Consultants. Whenever applicable, in the carrying out of the Project, the Recipient shall cause competent and qualified consultants and contractors, acceptable to the Recipient and ADB, to be employed to an extent and upon terms and conditions satisfactory to the Recipient and ADB.
Section 6.09. **Maintenance.** The Recipient shall ensure that any facilities relevant to the Project are operated, maintained and repaired in accordance with sound operational and maintenance practices. The Recipient shall promptly as needed, make or cause to be made all necessary repairs and renewals thereof.

**ARTICLE VII**

**Exemption from Taxation**

Section 7.01. **Exemption from Taxation.** (a) Where the Recipient is a member, such member shall ensure that the Grant Agreement and the Project Agreement, are exempt from any taxes levied by, or in the territory of, such member on or in connection with the execution, delivery or registration thereof.

(b) Where the Recipient is not a member, the Recipient shall obtain from the member, in whose territory the Project is to be carried out, and furnish to ADB, prior to the Effective Date, evidence, satisfactory to ADB, that the Grant Agreement and the Project Agreement, will be exempt from any taxes levied by, or in the territory of, such member on or in connection with the execution, delivery or registration thereof.

**ARTICLE VIII**

**Suspension and Cancellation**

Section 8.01. **Suspension by ADB.** If any of the following events shall have occurred at any time after the date of the Grant Agreement and be continuing, ADB may by notice to the Recipient suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account:

(a) The Recipient shall have failed to make payment of principal, interest charge or any other charge required under (i) any loan agreement or guarantee agreement with ADB; or (ii) in consequence of any guarantee or other financial obligation of any kind extended by ADB to any third party with the agreement of the Recipient.

(b) The Recipient shall have failed to perform any of its obligations under the Grant Agreement.

(c) The Project Executing Agency shall have failed to perform any of its obligations under the Project Agreement.

(d) ADB shall have suspended in whole or in part the right of the Recipient to make withdrawals under any other grant agreement or any loan
agreement with ADB because of a failure by the Recipient to perform any of its obligations under such grant agreement or loan agreement or any related guarantee agreement with ADB.

(e) A situation shall have arisen or developed which in the reasonable opinion of ADB will or may make it improbable that the Project can be successfully carried out or that the Recipient or the Project Executing Agency will be able to perform any of its obligations under the Grant Agreement or the Project Agreement.

(f) The member in whose territory the Project is to be carried out shall have been suspended from membership in, or ceased to be a member of, ADB, or shall have delivered a notice to withdraw from ADB.

(g) A representation made by the Recipient in or pursuant to the Grant Agreement or any statement furnished in connection therewith and intended to be relied upon by ADB in making the Grant, shall have been incorrect in any material respect, or, where the Recipient is not a member, any material adverse change in the condition of the Recipient as so represented by the Recipient shall have occurred in the reasonable opinion of ADB.

(h) Where the Recipient is not a member, the member in whose territory the Project is to be carried out or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Recipient, the alienation or transfer of any of its assets other than in the normal course of business, or for the suspension of its operations.

(i) Any authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Project Executing Agency, the alienation or transfer of any of its assets other than in the normal course of business, or for the suspension of its operations.

(j) ADB shall have determined, with respect to any contract to be financed in full or in part out of the proceeds of the Grant, that corrupt, fraudulent, collusive or coercive practices, as determined by ADB, were engaged in by representatives of the Recipient or any beneficiary of the Grant during the procurement of goods and services, consultants’ selection or the execution of a contract, without the Recipient having taken timely and appropriate action satisfactory to ADB to remedy the situation; or ADB shall have determined that the procurement of any goods or services to be financed out of the proceeds of the Grant is inconsistent with the relevant procedure set out in the Grant Agreement.
(k) Any other event specified in the Grant Agreement for the purposes of this Section shall have occurred.

The right of the Recipient to make withdrawals from the Grant Account shall continue to be suspended in whole or in part, as the case may be, until the event which gave rise to such suspension shall have, in the reasonable opinion of ADB, ceased to exist or until ADB shall have notified the Recipient that the right to make withdrawals has been restored in whole or in part, whichever is the earlier.

Section 8.02. Cancellation by ADB. If (i) the right of the Recipient to make withdrawals from the Grant Account shall have been suspended with respect to any amount of the Grant for a continuous period of 30 days; or (ii) at any time ADB determines, after consultation with the Recipient, that any amount of the Grant will not be required for the purposes of the Project; (iii) by the date specified in the Grant Agreement as the Grant Closing Date, an amount of the Grant shall remain unwithdrawn from the Grant Account; or (iv) at any time ADB determines, with respect to any contract to be financed in full or in part out of the proceeds of the Grant, that corrupt, fraudulent, collusive or coercive practices, as determined by ADB, were engaged in by representatives of the Recipient or any beneficiary of the Grant during the procurement of goods and services, consultants’ selection or the execution of a contract, without the Recipient having taken timely and appropriate action satisfactory to ADB to remedy the situation; or (v) at any time, ADB determines that the procurement of any goods or services to be financed out of the proceeds of the Grant is inconsistent with the procedure set out in the Grant Agreement, ADB may by notice to the Recipient terminate the right of the Recipient to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Grant shall be cancelled.

Section 8.03. Cancellation by the Recipient. After consultation with ADB, the Recipient may by notice to ADB cancel any amount of the Grant which the Recipient shall not have withdrawn prior to the giving of such notice.

Section 8.04. Amounts Subject to Commitment Letters. No suspension or cancellation shall apply to amounts subject to any commitment letter issued by ADB pursuant to Section 5.02 except as expressly provided in such commitment letter.

Section 8.05. Effectiveness of Provisions After Suspension or Cancellation. Notwithstanding any cancellation or suspension, all the provisions of the Grant Agreement and the Project Agreement shall continue in full force and effect except as specifically provided in this Article.
ARTICLE IX

Effectiveness; Termination

Section 9.01. **Conditions Precedent to Effectiveness.** The Grant Agreement shall not become effective until evidence satisfactory to ADB shall have been furnished to ADB that:

(a) The execution and delivery of the Grant Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary corporate and governmental action.

(b) Where there is a Project Agreement, the execution and delivery of the Project Agreement on behalf of the Project Executing Agency shall have been duly authorized or ratified by all necessary corporate, administrative and governmental action.

(c) Where the Recipient is not a member, the condition of the Recipient, as represented to ADB at the date of the Grant Agreement, has undergone no material adverse change between such date and the date agreed upon between the Recipient and ADB for the purposes of this Section, provided that ADB shall have requested such evidence.

(d) Where the Recipient is not a member, the requirements Section 7.01(b) have been fulfilled.

(e) All other events specified in the Grant Agreement as additional conditions to its effectiveness have occurred.

Section 9.02. **Legal Opinions.** As part of the evidence to be furnished pursuant to Section 9.01, the Recipient shall furnish, or cause to be furnished, to ADB an opinion or opinions satisfactory to ADB of counsel acceptable to ADB showing:

(a) on behalf of the Recipient, that the Grant Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Recipient and is legally binding upon the Recipient in accordance with its terms;

(b) on behalf of the Project Executing Agency where there is a Project Agreement, that the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Project Executing Agency and is legally binding upon the Project Executing Agency in accordance with its terms; and

(c) such other matters as shall be specified in the Grant Agreement.
Section 9.03. **Effective Date.** (a) Except as ADB and the Recipient shall otherwise agree, the Grant Agreement shall come into force and effect on the date upon which ADB dispatches to the Recipient notice of its acceptance of the evidence required by Section 9.01.

(b) If, before the Effective Date, any event shall have occurred which would have entitled ADB to suspend the right of the Recipient to make withdrawals from the Grant Account if the Grant Agreement had been effective, ADB may postpone the dispatch of the notice referred to in paragraph (a) of this Section until such event shall have ceased to exist.

Section 9.04. **Termination for Failure to Become Effective.** If the Grant Agreement shall not have come into force and effect by the date specified in the Grant Agreement for the purposes of this Section, the Grant Agreement and all obligations of the parties thereunder shall terminate, unless ADB, after consideration of the reasons for the delay, shall establish a later date for the purposes of this Section. ADB shall promptly notify the Recipient of such later date.

ARTICLE X

Enforceability; Failure to Exercise Rights; Arbitration

Section 10.01. **Enforceability.** (a) The rights and obligations of ADB and the Recipient under the Grant Agreement shall be valid and enforceable in accordance with their terms and, where the Recipient is a member, notwithstanding the law of any state, or political subdivision thereof, to the contrary.

(b) Neither ADB nor the Recipient shall be entitled in any proceeding under this Article to assert any claim that any provision of the Grant Agreement is invalid or unenforceable because of any provision of the Articles of Agreement Establishing the Asian Development Bank or for any other reason.

Section 10.02. **Failure to Exercise Rights.** No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under the Grant Agreement upon any default shall impair any such right, power or remedy, or be construed to be a waiver thereof or an acquiescence in any such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 10.03. **Arbitration.** (a) Any controversy between the parties to the Grant Agreement and any claim by any such party against any other such party arising under the Grant Agreement which shall not be settled by agreement of the
parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.

(b) The parties to such arbitration shall be ADB on the one side, and the Recipient on the other side.

(c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by ADB; a second arbitrator shall be appointed by the Recipient; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by him, by the Secretary-General of the United Nations. If either side shall fail to appoint an arbitrator, the Umpire shall appoint such arbitrator. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party or parties. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought and the name of the arbitrator appointed by the party instituting such proceeding. Within 30 days after the giving of such notice, the other party or parties shall notify the party instituting the proceeding of the name of the arbitrator appointed by such other party or parties.

(e) If within 60 days after the giving of the notice instituting the arbitration proceeding the parties shall not have agreed upon an Umpire, any party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(g) The law to be applied by the Arbitral Tribunal shall be public international law, the sources of which shall be taken for these purposes to include:

(i) any relevant treaty obligations that are binding reciprocally on the parties;
(ii) the provisions of any international conventions and treaties (whether or not binding directly as such on the parties) generally recognized as having codified or ripened into binding rules of customary law applicable to states and international institutions, as appropriate;

(iii) other forms of international custom, including the practice of states and international institutions of such generality, consistency and duration as to create legal obligations; and

(iv) applicable general principles of law.

(h) Subject to the provisions of this Section and except as the parties shall otherwise agree, the Arbitral Tribunal shall decide all questions relating to its competence and shall determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(i) The Arbitral Tribunal shall afford to all parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the Grant Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(j) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by ADB on the one side, and the Recipient on the other side. The Arbitral Tribunal shall determine any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs.

(k) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to the Grant Agreement, and any claim by either party against the other such party arising thereunder.
(l) If within 30 days after the counterparts of the award have been delivered to the parties the award shall not be complied with, any party may enter judgment upon, or institute a proceeding to enforce, the award in any court of competent jurisdiction against any other party, and may enforce such judgment by execution or may pursue any other appropriate remedy against such other party for the enforcement of the award and the provisions of the Grant Agreement. Notwithstanding the foregoing, this Section shall not authorize any entry of judgment or enforcement of the award against any party that is a member except as such procedure may be available otherwise than by reason of the provisions of this Section.

(m) Service of any notice or process in connection with any proceeding under this Section or (to the extent that such remedy shall be available) in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 11.01. The parties to the Grant Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE XI

Miscellaneous Provisions

Section 11.01. Notices and Requests. Any notice or request required or permitted to be given or made under the Grant Agreement, and any other agreement between any of the parties contemplated by the Grant Agreement, shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, facsimile or electronic mail to the party to which it is required or permitted to be given or made at such party’s address specified in the Grant Agreement or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

Section 11.02. Authority to Take Action. Any action required or permitted to be taken, and any documents required or permitted to be executed, under the Grant Agreement, on behalf of the Recipient, may be taken or executed by the representative of the Recipient designated in the Grant Agreement for the purposes of this Section or any person thereunto authorized in writing by him. Any modification of the provisions of the Grant Agreement may be agreed to on behalf of the Recipient, by written instrument executed on behalf of the Recipient by the representative so designated or any person authorized in writing by such representative; provided that, in the opinion of such representative or other person, such modification is reasonable in the circumstances and will not substantially increase the obligations of the Recipient under the Grant
Agreement. ADB may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative or other person any modification of the provisions of the Grant Agreement effected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the Recipient thereunder.

Section 11.03. Evidence of Authority. The Recipient shall furnish to ADB sufficient evidence of the authority of the person or persons who will, on behalf of the Recipient, take any action or execute any documents required or permitted to be taken or executed by the Recipient under the Grant Agreement and the authenticated specimen signature of each such person.

Section 11.04. Execution in Counterparts. The Grant Agreement may be executed in several counterparts, each of which shall be an original.
ARTICLE I

Application to Technical Assistance Grants

Section 1.01. Purpose. The purpose of these Regulations is to set forth certain terms and conditions generally applicable to grants for technical assistance and related operational activities of ADB provided from the Pakistan Earthquake Fund.

Section 1.02. Application of Regulations. Any technical assistance agreement with ADB financed by a grant made from the Pakistan Earthquake Fund may provide that the parties thereto accept the provisions of these Regulations. To the extent so provided in any such agreement, these Regulations shall apply and shall govern the rights and obligations of the parties thereto with the same force and effect as if they were fully set forth therein. No revocation or amendment of these Regulations shall be effective in respect of any such agreement unless the parties shall so agree in writing.

Section 1.03. Inconsistency with Agreement. If any provision of a technical assistance agreement is inconsistent with a provision of these Regulations, the provision of the technical assistance agreement shall govern.

ARTICLE II

Definitions, Interpretation

Section 2.01. Definitions. Except where the context otherwise requires, the following terms have the following meanings wherever used in these Regulations or in a technical assistance agreement to which these Regulations have been made applicable:

(a) “ADB” means Asian Development Bank.

(b) “Dollar” or the sign “$” each means the lawful currency of the United States.

(c) “Fund” means the Pakistan Earthquake Fund of ADB.
(d) “Recipient” means the party to the TA Agreement to which ADB has agreed to provide the TA.

(e) “TA” means the technical assistance financed by ADB from the Fund.

(f) “TA Agreement” means the particular technical assistance agreement to which these Regulations shall have been made applicable, all agreements supplementary to the TA Agreement and all schedules thereto, as such agreement may be amended from time to time; and such term includes these Regulations as thus made applicable.

Section 2.02. Interpretation. Except where the context otherwise requires, (i) references in these Regulations to Articles or Sections are to Articles or Sections of these Regulations; (ii) the headings of the Articles and Sections and the Table of Contents are inserted for convenience of reference only and are not a part of these Regulations; (iii) singular may include plural and vice versa; and (iv) a reference to any gender includes any other gender.

ARTICLE III

Eligibility and Use of Proceeds

Section 3.01. Activities to be Financed. Eligible activities for financing include the cost of expert services and related facilities required for TA or related operational activities (including staff training and development) to be carried out by ADB.

Section 3.02. Use of Proceeds. TA proceeds shall be used only for the purposes set forth in the relevant TA Agreement.

ARTICLE IV

Currency Provisions

Section 4.01. Denomination of the Grant. Except as the Board of Directors may otherwise determine, the TA grant shall be denominated in Dollars.

Section 4.02. Currency of Withdrawal and Purchase of Currencies. Except as ADB and the Recipient shall otherwise agree, withdrawals from the Grant Account shall be made in the currency in which the Grant is denominated. ADB shall, at the request and acting as agent of the Recipient, use such currency to purchase the currencies in which the cost of goods and services to be financed out of the proceeds of the Grant has been paid or is payable.
ARTICLE V

Particular Covenants

Section 5.01. Cooperation and Information. ADB and the Recipient shall cooperate fully to ensure that the purposes of the TA will be accomplished. To that end, ADB and the Recipient shall:

(a) from time to time, at the request of either one of them, exchange views with regard to any matters relating to the progress of the TA, the purposes of the TA, the performance of their respective obligations under the TA Agreement and furnish to the other party all such related information as it shall reasonably request; and

(b) promptly inform each other of any condition which interferes with, or threatens to interfere with, the matters referred to in paragraph (i) above.

ARTICLE VI

Enforceability, Failure to Exercise Rights, Arbitration

Section 6.01. Enforceability. (a) The rights and obligations of ADB and the Recipient under the TA Agreement shall be valid and enforceable in accordance with their terms and, where the Recipient is a member of ADB, notwithstanding the law of any state, or political subdivision thereof, to the contrary.
(b) Neither ADB nor the Recipient shall be entitled in any proceeding under this Article to assert any claim that any provision of the TA Agreement is invalid or unenforceable because of any provision of the Articles of Agreement Establishing the Asian Development Bank or for any other reason.

Section 6.02. Failure to Exercise Rights. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under the TA Agreement upon any default shall impair any such right, power or remedy, or be construed to be a waiver thereof or an acquiescence in any such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 6.03. Arbitration. (a) Any controversy between the parties to the TA Agreement and any claim by any such party against any other such party arising under the TA Agreement which shall not be settled by agreement of the parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.
(b) The parties to such arbitration shall be ADB on the one side, and the Recipient on the other side.
(c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by ADB; a second arbitrator shall be appointed by the Recipient; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by him, by the Secretary-General of the United Nations. If either side shall fail to appoint an arbitrator, the Umpire shall appoint such arbitrator. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party or parties. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought and the name of the arbitrator appointed by the party instituting such proceeding. Within 30 days after the giving of such notice, the other party or parties shall notify the party instituting the proceeding of the name of the arbitrator appointed by such other party or parties.

(e) If within 60 days after the giving of the notice instituting the arbitration proceeding the parties shall not have agreed upon an Umpire, any party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(g) The law to be applied by the Arbitral Tribunal shall be public international law, the sources of which shall be taken for these purposes to include:

(i) any relevant treaty obligations that are binding reciprocally on the parties;

(ii) the provisions of any international conventions and treaties (whether or not binding directly as such on the parties) generally recognized as having codified or ripened into binding rules of customary law applicable to states and international institutions, as appropriate;
(iii) other forms of international custom, including the practice of states and international institutions of such generality, consistency and duration as to create legal obligations; and

(iv) applicable general principles of law.

(h) Subject to the provisions of this Section and except as the parties shall otherwise agree, the Arbitral Tribunal shall decide all questions relating to its competence and shall determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(i) The Arbitral Tribunal shall afford to all parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the TA Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(j) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by ADB on the one side, and the Recipient on the other side. The Arbitral Tribunal shall determine any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs.

(k) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to the TA Agreement, and any claim by either party against the other such party arising thereunder.

(l) If within 30 days after the counterparts of the award have been delivered to the parties the award shall not be complied with, any party may enter judgment upon, or institute a proceeding to enforce, the award in any court of competent jurisdiction against any other party, and may enforce such judgment by execution or may pursue any other appropriate remedy against such other party for the enforcement of the award and the provisions of the TA Agreement. Notwithstanding the foregoing, this
Section shall not authorize any entry of judgment or enforcement of the award against any party that is a member except as such procedure may be available otherwise than by reason of the provisions of this Section.

(m) Service of any notice or process in connection with any proceeding under this Section or (to the extent that such remedy shall be available) in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 7.01. The parties to the TA Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. Notices and Requests. Any notice or request required or permitted to be given or made under the TA Agreement, and any other agreement between any of the parties contemplated by the TA Agreement, shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, facsimile or electronic mail to the party to which it is required or permitted to be given or made at such party’s address specified in the TA Agreement or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

Section 7.02. Authority to Take Action. Any action required or permitted to be taken, and any documents required or permitted to be executed, under the TA Agreement, on behalf of the Recipient, may be taken or executed by the representative of the Recipient designated in the TA Agreement for the purposes of this Section or any person thereunto authorized in writing by him. Any modification of the provisions of the TA Agreement may be agreed to on behalf of the Recipient, by written instrument executed on behalf of the Recipient by the representative so designated or any person authorized in writing by such representative; provided that, in the opinion of such representative or other person, such modification is reasonable in the circumstances and will not substantially increase the obligations of the Recipient under the TA Agreement. ADB may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative or other person any modification of the provisions of the TA Agreement effected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the Recipient thereunder.
Section 7.03. **Evidence of Authority.** The Recipient shall furnish to ADB sufficient evidence of the authority of the person or persons who will, on behalf of the Recipient, take any action or execute any documents required or permitted to be taken or executed by the Recipient under the TA Agreement and the authenticated specimen signature of each such person.

Section 7.04. **Execution in Counterparts.** The TA Agreement may be executed in several counterparts, each of which shall be an original.

As required under its terms of reference, the Procedures Committee for 2005/2006 met on 4 May 2006. Governors for People’s Republic of China, Denmark, France, India, Japan, Luxembourg, Myanmar, Pakistan, Palau, Tonga, United States and Uzbekistan were present at the Meeting.

The Committee submits the following report:

1. **Schedule of Meeting**

   The Committee recommends that the Schedule of Meeting as shown in DOC. No. BG39-1 be approved with such changes as the Chair may announce during the course of the Meeting.

2. **Provisions Relating to Conduct of Meeting**

   The Committee recommends that the Provisions Relating to Conduct of Meeting, as shown in DOC. No. BG39-2, be approved.

3. **Agenda for Meeting**

   The Committee recommends adoption of the agenda as shown in DOC. No. BG39-3. Regarding the items on the Agenda, the Committee report as follows:

   (a) **Annual Report for 2005** – The Committee recommends that the Board of Governors take note of the Annual Report.

   (b) **Financial Statements and Independent Auditors’ Reports** – The Committee noted the Report of the Board of Directors, DOC. No. BG39-4, and recommends that the draft Resolution entitled “Financial Statements and Independent Auditors’ Reports” be adopted by the Board of Governors.

   (c) **Allocation of Net Income** – The Committee noted the Report of the Board of Directors, DOC. No. BG39-5, and recommends that the draft Resolution entitled “Allocation of Net Income” be adopted by the Board of Governors.
(d) **Budget for 2006** – The Committee recommends that the Board of Governors take note of the Report of the Board of Directors on the ADB and ADB Institute (ADBI) Budgets for 2006, DOC. No. BG39-6.

(e) **Resources of ADB** – The Committee recommends that the Board of Governors take note of the Report of the Board of Directors, DOC. No. BG39-7.

(f) **Review of Rules and Regulations** – The Committee recommends that the Board of Governors take note of the Report of the Board of Directors, DOC. No. BG39-8.

(g) **Officers and Procedures Committee for 2006/2007** – The Committee recommends that a Procedures Committee be constituted consisting of the Governors for Afghanistan; Belgium; People’s Republic of China; Germany; Japan; Kyrgyz Republic; Nepal; Philippines; Solomon Islands; Sweden; Taipei, China and United States to be available through the Fortieth Annual Meeting for consultations at the discretion of the Chair regarding the Schedule of Meeting, Provisions Relating to Conduct of Meeting, the Agenda for the Meeting and any procedural matters, by correspondence, if necessary, and by convening immediately before, and, as required, during the Fortieth Annual Meeting. The Committee further recommends that the Governor for **JAPAN** be appointed Chair of the Procedures Committee.

The Committee also recommends that the Governor for **JAPAN** be elected Chair and the Governors for **SAMOA** and **SPAIN** be elected Vice-Chairs of the Board of Governors for 2006/2007.

APPROVED:

_________________________________________  _________________________________

(Chair) (Reporting Member)
Resolutions Adopted at the Meeting

RESOLUTION NO. 317

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS’ REPORTS

THE BOARD OF GOVERNORS

Having reviewed the Independent Auditors’ Report on the Financial Statements of ADB for 2005

RESOLVES:

That the audited Financial Statements as contained in the Annual Report of ADB for 2005, which include separate financial statements for the operations of Special Funds, are approved.

(Adopted 6 May 2006)

RESOLUTION NO. 318

ALLOCATION OF NET INCOME

THE BOARD OF GOVERNORS

Having considered the Report of the Board of Directors on the allocation of the net income of ADB’s ordinary capital resources and the Asian Development Fund for the year ended 31 December 2005

RESOLVES:

That, of the net income of ADB from its ordinary capital resources for the year ended 31 December 2005 after appropriation of guarantee fees of $4,092,291 to the Special Reserve amounting to $105,201,927

(a) $308,743,207, representing the FAS 133 adjustment at 31 December 2005, be added from the Cumulative Revaluation Adjustments account;

(b) $36,900,000 be added from Loan Loss Reserve;

(c) $70,845,134 be allocated to Ordinary Reserve;
(d) $320,000,000 be allocated to Surplus;

(e) $20,000,000 be allocated to Technical Assistance Special Fund; and

(f) $40,000,000 be allocated to the Asian Development Fund.

(Adopted 6 May 2006)
LIST OF OFFICIAL PARTICIPANTS

Accredited Members of Delegations
Governors and their Delegations

AFGHANISTAN

Governor  
Hon. Anwar-Ul-Haq Ahady

Advisers  
Rohullah Sharifi
Allan Thomas Kelly

ARMENIA

Head of Delegation  
David Avetissian

Adviser  
Khachatryan Artyom

AUSTRALIA

Head of Delegation  
Peter Dutton

Temporary Alternate Governors  
Julia Newton-Howes
Roger Brake

Advisers  
Ruth Gibson
David Lowe
Paul Richard Murphy
Nargis Bharucha Carnahan

AUSTRIA

Head of Delegation  
Marcus Heinz

Adviser  
Elisabeth Gruber

AZERBAIJAN

Head of Delegation  
Mikayil Jabbarov

Temporary Alternate Governor  
Fuad Ahmadov

BANGLADESH

Governor  
Hon. Mohammad Saifur Rahman

Alternate Governor  
Md. Ismail Zabihullah

Temporary Alternate Governor  
Liaquat Ali Choudhury
<table>
<thead>
<tr>
<th>Country</th>
<th>Head of Delegation</th>
<th>Temporary Alternate Governor</th>
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<tbody>
<tr>
<td><strong>BELGIUM</strong></td>
<td>Rene Legrand</td>
<td>Johan Dubois</td>
</tr>
<tr>
<td><strong>BHUTAN</strong></td>
<td>Hon. Wangdi Norbu</td>
<td>Daw Tenzin</td>
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<tr>
<td><strong>BRUNEI DARUSSALAM</strong></td>
<td>Hon. Pehin Dato Abdul. Rahman Ibrahim</td>
<td>Tshewang Norbu, Deki Yangzom</td>
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<td><strong>CAMBODIA</strong></td>
<td>Hon. Keat Chhon</td>
<td>Aun Porn Moniroth</td>
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<td><strong>CANADA</strong></td>
<td>Hau Sing Tse</td>
<td>Sean Sunderland, Roger Ehrhardt</td>
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<td>List of Official Participants</td>
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</table>
| **Advisers** | Jean Couturier  
Stephen Lloyd Millar  
Rashmi Sharma |
| **Governor** | CHINA, PEOPLE'S REPUBLIC OF |
| **Alternate Governor** | Hon. Renqing Jin |
| **Temporary Alternate Governors** | Li Yong |
| **Advisers** | Guangyao Zhu  
Kuilin Ju  
Xiaosong Zheng |
| **Governor** | COOK ISLANDS |
| **Alternate Governor** | Hon. Terepai Maoate |
| **Governor** | Kevin Carr |
| **Temporary Alternate Governors** | Amb. Ole Moesby |
| **Advisers** | Ying Zhang  
Zhengxin Zhang  
Minwen Zhang  
Xiaolong Mo  
Licheng Yao  
Huan Chen  
Zhongjing Wang  
Zhijun Cheng  
Yanning Wang  
Yuebin Zhang  
Zhenyi Tang  
Hui Hua  
Zheng He  
Yuexing Qin  
Hui Wang  
Wencai Zhang  
Qingdian Zheng  
Shibo Xie |
| **Governor** | DENMARK |
| **Temporary Alternate Governors** | Lene Volkersen  
Rasoul Mikkelsen |
<table>
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<th>Head of Delegation</th>
<th>Temporary Alternate Governor</th>
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<td>Hon. Karin Kortmann</td>
<td>Wolfgang Moerke, Stephan Lockl</td>
<td>Julia Lehmann, Corinna Friesen, Andreas Pfeil</td>
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<td>Peter S.T. Pang</td>
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### INDIA

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### INDONESIA

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<td>Inarno Djajadi</td>
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### ITALY

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### JAPAN

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Advisers

Ushio Tashibu
Hiroyuki Terazaki
Shoji Tsueoka
Takeshi Murazawa
Atsushi Mizuno
Toshinori Doi
Tomoki Tanemura
Shigeki Kimura
Tomoya Yamashita
Koichi Hasegawa
Yoichi Nemoto
Nobuyuki Tanigaki
Tsuguhiko Hoshino
Keiichi Hotta
Takahiro Kuchiki
Kazuo Kobayashi
Taro Morimune
Osamu Yoshida
Naoko Ishii
Takashi Ezaki
Yusuke Sekiguchi
Shoichiro Yuyama
Tetsuro Shigeto
Atsushi Ogura
Reiko Ogino
Shigetane Masuda
Naoki Nakao
Masaki Sugi
Yoshiaki Kodaki
Sakura Ozaki
Keiko Ikemoto
Ryota Kojima
Hidehiko Sogano
Tadashi Hatanaka
Kenji Fujita

KAZAKHSTAN

Head of Delegation

Alikhan Smailov
List of Official Participants

**KIRIBATI**

Governor: Hon. Nabuti Mwemwenikarawa
Alternate Governor: Taneti Maamau
Adviser: Tiimi Kaiekieki

**KOREA, REPUBLIC OF**

Governor: Hon. Duck Soo Han
Temporary Alternate Governors: Chol-Hwi Lee, Sung Jin Kim, Tae Kyun Kwon, Hookyu Rhu, Sung Il Lee
Advisers: Young Hoon Kim, Han Geun Moon, Hosung Lim, Jin Sup Lee, Hong Sung Moon, Do Hwan Chang, Rae Young Kim, Hwee Chan Chung, Gwi Beom Kim, Kyung Wook Hur, Hun Tae Lee, Tae Yong Yoon, Jong Won Yoon, Jiyoungh Choi, Chang Huh, Na Jung Kim, Seoung-Kwon Choi, Byeong-Cheol Lee, Young Woo Rho, Eunku Bae, Min Ho Son

**KYRGYZ REPUBLIC**

Head of Delegation: Sabyrbek Moldokulov
Temporary Alternate Governor: Marat Malataev
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<td>MARSHALL ISLANDS</td>
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List of Official Participants

MICRONESIA, FEDERATED STATES OF

Governor: Hon. Nick Andon
Adviser: Vincent Pangelinan

MONGOLIA

Head of Delegation: Ganzorig Chimeddorj
Temporary Alternate Governor: Odongua Tserendagva
Adviser: Dorjkhand Togmid

MYANMAR

Governor: Hon. Hla Tun
Alternate Governor: Myo New
Temporary Alternate Governors: Kyaw Kyaw Maung
Ambassador: Kyi Thein
Advisers: Min Htwe
Daw Ommar Sein
Kyaw Lin Htoo

NAURU

Governor: Hon. David Adeang
Temporary Alternate Governor: Fabian Ribauw
Adviser: Dabuae Lina

NEPAL

Temporary Alternate Governor: Rameshore Khanal
Alternate Governor: Pramod Kumar Karki

THE NETHERLANDS

Head of Delegation: Gerard Steeghs
Temporary Alternate Governor: Mark Bezemer
Advisers: Nathalie Kröner
Giovanni van Der Lugt
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<td>Marianne Berg Haaland</td>
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<td>Khalid Saeed</td>
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<td>Hon. Bart Filemon</td>
<td>Simon Tosali</td>
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<td>PHILIPPINES</td>
<td>Hon. Margarito Teves</td>
<td>Amando Tetangco  Jr.</td>
<td>Hon. Peter Favila</td>
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<td>Nieves Osorio, Renato Pizarro, Michelle Fatima Sanchez, Roberto Tan, Edna Villa, Rey Anthony David, Ma. Teresa Habitan</td>
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List of Official Participants

PORTUGAL

Head of Delegation
José Moreno
Temporary Alternate Governor
João Inácio Almeida
Adviser
Lígia Maria Figueiredo

SINGAPORE

Head of Delegation
Ravi Menon
Temporary Alternate Governor
Laurence Tsung Chern Lien
Advisers
Maya Devi Gupta
Sing Chiong Leong
Ajit Singh
Goh Chye Boon
Catherine Ow

SOLOMON ISLANDS

Head of Delegation
Shadrach Timothy Fanega
Temporary Alternate Governor
Rick Nelson Hou

SPAIN

Head of Delegation
Isabel Riano
Temporary Alternate Governor
María Revuelta
Advisers
Elisa Blanco
Ines Menendez de Luarca
Agustín Navarro

SRI LANKA

Head of Delegation
Hon. Sarath Leelananda Bandara Amunugama
Alternate Governor
Punchi Bandara Jayasundera
Advisers
Sujatha Cooray
Chrysantha Romesh Jayasinghe
Jehan Amaratunga
Sumith Abeysinghe
Asanka Dodamwela
List of Official Participants

SWEDEN
Head of Delegation
Johanna Brismar Skoog
Temporary Alternate Governor
Peder Spångberg

SWITZERLAND
Head of Delegation
Adrian Schläpfer
Temporary Alternate Governors
Christina Grieder
Roy Peter Suter

TAIPEI, CHINA
Governor
Fai-Nan Perng
Alternate Governor
Shuh Chen
Temporary Alternate Governor
Andrew J.C. Kao
Advisers
Ke-Wei Chiu
Se-Mei Lee
Chi-Fu Lin
Yen-Dar Den
Shu-Kai Lee
Steven Chung
Hsueh-Shiang Chen
Hsiu-Chih Wang
Chyi-Hway Gong

TAJIKISTAN
Governor
Matlubkhon Davlatov
Advisers
Hon. Abdurakhim Ashurov
Oksana Nazmieva

THAILAND
Governor
Hon. Thanong Bidaya
Temporary Alternate Governors
Naris Chaiyasoot
Pannee Sathavarodom
Advisers
Acksiri Buranasiri
Chularat Suteethorn
Siribha Satayanon
Thitithep Sitthiyot
Sukuman Ladpli
Ruecha Varatorn
Kunteera Ujjin
Nophadol Bhandhugravi
List of Official Participants

Chaowalit Bunyaphusit
Nattapon Dejvitak
Chongchet Boonkerd
Arkhom Termpittayapaisith
Bandit Nijathaworn
Atchana Waiquamdee
Pariwat Kanithasen
Yongyuth Tariyo
Sasiphand Bhanarai
Nongnuch Tantisantiwong
Khanchit Kunakorn
Virabongsa Ramangkura
Amb. Chirasak Thanesnant
Suwanit Sombatpiboon

TIMOR-LESTE
Head of Delegation
Aicha Bassarewan
Temporary Alternate Governor
Maria Jose De Jesus Sarmento
Adviser
Jose Alexandre de Carvalho

TONGA
Governor
Hon. Siosiua ‘Utoikamanu
Temporary Alternate Governor
Siosi Mafi
Adviser
Henry Cocker

TURKEY
Head of Delegation
Ibrahim H. Canakci
Temporary Alternate Governor
Memduh Aslan Akcay
Advisers
Aylin Gezguc
M. Alper Batur
Mehmet Taylan Yildiz
Mehmet Eren Ogretmen
Haci Ahmet Kilicoglu
Mustafa Ertan Tanriyakul

TURKMENISTAN
Governor
Geldymurad Abilov
Adviser
Pelvan Taganow
List of Official Participants

TUVALU
Governor
Hon. Bikenibeu Paeniu
Alternate Governor
Aunese Makoi Simati

UNITED KINGDOM
Head of Delegation
Charlotte Consuelo Seymour-Smith
Temporary Alternate Governor
Gavin McGillivray
Adviser
Gopi Menon

UNITED STATES
Head of Delegation
Timothy Adams
Temporary Alternate Governors
Paul William Curry
Kenneth Peel
Advisers
Richard Naylor
Luyen Tran
Geetha Rao
Brookly Jean Mclaughlin
Atticus Weller
Akorlie Nyatepe-Coo
Andy Baukol

UZBEKISTAN
Head of Delegation
Hon. Rustam Azimov
Governor
Saidakhmat Rakhimov
Temporary Alternate Governors
Batir Mirbabayev
Tulyaganov Shavkat
Adviser
Rustam Eshonhujaev

VANUATU
Governor
Hon. Willie Jimmy Tapangarararua
Alternate Governor
Simeon Malachi Athy
Advisers
Michael Hililan
Eric Marakiwola Pakoa
### List of Official Participants

**VIET NAM**

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<td>Nguyen Hoa Binh</td>
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</table>
OBSERVERS

CZECH REPUBLIC

Vladimir Jenista

GEORGIA

Dimitri Gvindadze

IRAN

Alireza Bigdeli
Akbar Ghahremani
Tahmaseb Mazaheri Khorzani
Hassan Taherian

IRELAND

Joseph Ainsworth
Robert Bradshaw

RUSSIAN FEDERATION

Vladislav Antonyuk
Andrey Bychkov
Alexandr Maslov
Anatoly Sementsov
Efim Stroev
Maxim Yazhlev

ASIAN PRODUCTIVITY ORGANIZATION

Kenneth Mok

ASSOCIATION OF SOUTHEAST ASIAN NATIONS

Hazelyn Yuen Ling
Worapot Manupipatpong
Keng Yong Ong

BANK FOR INTERNATIONAL SETTLEMENTS

Robert Mccauley

CAB INTERNATIONAL

Dennis Rangi

COUNCIL OF EUROPE DEVELOPMENT BANK

Raphaël Alomar
Nunzio Guglielmino
Jacques Mirante Pere
Luca Schio

EUROASIAN ECONOMIC COMMUNITY

Valery Prokhorenkov

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Fabrizio Saccomanni
List of Official Participants

EUROPEAN INVESTMENT BANK
Francisco de Paula Coelho
Isabel Martin Castella
Matthias Zöllner

EUROPEAN UNION
Amb. Francisco Da Câmara Gomes

INTERNATIONAL FINANCE CORPORATION
Vipul Bhagat
Gorton Maurice de Mond, Jr.
Iyad Malas

INTERNATIONAL MONETARY FUND
Akira Ariyoshi
Gita Bhatt
Wanda Tseng

INTERNATIONAL LABOUR ORGANISATION
Duncan Campbell

ISLAMIC DEVELOPMENT BANK
Amadou Boubacar Cisse
Farrukh Mahmood Mian
Rauf N. Mammadov

ISLAMIC FINANCIAL SERVICES BOARD
Abdullah Haron

MULTILATERAL INVESTMENT GUARANTEE AGENCY
Ileana Boza
Peter Cleary
Zheng Rong Lu

NORDIC DEVELOPMENT FUND
Leena Saavalainen
Jens Lund Sorensen

OPEC FUND FOR INTERNATIONAL DEVELOPMENT
Shaimaa Al-Sheiby
M. Nuri Refaat

PACIFIC ISLANDS FORUM SECRETARIAT
Peter Forau
Sanjesh Naidu

UNITED NATIONS DEVELOPMENT FUND FOR WOMEN
Chandni Joshi
Richa Macsuedon

UNITED NATIONS ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC
Shigeru Mochida
Julian Howard Payne
Ravindra Ratnayake
## List of Official Participants

### WORLD BANK
- Annette Dixon
- Engilbert Gudmundsson
- Jeffrey Gutman
- Praful C. Patel
- John Roome
- Lada Strelkova

### BOARD OF DIRECTORS

<table>
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<tr>
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<th>Alternate Director</th>
<th>Advisor</th>
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<td>Ugur Salih Ucar</td>
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<td>*Batir Mirbabayev</td>
<td>*Chang Huh</td>
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<td>*Atsushi Mizuno</td>
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<td>Lal Shanker Ghimire</td>
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<td>Sudthitanakorn</td>
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<tr>
<td>*Xiaosong Zheng</td>
<td>*Xiaolong Mo</td>
<td>*Minwen Zhang</td>
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</tbody>
</table>

* Also listed as delegate.
# ADB PRINCIPAL OFFICERS AND SENIOR STAFF

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>President</td>
<td>Haruhiko Kuroda</td>
</tr>
<tr>
<td>Vice Presidents</td>
<td></td>
</tr>
<tr>
<td>Liqun Jin</td>
<td></td>
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<tr>
<td>G.H.P.B. van der Linden</td>
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<tr>
<td>Khempheng Pholsena</td>
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<tr>
<td>C. Lawrence Greenwood, Jr.</td>
<td></td>
</tr>
<tr>
<td>Managing Director General</td>
<td>Young-Hoi Lee</td>
</tr>
<tr>
<td>The Secretary</td>
<td>Jeremy H. Hovland</td>
</tr>
<tr>
<td>Senior Advisor</td>
<td>Amarjit S. Wasan</td>
</tr>
<tr>
<td>Assistant Secretary</td>
<td>Roger A. Burston</td>
</tr>
<tr>
<td>General Counsel</td>
<td>Arthur M. Mitchell</td>
</tr>
<tr>
<td>Director General, Strategy and Policy Department</td>
<td>Kazu Sakai</td>
</tr>
<tr>
<td>Senior Advisor</td>
<td>Georges Heinen</td>
</tr>
<tr>
<td>Advisor</td>
<td>Sudipto Mundle</td>
</tr>
<tr>
<td>Director General/Chief Compliance Officer</td>
<td>Bindu N. Lohani</td>
</tr>
<tr>
<td>Regional and Sustainable Development Department</td>
<td>Klaus Gerhaeusser</td>
</tr>
<tr>
<td>Deputy Director General</td>
<td>Woo Chong Um</td>
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<td>Director, RSID</td>
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<tr>
<td>Chief Economist, Economics and Research Department</td>
<td>Ifzal Ali</td>
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<tr>
<td>Assistant Chief Economist, ERMF</td>
<td>Francis Harrigan</td>
</tr>
<tr>
<td>Director General, South Asia Department</td>
<td>Kunio Senga</td>
</tr>
<tr>
<td>Deputy Director General</td>
<td>John Samy</td>
</tr>
<tr>
<td>Country Director, INRM</td>
<td>Tadashi Kondo</td>
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<tr>
<td>Country Director, NRM</td>
<td>Sultan Hafeez Rahman</td>
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<tr>
<td>Director General, Central and West Asia Department</td>
<td>Juan Miranda</td>
</tr>
<tr>
<td>Deputy Director General</td>
<td>Xianbin Yao</td>
</tr>
<tr>
<td>Director General, Southeast Asia Department</td>
<td>Rajat M. Nag</td>
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<tr>
<td>Deputy Director General</td>
<td>Arjun Thapan</td>
</tr>
<tr>
<td>Advisor</td>
<td>Stephen Curry</td>
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</tbody>
</table>
OFFICERS OF THE BOARD OF GOVERNORS
AND PROCEDURES COMMITTEE

2005/2006
BOARD OF GOVERNORS

Chair: India
Vice-Chairs: Luxembourg, Palau

PROCEDURES COMMITTEE

People’s Republic Of China, Myanmar
Denmark
France
India (Chair)
Japan
Luxembourg

2006/2007
BOARD OF GOVERNORS

Chair: Japan
Vice-Chairs: Samoa, Spain

PROCEDURES COMMITTEE

Afghanistan, Nepal
Belgium, Philippines
People’s Republic of China, Solomon Islands
Germany, Sweden
Japan (Chair), Taipei, China
Kyrgyz Republic, United States