ASIAN DEVELOPMENT BANK

READY REFERENCE

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PREFACE

The *ADB Ready Reference* provides alphabetically arranged, easily accessed information on the Asian Development Bank. Together with its companion, *Basic Information* – which gives an overview of the Bank's policies, strategies, and operations – this handbook addresses topics and subjects most frequently associated with the Bank, and attempts to answer the most commonly asked questions.

Should you require further information, however, please contact the Information Office at (632) 632-5870/5871. For Bank publications, call (632) 632-5895, or send e-mail inquiries to: **adbpub@mail.asiandevbank.org**

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A

AGRICULTURE AND NATURAL RESOURCE RESEARCH POLICY

The Bank's policy paper on agriculture and natural resource research identifies new challenges in this field. It notes that, despite impressive past accomplishments in agricultural research, which allowed rice production in developing member countries (DMCs) to double and wheat production to quadruple in three decades, poverty and population pressures persist, while land and water resources are becoming increasingly scarce and degraded. Against this background, the policy has identified the following areas as the focal points of Bank support: (i)developing sustainable and remunerative farming systems for poor farmers; (ii) ensuring sustainable management of agriculture and natural resources; and (iii) raising agricultural productivity. In relation to farming systems for poor farmers, the multidisciplinary aspects of these systems and the social, economic, and environmental appropriateness of technologies to be adopted will be emphasized. Assistance to both international and national agricultural resource centers will be enhanced.

AGRICULTURE AND NATURAL RESOURCE SECTOR

The Bank's strategy in this sector is to enhance the management and development of the natural resource base of DMCs, improve productivity and sustainability of conventional agriculture, and catalyze a self-sustaining rural development process. The strategy emphasizes linking natural resources, agriculture, and rural development assistance with a DMC's overall program of solving economic, social, and environmental problems, and ensuring that the Bank's investments are supportive of the macroeconomic framework of the country. At the project level, clearly identified objectives and priorities, identification of target groups, participation of the intended beneficiaries in project design and implementation, and institutional capacity building lead to successful performance.

AID COORDINATION

The DMCs of the Asian Development Bank (Bank or ADB) receive funds from a large number of bilateral and multilateral agencies apart from the Bank. The Bank attaches considerable importance to aid coordination with these agencies to maximize the use of scarce development resources, and to avoid duplication and fragmentation of donor efforts.

Aid coordination is considered necessary to share resources, expertise, and experiences, and to ensure that development efforts are complementary. The Bank is continuing its efforts to strengthen the borrowers' capacity to effectively coordinate donor activities. The Bank takes a lead role in donor coordination in some sectors and some subregions, i.e. the Pacific, and coordinates closely with the World Bank and the International Monetary Fund (IMF) in monitoring macroeconomic developments in the Bank's DMCs. The Bank has been actively participating in the international dialogue on the role of multilateral development banks and the Bretton Woods institutions, and continues to play a role in the

global debate on aid and the best ways to channel it to developing countries.

- **Relationship with International Organizations**

The Bank is not a member of the United Nations family, although the Economic and Social Commission for Asia and the Pacific (ESCAP) and the UN Secretary-General played leading roles in establishing the Bank. The United Nations Development Programme (UNDP) funded the cost of preparatory arrangements which led to the establishment of the Bank.

The "Articles of Agreement Establishing the Asian Development Bank" (Charter) provides for cooperation between the Bank and the UN family in developing the Asian and Pacific region. As such, the Bank maintains a close working relationship with the UN and its various organs and specialized agencies – more particularly ESCAP, the Food and Agriculture Organization, IMF, UNDP, the World Bank Group, the World Health Organization, and other international organizations.

Institutional and operational arrangements also exist between the Bank and the International Fund for Agricultural Development and the Islamic Development Bank. In addition, the Bank cooperates with the European Union and the Organization of Petroleum Exporting Countries (OPEC) Fund for International Development. There is also close cooperation between the Bank and bilateral aid agencies.

Visits, consultations, and exchanges of information regarding operational practices, status of individual projects, and country economic development are frequent between the World Bank and the ADB.

ASIAN DEVELOPMENT BANK

The Bank, a public international development finance institution, is engaged in promoting the economic and social progress of its DMCs in the Asian and Pacific region.

The Bank started operations in December 1966 with its headquarters operations in Manila, Philippines. In 30 years of operations, ADB has become a major catalyst in promoting the development of the most populous and fastest-growing region in the world today.

The Bank – in addition to providing loans, equity investments, and technical assistance – has identified five strategic objectives in its *Medium-Term Strategic Framework*. As such, the Bank aims to promote economic growth, reduce poverty, improve the status of women, develop human resources (including population planning), and help bring about sound management of natural resources and the environment.

- **Board of Governors**

The Board of Governors is the Bank's highest policy-making body. All the powers of the Bank are vested in the Board of Governors which may delegate its powers to the Board of Directors, except on certain matters such as admission of new members, change in the authorized capital stock of the Bank, election of Directors and the President, and amendments of the Charter.

- **Board of Directors**

Responsibility for the direction of the Bank's general operations rests with the Board of Directors. The Directors, representing member countries, are resident in Manila. The Board of Directors exercises all powers delegated to it by the Board of Governors and makes decisions concerning loans, guarantees, and other investments by the Bank; borrowing programs; technical assistance; and other operations. It also approves the administrative budget and submits accounts relating to each financial year for approval by the Board of Governors. The Board of Directors normally meets twice a week.

Policies are laid down by the Board of Directors within the general framework of the Bank's Charter. These policies are generally in the nature of guidelines to enable the Bank to respond with flexibility to the needs of its DMCs.

- **President**

The President is Chairperson of the Board of Directors, and under the Board's direction, the President conducts the business of the Bank. The President is elected by the Board of Governors for a term of five years, and may be reelected. The President is responsible for the organization, appointment, and dismissal of officers and staff in accordance with regulations adopted by the Board of Directors. In this, the President is assisted by three Vice-Presidents, who are appointed by the Board of Directors on the recommendation of the President.

- **Establishment**

The First Ministerial Conference on Asian Economic Cooperation held in Manila in December 1963 under the auspices of ESCAP – then known as the Economic Commission for Asia and the Far East – passed a resolution endorsing a proposal to establish a regional development bank for Asia. ESCAP then set up a Working Group of experts to report on the resolution and the report submitted by the Group was circulated to ESCAP's member governments.

In March 1965, ESCAP set up a Consultative Committee which visited various member countries of ESCAP and other interested nations to seek their views on establishing the Bank. The Committee also prepared a draft of the "Articles of Agreement Establishing the Asian Development Bank" (the Charter) which, after review by a meeting of officials representing potential participants in the Bank, was adopted at ESCAP's Second Ministerial Conference on Asian Economic Cooperation, held in Manila in November and December 1965. The Charter was signed in Manila at a Conference of Plenipotentiaries of 31 countries that followed immediately after the Ministerial Conference, and was left open for more signatures in Bangkok until 31 January 1966.

The Charter entered into force on 22 August 1966 with the ratification or acceptance by 15 signatories, whose initial subscriptions comprised 65% of the authorized capital stock of the Bank. The Secretary-General of the United Nations acted as the Depository for the Charter and Trustee for the receipt of payments of the first installment of subscriptions toward the share capital.

At the Manila conferences in 1965, a Committee on Preparatory Arrangements for the Establishment of the Asian Development Bank was formed and given the task of undertaking the necessary initial steps for action by the Board of Governors at its Inaugural Meeting. The Committee functioned until the Inaugural Meeting of the Board of Governors in Tokyo in November 1966.

- **Functions**

The Bank makes loans and equity investments for the economic and social advancement of its DMCs; provides technical assistance to prepare and carry out development projects and programs, and regional and advisory services; promotes investment of public and private capital for development; and responds to requests for assistance in coordinating development policies and plans of its member countries.

It provides special attention to the needs of the smaller or less-developed countries, and gives priority to regional, subregional and national projects and programs, which contribute to the harmonious economic growth of the region.

The Bank, as a regional development bank, helps mobilize additional resources within the region and attracts investments from outside. It is able to finance projects either not financed or inadequately financed by existing national and international financial institutions. It also assists regional and subregional schemes of economic development and promotes regional economic cooperation.

- **Multinational Character**

The Bank has 56 members – 40 from the region and 16 from outside the region. The membership includes 37 developing countries and three developed countries from the region, and 16 industrially advanced and major capital-exporting countries from Western Europe and North America. Of the 12 Directors on the Board, eight represent regional members and four nonregional members. The staff is also international in character and must be nationals of the member countries.

- **Organization**

The Bank has 23 departments and offices at its Headquarters, including a Private Sector Group and an Office of Cofinancing Operations. In addition, the Bank has seven Resident Missions — one each in Dhaka (Bangladesh), Phnom Penh (Cambodia), New Delhi (India), Jakarta (Indonesia), Kathmandu (Nepal), Islamabad (Pakistan), and Hanoi (Viet Nam); a South Pacific Regional Mission in Port Vila (Vanuatu); and three Representative Offices — one each in Tokyo (Japan), Frankfurt (Germany) for Europe, and Washington, DC (United States) for North America.

(For the ADB Organization Structure, see page 76.)

ASIAN DEVELOPMENT BANK INSTITUTE

In 1996, the Bank approved the establishment of the Asian Development Bank Institute (ADBI) in Tokyo. The ADBI will have the following as its major objectives: (i) identify effective development strategies; and (ii) improve

the capacity for sound management of the agencies and organizations in DMCs engaged in development work. Achieving these objectives will contribute toward the promotion of sound and forward-looking development strategies and policies in DMCs, the strengthening of institutional capacities to design and carry out development programs and projects, and the widening of participation in the development process. The ADBI will be a major focal point for research on innovative development strategies to accommodate the diversity and complexity of social conditions in Asia, and for training in development management for policymakers and senior managers from DMCs.

The target clientele of ADBI's research activities include institutions, groups, and individuals engaged in development work in DMCs. For the training programs, the target clientele include middle to top-level policymakers and officials of public and private development institutions in DMCs. Nonprofit private sector institutions may also participate in the Institute's activities. The ADBI will also develop collaborative links with other institutes that share its interests. These partnerships will enable the Institute to bring collective experience and expertise to bear upon a particular issue or subject, or to expand the delivery and dissemination of particular lessons or skills. Such collaboration will enable the ADBI to strengthen capacities and skills of the regional and national institutes in member countries.

ADB-JAPAN SCHOLARSHIP PROGRAM

The ADB-Japan Scholarship Program was established in 1988 to provide opportunities for talented individuals from the Bank's DMCs to pursue postgraduate studies in selected institutions in the Asian and Pacific region. The Program is funded by the Government of Japan and administered by the Bank. The Program enrolls about 70 students annually in 14 institutions throughout the region. The scholarships, for periods of one to three years, cover studies in economics, management, science and technology, and other development-related fields.

ASIAN DEVELOPMENT FUND

The Asian Development Fund (ADF) is designed to provide loans on concessional terms to DMCs with low per capita gross national product (GNP) and limited debt-repayment capacity. The same strict standards for loan approval and administration, which apply to ordinary capital resources (OCR) loans, are applied to ADF loans. ADF loans are interest-free, have a nominal service charge of 1% per annum, and are repayable over a period of 35 or 40 years, including a grace period of ten years. The resources for these loans mainly consist of contributions mobilized under periodic replenishments from member countries.

The ADF is replenished by member countries to finance the Bank's concessional lending operations. The replenishment is authorized by the Board of Governors in a resolution.

The Bank's concessional loans are provided through the resources of the ADF. Access to the ADF is determined on a country basis, in the sense that only the poorest (low per capita GNP) and least-creditworthy DMCs are eligible to receive ADF resources. On the basis of the eligibility criteria, DMCs are classified into three groups:

Group A: Afghanistan, Bangladesh, Bhutan, Cambodia, People's Republic of China, Cook Islands, India, Kiribati, Kyrgyz Republic, Lao People's Democratic Republic, Maldives, Marshall Islands, Federated States of Micronesia, Mongolia, Myanmar, Nepal, Pakistan, Solomon Islands, Sri Lanka, Tonga, Tuvalu, Vanuatu, Viet Nam, and Western Samoa;

Group B: Indonesia, Kazakstan, Nauru, Papua New Guinea, Philippines, Thailand, and Uzbekistan; and

Group C: Fiji, Hong Kong, Republic of Korea, Malaysia, Singapore, and Taipei,China.

Group A countries are fully eligible for ADF financing. All of the active borrowers in this group, except People's Republic of China and India, have access to ADF. Four other DMCs in Group B (Indonesia, Kazakstan, Papua New Guinea, and Philippines) are eligible for a limited amount of ADF resources in particular circumstances, which they receive in a blend with OCR. Thailand in Group B and all Group C DMCs are not eligible for ADF financing.

ASIAN FINANCE AND INVESTMENT CORPORATION

The Asian Finance and Investment Corporation Ltd. (AFIC) is a joint venture between the Bank and a group of 25 prominent, mostly private-owned, financial institutions – commercial, development, and investment banks, as well as insurance, securities and leasing companies – based in nine countries in America, Asia, and Europe. AFIC has been incorporated as a limited liability company, and approved as a merchant bank in Singapore, with its regional headquarters located in Manila. The Bank is AFIC's largest shareholder, with about 30% of its paid-up capital of about $115.5 million.

Established in August 1989 largely on the Bank's initiative, AFIC's primary purpose is to contribute to the development of private enterprises in the Bank's DMCs. It seeks to provide additionality to external financial flows to DMC private enterprises, and complement local funding sources for private investment. AFIC functions as an autonomous commercial institution, but endeavors to maintain in its operations an appropriate balance between considerations of profitability and developmental concerns. It has a policy mandate to pay particular attention to low- and middle-income DMCs. The Bank perceives AFIC as a significant regional vehicle to supplement its own private sector operations.

AFIC provides loans and equity funds, and functions as a guarantor and an underwriter of corporate issues. AFIC is actively exploring avenues for expanding and diversifying its operations in the near future, with additional funding support from its shareholders, including the Bank and others.

B

BANGLADESH RESIDENT MISSION

(See Departments and Offices, page 18.)

BANK OPERATIONS

The Bank's operations comprise lending, equity investments, and technical assistance. Through loans, the Bank finances specific projects to support efforts of developing member countries (DMCs) to improve the policy, institutional, and investment environment of sector development and to help meet the short-term costs that policy adjustments entail. Through the Bank's equity investment operations, which complement domestic resources and encourage other external resources to finance the private sector, a wider range of productive private enterprises is possible. Through technical assistance, DMCs are able to identify, design, implement, and operate development projects as well as strengthen their ability to formulate development strategies, policies, programs, and plans. Technical assistance also promotes technology transfer and enhances regional cooperation.

BID EVALUATION

The borrower is responsible for evaluating bids in accordance with procedures and conditions prescribed in the Bank's *Guidelines for Procurement*. The borrower may seek the assistance of consultants, if necessary.

Where procurement is subject to international competitive bidding, the borrower must submit its evaluation and recommendation for award of contract for concurrence of the Bank. The Bank checks that the entire process of evaluation has been properly carried out and, if satisfied, approves the borrower's recommendation. In cases where procurement is not subject to international competitive bidding, the borrower must furnish the Bank, after the contract is awarded, with a summary and evaluation of bids received, justification for the award, and a copy of the final contract.

Apart from considering price in evaluating bids, other factors such as the efficiency and reliability of the equipment offered by various bidders, the operating costs, the time of delivery, the period of completion of construction, and the availability of service and spare parts are also taken into account and expressed in monetary terms, wherever possible, to determine the lowest-evaluated bid. On the basis of such a comprehensive evaluation, however, the lowest-priced bid may sometimes not be the lowest-evaluated, substantially responsive one.

BORROWINGS

The Bank has been an active borrower in world capital markets since 1969. Its borrowing program is broadly determined by a number of factors including the Bank's lending operations, cash flow requirements, liquidity policy, and its perception of current and future market conditions.

In the early years of operations, the Bank's capital was the major source of funds for ordinary lending, but since the early 1980s, borrowings accounted for a greater share than capital and reserves. Borrowings continue to make an increasingly larger contribution to financing the Bank's ordinary operations as the Bank increases its lending operations.

- **Borrowing Objectives**
  The major objectives of the Bank's borrowing program include the following:

  - **Low-cost funding**
    to produce low-cost funds for cash-flow requirements, either directly or through currency liability and interest-rate swap transactions, as well as financial derivative instruments;

  - **Capital markets presence**
    to preserve the Bank's strong reputation and maintain continuous access to the world's capital markets;

  - **Long-term funding**
    to emphasize borrowings in the longer maturity range, to the extent that the related borrowing costs remain attractive, with a view to minimizing fluctuations in the Bank's lending rates, and ensuring a reasonable maturity relationship between borrowings and loans;

  - **Establishing benchmark issues**
    to increase, where possible, the size of the Bank's public bond issues to provide the major capital markets with "benchmark issues" which will facilitate liquidity and trading in the secondary markets, and align the Bank's funding and trading spreads with those of other supranational issuers;

  - **Development of regional capital markets**
    to tap new markets, especially where contributions to the development of capital markets in the Asian and Pacific region can be achieved;

  - **Expansion of investor base**
    to diversify the Bank's investor base by borrowing in the private placement markets of various currencies, either directly or through liability-swap transactions; and

  - **Bridge-financing**
    to make use of short-term bridge-financing in such a way that any longer-term negative impact on the lending rate is minimized, should there be requirements for disbursement currencies or debt-service currencies when market conditions are not attractive for bond issues with longer maturities.

Within the context of the above-stated objectives of the borrowing program, the Bank pursues a funding strategy which takes advantage

of the major capital markets in which its borrowing advantage has been demonstrated, and of swap-market arbitrage opportunities which indirectly provide cost-efficient terms for target currencies. With few exceptions, the Bank transacts borrowings on a negotiated basis with its managers to ensure appropriate terms and conditions for both the investors and the issuer. The Bank, to the extent possible, pursues a diversified multimarket and multicurrency borrowing program. As in recent borrowing programs, the Bank intends to maintain its presence in the major capital markets, particularly in yen and US dollars, by undertaking benchmark public bond issues to ensure that the Bank's debt securities are available in the primary and secondary markets to major institutional investors.

BUSINESS INFORMATION

The Information Office of the Bank prepares news releases on all loans and technical assistance approvals for distribution to media in its member countries. News releases on loans and technical assistance grants provide technical data, especially on the procurement required for the projects. The Executive Directors of the Bank, who are kept fully informed about projects being considered for Bank financing, also serve as a channel of communication with the countries they represent.

The Bank requires that on all contracts for the supply of goods and services, all appropriate member countries should be canvassed for bids to an extent satisfactory to the Bank. Invitations to bid or to apply for prequalification of bidders are advertised in the borrower's country, usually through publication in a newspaper of general circulation. Invitations are also transmitted to local official representatives of member countries and to especially designated addressees in member countries who are responsible for disseminating information on tendering opportunities.

To promote international competitive bidding to supply goods and services, and to widen the flow of information on business opportunities vis-à-vis the Bank's lending and technical assistance activities, the Bank publishes procurement notices in *Development Business,* issued twice a month by the Division for Economic and Social Information of the United Nations, and makes available to subscribers a publication entitled *ADB Business Opportunities* (ADBBO). This publication contains the latest information on projects being considered by the Bank for financial and technical assistance. In addition to brief descriptions of these projects, the publication lists details of executing agencies, estimates of loan amounts, consulting services which may be needed, and the status of proposed projects. It also contains specific notice or invitation for bids for contracts which are being tendered, and information on contracts which have been awarded with a value of more than $1million for the procurement of goods and civil works, and more than $100,000 for consultant services.

ADBBO is available worldwide at an annual subscription fee of $100, payable in US dollars to Subscriptions, Information Office, Asian Development Bank, P.O. Box 789, 0980 Manila, Philippines. Copies are airmailed to subscribers. ADBBO is available on Internet at http://www.asiandevbank.org

Development Business may be obtained from the United Nations, P.O. Box 5850, Grand Central Station, New York, N.Y. 10163-5850, USA.

Development Business carries three kinds of notices regarding development projects approved or under consideration by the Bank: a general notice which appears at least three months before the first tender or prequalification documents are circulated for a project; specific notices providing details of specific contracts ready for international bidding; and advance information listing proposed projects which are in the early stages of loan processing.

The Bank conducts seminars on business opportunities in member countries to inform prospective suppliers of goods and services and civil works contractors of procurement opportunities available under Bank projects.

(See also Procurement, page 54.)

C

CAMBODIA RESIDENT MISSION

(See Departments and Offices, page 18.)

CAPACITY BUILDING

In 1996, the Bank expanded its efforts to promote good governance and capacity building for effective management of the development process. The Bank's assistance largely focused on strengthening three areas: (i) policy analysis and sector planning; (ii) effective management and delivery of public sector development services; and (iii) government capacity to create an environment conducive to the growth of the private sector.

(See Governance Policy, page 35.)

CAPITAL STRUCTURE

The capital structure of the Bank is fundamental to its strength. The subscribed capital is composed of paid-in and callable capital. The Bank's equity is made up of paid-in capital plus net accumulated earnings (reserves). The largest subscriptions to the capital stock are those of Japan and the United States which, together with other developed countries, provide about 60% of the total subscribed capital stock.

The callable portion of the subscriptions to the Bank's capital is available solely for the protection of the Bank's creditors such as bondholders and other lenders, and can be called only if the Bank is unable to meet its obligations on borrowings or guarantees outstanding.

While the Bank does not foresee any event which might require a call on its callable capital, all member countries (including those whose currencies are nonconvertible) would be required to meet any call on a uniform percentage basis. Failure by one or more members to honor their obligation would not relieve any other member from its obligation to meet a call. If the amounts received on such a call were insufficient to meet the Bank's obligations, the Bank is authorized to issue further calls until it has the necessary amount of funds to fully satisfy its obligations, up to the full amount of each subscription to callable capital.

The authorized capital stock of the Bank may be increased by the Board of Governors by a vote of two thirds of the total number of Governors representing not less than three fourths of the total voting power of the members.

No increase in the subscription of any member may be authorized if such increase would reduce the percentage of capital stock held by regional members below 60% of the total subscribed capital stock of the Bank.

COFINANCING

Cofinancing refers to any arrangement under which funds from the Bank are associated with funds provided by other sources outside the

borrowing country in the financing of a particular project or program. The term generally applies when the Bank provides its own resources for project financing, while also arranging for the participation of other financing institutions.

Cofinancing offers the Bank a way of ensuring that its operations serve as a catalyst for increased capital flows to its DMCs. Cofinancing is intended to mobilize additional resources from official and private sources, and to supplement and complement the Bank's resources in its lending operations.

Cofinancing also helps to share risks that might otherwise prevent private lenders from lending on their own.

- **Benefits**

  Cofinancing benefits both lenders and borrowers. For borrowers, cofinancing can facilitate a flow of resources from various sources, as well as catalyze the flow of additional resources from official and private institutions. For projects and programs which are too large to be handled by one funding agency, mobilizing cofinancing from various funding sources can help in meeting these large resource requirements.

  Cofinancing can also help in mobilizing resources which are sometimes provided on equal or better terms than those available from the Bank's own funds. Cofinancing with the Bank thus offers expanded business opportunities, together with greater security and lower cost.

  For lenders, cofinancing with the Bank brings about substantial cost savings, both in terms of project preparation, and in some instances, loan administration, and helps in reducing lending risks. The Bank's thoroughness in project preparation and appraisal ensures that cofinanced projects are viable and in accordance with the development objectives of the borrowing country.

- **Modes of Cofinancing**

  The Bank's cofinancing operations can be categorized into five major modes.

  - **Parallel financing:** The project is divided into specific and identifiable packages of components, and each package is financed separately, either by the Bank or by cofinanciers.

  - **Joint financing:** The funds of the Bank and cofinanciers are pooled to finance in agreed proportions a common list of goods and services required for the project. Under certain circumstances, cofinancing can be made through some special arrangements, depending on the timing of cofinancing availability and preferences of cofinanciers.

  - **Umbrella or standby financing:** The Bank initially finances an entire project but cancels a portion of its loan when cofinancing becomes available.

  - **Channel financing:** This occurs when cofinanciers prefer an indirect financial relationship with a DMC by channelling their funds through the Bank.

- **Participation financing:** A cofinancier, normally a commercial bank or other private financial institution, can purchase earlier maturities of Bank loans or participate in the Bank's complementary financing scheme (CFS). Under CFS, the Bank extends two separate loans to a DMC: one is exclusively from the Bank's resources on its terms, and the other, especially structured to meet commercial lender requirements, is extended to interested cofinanciers such as commercial banks, life and casualty insurance companies, and pension funds. Specific features of the CFS that are of primary importance to participating banks are as follows: any default on the CFS loan would become a direct default on the Bank, and the complementary loan is considered a multilateral credit, and this provides protection from any debt-rescheduling program a member country may undergo.

COFINANCING STRATEGY AND GUARANTEE POLICY

To intensify its catalytic role for resource mobilization, the Bank adopted a new strategy on cofinancing, and modified its policy and guidelines on guarantee operations. The intention is to make cofinancing and guarantee operations a mainstream Bank activity. The basic objectives of the cofinancing strategy are to catalyze additional private capital for DMCs by assisting cofinanciers in the appraisal and management of risks, and to continue to promote official cofinancing, particularly for low-income countries. The new strategy on cofinancing envisages that (i) official cofinancing on nonconcessional terms will mainly be provided to growth-oriented projects, while concessional resources will be targeted at DMCs receiving only Asian Development Fund (ADF) assistance, subject to donor preferences; (ii) parallel commercial cofinancing will be encouraged for projects that can attract private capital on a voluntary basis; (iii) DMCs that are unable to obtain maturities long enough to suit their projects will be assisted in obtaining parallel loans with the support of Bank guarantees; (iv) in case guarantee support does not suit the requirements of a DMC, the Bank will, where appropriate, help arrange loans under its CFS; and (v) the Bank will take proactive measures to enable DMCs to obtain export credit on the best possible terms.

Under the new guarantee policies and guidelines, the Bank will provide either partial credit guarantees, where it provides all-inclusive cover for a portion of the debt service, or partial risk guarantees, where it covers specific risk events for all or part of the debt service. In cases where the Bank is the primary obligor, it will generally seek to obtain a counter-guarantee from the host country government. The eligibility criteria for guarantee operations have been enlarged to include (i) all borrowers eligible for Bank lending, including countries receiving only ADF loans; (ii) all projects eligible for a Bank loan, provided that the Bank has a stake in the form of direct loan, bond subscription or equity investment; (iii) a wider set of debt instruments, including bond issues; (iv) where appropriate, partial guarantee of commercial loans or bond issues of highly rated private sector entities without a counter-guarantee from the DMC government; and (v) where appropriate, local-currency debt, especially domestic bond issues or long-term loans from local financial institutions for infrastructure/utilities projects.

CONSULTANTS

- **Bank-employed**

The Bank employs consultants, which may be firms or individuals drawn from member countries, for technical assistance activities financed by the Bank, or for studies for which the Bank is the executing agency, and staff consultants where the Bank finds it necessary to supplement its own staff in carrying out its operations.

The selection of a consulting firm to undertake an assignment begins with the preparation of a long list of firms claiming expertise in the related field. For technical assistance projects, the Bank reviews the experience and capabilities of each firm and a short list of five to seven firms is prepared by the Bank's Consultants Selection Committee.

A statement of no objection to the short list is obtained from the beneficiary before invitations to submit proposals are sent to the consultants.

For loan projects financed by the Bank, the beneficiary is responsible for the shortlisting and subsequent selection of the consultants. This is done in accordance with the Bank's policies and procedures.

Invitation documentation defines the assignment objectives and scope, and stipulates conditions under which the work is to be performed. It is also made clear that financial details are not to be included in consultants' proposals as evaluation is made entirely on the basis of technical qualifications to perform the work.

In evaluating proposals, the experience of the firm, proposed approach and methodology, capabilities of personnel, and other relevant aspects are considered. The proposals are ranked in order of merit and the Bank enters into negotiation with the first-ranked firm.

The aim of the evaluation process is to select the most suitable proposal on the basis of technical qualifications and experience of the proposed personnel to perform the work, rather than the best known or most experienced firm.

Individual consultants may be engaged directly or through an organization, such as an academic institution, a government or international agency, or a consulting firm. The procedures for selection of individual consultants are simpler than those applicable to the selection of consulting firms. The Bank ranks the shortlisted individuals on the biodata details and following evaluation selects the best-qualified individual to undertake the assignment.

- **Borrower-employed**

The Bank has guidelines covering specific aspects such as the types of consultants to be recruited, their functions and duties, responsibilities of borrowers in selecting them, procedures for selection, and coordination of responsibilities. Where borrowers employ consultants, they are responsible for the selection of such consultants. The Bank, however, must be satisfied with their competence and performance functions.

- **Domestic consulting firms**

The Bank encourages the use of qualified domestic consultants (firms or individuals) or consultants from other DMCs. Consultants may be hired either individually or in association with foreign firms;

or there could be collaboration between a consulting firm from a developed member country with consultants from a DMC. Other things being equal, preference is given to domestic consultants or combinations of a consulting firm from a developed member country with consultants from a DMC.

COOPERATION WITH NGOs

Identified as a key associated process for the Bank to achieve its strategic objectives, cooperation with NGOs involves efforts to identify and develop the means to facilitate the participation of NGOs in project activities, as well as the formulation and implementation of development policies and strategies. In local-level project activities, NGOs have a distinct advantage in helping identify the needs of affected persons and communities, and in engendering community participation. Project sustainability is difficult to achieve unless projects are designed in cooperation with the beneficiaries. Also, NGOs often have an advantage in delivering development goods and services to the harder-to-reach segments of the population.

NGOs play various important roles in development. Many NGOs are familiar with the specific needs and capabilities of the people, and usually promote self-help and self-reliance among people through innovative approaches. Cooperation with NGOs may result in more effective assistance to the poor and disadvantaged groups of the population in meeting their basic needs, and support improved natural resource management and conservation activities in DMCs. There are many well-organized and experienced NGOs in the Bank's DMCs.

(See Nongovernmental Organizations, page 49.)

COST OVERRUNS

The Bank finances cost overruns on its projects. This financing covers cost overruns in foreign exchange and local costs, and also cost overruns resulting from causes other than currency readjustments and price increases.

Before the Bank approves supplementary financing, it must be satisfied that the balance-of-payments position of the country concerned warrants it; the government is making a strong effort to mobilize its own domestic resources; and government policies are geared to allocating resources efficiently. Financing for cost overruns is considered on a case-by-case basis after the project concerned is reappraised and full account is taken of the following:

- the main reasons for the cost overrun must be established, and the Bank and the borrower must have a plan of remedial action;
- the project must be clearly economically viable and one of high priority in the government's national development strategy;
- the possibility of reducing the project scope or changing design standards must be examined to determine if the existing approach is still feasible; and

- the borrower must have made a genuine but unsuccessful attempt to find alternative financing on reasonable terms.

COUNTRY OPERATIONAL STRATEGY STUDIES

The country operational strategy studies provide a basis for the Bank's operations in each DMC in the medium term. The studies also set out the Bank's thinking on how best it can contribute to the development of its DMCs.

The Bank's country strategies and programs pay attention to overall policy framework, thematic priorities (i.e., private sector development, public sector management, human development, and natural resource management), and country characteristics. The country strategy will define a distinctive role for the Bank within each DMC. The approach will seek to maximize the opportunities for pursuing the Bank's strategic objectives in the context of a DMC's particular needs in coordination with other agencies. A strengthened country operational strategy will result in a more focused country assistance plan that should progressively lead to the selection of projects whose rationale is embedded in the attainment of the Bank's development objectives and thematic priorities.

(See also Strategic Planning, page 67.)

CREDIT LINE

This is a government-guaranteed loan provided to selected financial intermediaries in DMCs for onlending to small- and medium-sized private enterprises.

CREDITWORTHINESS

The Bank has had a Triple-A rating since it first issued rated debt in 1971. The creditworthiness of the Bank, shown by the successful bond issues it has already made, is due to its strict adherence to sound banking procedures for evaluating, authorizing, and administering its loans, and its policy of not borrowing beyond the amount of callable capital stock of the member countries whose currencies are convertible; maintaining adequate liquidity in relation to its undisbursed loan balances, obligations arising from borrowings, and general market conditions; and maintaining an adequate level of net income in relation to annual interest charges payable to its borrowings and the need to build up reserves.

Funds borrowed by the Bank are not used for concessional lending. Concessional loans are made from ADF – the Bank's soft loan window. ADF resources mainly come from contributions made by its member countries. In accordance with the Charter, such resources must at all times be held, used, and committed entirely separate from ordinary capital resources (OCR). ADF loans are examined just as carefully as OCR loans. Standards of evaluation, appraisal, and follow-up for OCR and concessional loan projects are the same.

(See also Triple-A Rating, page 72.)

CROSSCUTTING CONCERNS

Crosscutting concerns, as relevant to Bank operations, include poverty reduction, gender issues, human development, environmental concerns, and good governance. These concerns are overlapping and mutually reinforcing.

(See also Governance Policy, page 35; Medium-Term Strategic Framework, page 48; Strategic Development Objectives, page 67; and Strategic Planning, page 67.)

D

DEPARTMENTS AND OFFICES

The Bank's organization structure is shown on page 76. The principal responsibilities of the Departments and Offices are set out below.

- **Agriculture and Social Sectors Departments (East and West)**
  The two Agriculture and Social Sectors Departments (East and West) prepare, appraise, and administer loan and technical assistance projects in the agriculture and social infrastructure sectors. The subsectors include agriculture and rural development; forestry and natural resources; water supply and sanitation; urban development; education and training; and health and population. The Departments also undertake regional and country-by-country sectoral and policy analyses and consultations with member governments, and prepare special studies and surveys on topics of regional and national concern in these sectors.

- **Bangladesh Resident Mission**
  The Bangladesh Resident Mission, located in Dhaka, initiates and maintains dialogue with the Government of Bangladesh on policy and other issues of relevance to Bank operations in Bangladesh. It strengthens the working relationship between the Bank and the Bangladesh authorities in processing and implementing technical assistance and loan projects and programs, in coordination with representatives of bilateral and multilateral donor agencies.

- **Budget, Personnel and Management Systems Department**
  The Budget, Personnel and Management Systems Department determines, allocates, manages, and administers the Bank's budgetary provisions for financial and human resources; designs and assesses the organization and systems within which these resources are brought together to carry out the broad range of Bank activities; and develops and operates personnel programs – including manpower planning, recruitment, classification and compensation, benefits, staff training and development, and staff relations.

- **Cambodia Resident Mission**
  The Cambodia Resident Mission, located in Phnom Penh, facilitates Bank operations in Cambodia. It initiates and maintains dialogue with the Government of Cambodia on policy and other issues which are of relevance to Bank operations in Cambodia; and strengthens the working relationship between the Bank and the Cambodian authorities in processing and implementing technical assistance and loan projects and programs, in coordination with representatives of bilateral and multilateral donor agencies.

- **Central Operations Services Office**
  The Central Operations Services Office is responsible for central planning, monitoring, and coordinating project processing and administration

work programs, and for identifying and resolving procedural and institutional problems being experienced with the Bank's projects. It provides advisory services on procurement of goods and services and use of consultants; organizes and chairs meetings on procurement of goods and services and selection of consultants; administers consultant contracts executed under the Bank's technical assistance; reviews loan administration practices and procedures; and prepares guidelines, loan administration manuals, project administration instructions, and other operational documents.

- **Controller's Department**

The Controller's Department establishes and maintains the Bank's accounting system and records; prepares reports setting forth the financial position of ordinary capital resources and Special Funds, including trust funds and the staff retirement fund; and calculates and arranges the settlement of maintenance of value obligations of member countries. The Department authorizes disbursements under loans and technical assistance operations, and provides assistance to other departments in negotiating and administering loans and technical assistance operations. It also authorizes payments of administrative expenses and other expenses in connection with trust funds and funds of a similar nature, and makes payments in respect of salaries, allowances, and benefits under the Staff Retirement Plan. It provides assistance to the Treasurer's Department in formulating the Bank's financial policies.

- **Economics and Development Resource Center**

The Economics and Development Resource Center (EDRC) undertakes research on economic development issues relevant to the region, including areas of strategic concern to the Bank; develops appropriate methodologies for the economic analysis of projects; participates in reviewing and commenting on the economic evaluation of projects and other economic work being carried out elsewhere in the Bank; and collects statistical data to provide support services and maintain a database. EDRC research efforts are closely coordinated with the Bank's operational departments, and provide analytical support and a macroeconomic basis for these operations. EDRC also plans, coordinates, and executes the development resource center activities of the Bank, including collaborative research with other institutions, conferences, and seminars.

- **European Representative Office**

The principal responsibilities of the European Representative Office (ERO), located in Frankfurt, Germany, are to create a better awareness of the Bank's role and operations in European member countries, establish points of contact with European government agencies, and serve to disseminate information about the Bank and its activities to the general public.

ERO's other functions are to acquaint the private sector/business community in European member countries about development trends and opportunities in Asia for purposes of resource mobilization, and to promote cofinancing and equity participation opportunities with commercial and official bilateral sources in European member countries.

In addition, ERO is to strengthen relations between the Bank and multilateral institutions/organizations based in Europe, and assist government institutions such as counterpart ministries dealing with the Bank.

- **India Resident Mission**

The India Resident Mission, located in New Delhi, facilitates Bank operations in India and cooperation with the Government, particularly in respect of project implementation and administration, and in identifying new projects and programs for future Bank assistance. The Mission assists in the chain of activities leading to project approval, strengthening the Bank's analytical capability with regard to the Indian economy and policy dialogue, in promoting private sector development, and in aid coordination.

- **Indonesia Resident Mission**

The Indonesia Resident Mission, located in Jakarta, facilitates Bank operations in Indonesia. It initiates and maintains dialogue with the Government of Indonesia on policy and other issues which are of relevance to Bank operations in Indonesia; and strengthens the working relationship between the Bank and the Indonesian authorities in processing and implementing technical assistance and loan projects and programs, in coordination with representatives of bilateral and multilateral donor agencies.

- **Information Office**

The Information Office carries out information activities which help create a better awareness of the Bank's role and operations in member countries. Its primary functions are to disseminate information about the Bank's activities, and stimulate interest in economic development in the Bank's area of operations. Its activities include preparation and distribution of news releases, feature articles, the annual report, bimonthly reviews, booklets and information brochures, photographs, and audiovisual presentations. It maintains contacts with the press and other mass media, and arranges seminars, conferences, study tours, and interviews for the press. It promotes readership interest in Bank studies and publications, and replies to queries from the public about the Bank and its activities.

- **Infrastructure, Energy and Financial Sectors Departments (East and West)**

The two Infrastructure, Energy and Financial Sectors Departments (East and West) prepare, appraise, and administer technical assistance and loan projects and programs in the physical infrastructure, energy, and financial sectors. The subsectors include transport and communications; electric power and natural gas; and financial sector and industry, including capital market development and privatization. The Departments also undertake regional and country-by-country sectoral and policy analyses and consultations with member governments, and prepare special studies and surveys on topics of regional and national concern in these sectors.

- **Japanese Representative Office**

The Japanese Representative Office (JRO) was opened in 1996 in Tokyo, Japan. JRO was established in particular for promoting cofinancing mobilization from official bilateral as well as private sources in Japan, acting as the focal point for the dissemination of information about the Bank and its activities to the Japanese public and private financial institutions; advancing the knowledge of the private sector/ business community in Japan concerning trends and opportunities in the Asian and Pacific region; strengthening relations between the Bank and multilateral and bilateral institutions/organizations located in Japan; and enhancing public awareness in purposes of enhanced resource mobilization.

Like the other representative offices, JRO responds to the need for better and strengthened representation in donor countries, and for a broader and more direct access to the Bank's various constituencies.

Better integration into the political and social environments of its donor members will enhance the Bank's knowledge of the "interest and capacity matrix" of individual donor countries, thus enabling the Bank to be more proactive.

- **Nepal Resident Mission**

The Nepal Resident Mission, located in Kathmandu, facilitates the implementation of all Bank-financed projects in Nepal. It initiates and maintains dialogue with the Government of Nepal on policy and other issues which are of relevance to Bank operations in Nepal; and strengthens the working relationship between the Bank and the Nepalese authorities in processing and implementing technical assistance and loan projects and programs, in coordination with representatives of bilateral and multilateral donor agencies.

- **North American Representative Office**

The North American Representative Office (NARO) in Washington, DC was established by the Bank in 1995. It is the Bank's first representative office in a donor member country.

NARO strengthens cooperation and collaboration with its major constituencies in the United States and Canada, and improves coordination with the Bretton Woods institutions and the development community based in Washington.

The Office enhances the Bank's presence in North American capital markets, and facilitates its borrowing and investment operations. It also promotes Bank cofinancing with commercial and financial institutions, and provides information on the full range of its activities to interested parties and the public.

The Office facilitates the dissemination of information regarding the Bank's experiences and expertise in supporting private sector-led growth and development activities to reduce poverty in Asia.

- **Office of Administrative Services**

The Office of Administrative Services is responsible for the physical facilities and the supporting services required by the Bank. The General Services Division is responsible for functions such as procurement of services, management of the archives and records, the library,

printing and reprographic services; internal and external security and safety; and relations and liaison with the Philippine Government concerning the privileges and immunities extended to the Bank and its staff under the Headquarters Agreement. The Support Services Division handles procurement of goods and shipping, staff travel, food services, commissary services, materials management, and other staff services such as provision of transport and hotel bookings. The responsibilities of the Facilities Management Division include the provision of communications services, and gasoline for eligible vehicles, and the operation and maintenance of the Bank's buildings, grounds, office equipment, engineering systems, and telecommunications facilities.

- **Office of Cofinancing Operations**

The Office of Cofinancing Operations (OCO) acts as the Bank's focal point for planning, promoting, and arranging cofinancing; and for formulating policies on cofinancing and guarantee operations. For projects and programs requiring cofinancing, the OCO assists borrowers in obtaining cofinancing from official, commercial, and export credit sources. The OCO identifies appropriate cofinancier(s) and assists operational units in determining financial "packages" for these projects and administering the cofinancier's loan(s). In addition, the OCO establishes and manages technical assistance grant funds entrusted by donors to cofinance or exclusively finance Bankwide technical assistance projects on a grant basis, and coordinates Bankwide utilization of the Japan Special Fund.

- **Office of Computer Services**

The Office of Computer Services (OCS) is responsible for planning and managing automated information systems of the Bank to improve the effectiveness and efficiency of the Bank's operational, financial, and administrative functions. Activities of OCS include the design, development, implementation and evaluation of application systems; acquisition, installation, and maintenance of hardware and software; management of the network; capacity monitoring; advising in the use of computer and office automation techniques for analyzing economic, financial, and operational statistics; advising departments on computer-related aspects of Bank projects; and coordination of the use of external communications services and facilities.

- **Office of Environment and Social Development**

The Office of Environment and Social Development reviews environmental and social concerns related to its policy and operations; promotes environmental and social awareness within the Bank and in its DMCs; supports programs and projects in achieving a harmonious and long-term balancing of basic human needs and critical natural resources; and assists in developing and strengthening relevant institutions in the DMCs. The Office monitors the implementation of Bankwide policies, guidelines, and procedures with respect to the consideration and incorporation of environment, social dimensions, and associated processes, and identifies new directions and approaches that improve the incorporation of environmental and social aspects in projects. It also promotes cooperation between the Bank and nongovernmental

organizations (NGOs) and acts as the focal point and clearinghouse for Bankwide cooperation with NGOs.

- **Office of the General Auditor**

The Office of the General Auditor conducts independent and objective appraisals and audits of the Bank's financial, accounting, and administrative functions, as well as its loan and technical assistance activities, and related electronic data processing functions, to ensure adequate, efficient, and effective management, including financial controls. The Office also conducts independent investigations into possible abuse, waste, and inefficiency of administrative matters within the Bank, to promote efficiency and economy in Bank administration.

The Office also undertakes periodic audit review missions to the Bank's DMCs to ascertain compliance by borrowers/executing agencies with the Bank's loan and technical assistance agreements, as well as other regulations and procedures.

- **Office of the General Counsel**

The Office of the General Counsel provides advice and assistance to the President, the Board of Governors and Board of Directors, and the various departments and offices of the Bank on legal questions relating to the organization, administration, finance, policies, and operations of the Bank. The Office plays an important part in the appraisal, negotiation, and administration of technical assistance and loan projects and programs, private sector investments, cofinancing or guarantee operations, and in the Bank's borrowing and fund-raising activities.

- **Office of Pacific Operations**

The Office of Pacific Operations is responsible for establishing and maintaining relationships with the Pacific developing member countries (PDMCs) on all matters concerning Bank operations. The Office formulates the Bank's operational strategies for the PDMCs, including economic and policy analyses, and country performance reviews, and develops associated country operational programs of Bank assistance. As the Office is responsible for the entire range of operations, it also prepares, appraises, and administers loan-financed projects and technical assistance grant projects. The Office is comprised of the Headquarters Division and the South Pacific Regional Mission.

- **Office of the Secretary**

The Office of the Secretary is the principal liaison office between the Board of Governors and the Board of Directors on the one hand, and Management and Staff on the other. It is the formal channel of communication between the Bank and its member countries, and handles all matters regarding membership. It organizes, administers, and keeps the official records of the Annual Meetings of the Bank's Board of Governors, and regular meetings of the Board of Directors. It also serves various Board Committees, Management Review, Staff Review Committee, and Senior Staff meetings. It is the depository of all agreements entered into by the Bank, and the custodian of the official seal of the Bank.

- **Pakistan Resident Mission**

The Pakistan Resident Mission, located in Islamabad, makes the Bank's overall role in Pakistan more effective. In addition, it initiates and monitors dialogue with the Government of Pakistan on policy and other issues which are of relevance to Bank operations in Pakistan, and strengthens the working relationship between the Bank and Pakistani authorities in implementing and processing technical assistance and loan projects and programs in coordination with representatives of bilateral and multilateral donor agencies.

- **Post-Evaluation Office**

The Post-Evaluation Office is responsible for administering the Bank's postevaluation functions which aim (i) to improve the design and execution of the Bank's future activities in light of the lessons learned from its operations; and (ii) to enable the Bank to account to its shareholders the effectiveness of its development assistance to its DMCs. The major activity of the Office is the preparation of Project Performance Audit Reports (PPARs) of completed projects for which Project Completion Reports have been prepared by the operational departments responsible for processing and implementing the projects. The PPARs make comprehensive evaluation of projects' effectiveness in achieving objectives and provide analytical commentary focusing on lessons of operational significance. The Office also undertakes various intensive studies of broader relevance to the Bank's operations, such as technical assistance performance audit and completion reports, impact assessment and other special studies, and reevaluation studies. To ensure the usefulness of postevaluation, the Office provides an effective feedback of lessons learned into the operational system of the Bank through several channels, including the computerized Postevaluation Information System, Annual Review of Postevaluation Report, Postevaluation Abstracts, and Country/Sector Synthesis of Postevaluation Findings. In addition, the Office prepares, in cooperation with operational departments and offices concerned, a review of the Annual Performance Evaluation Program, which brings together all activities related to project performance and, therefore, improves feedback inputs into project preparation and implementation. The Office also assists DMCs to develop and strengthen their own postevaluation capabilities.

- **Private Sector Group**

The Private Sector Group is responsible for all of the Bank's unguaranteed, enterprise-level private sector operations. These responsibilities include formulating and implementing Bank policies for assistance to private sector entities; processing direct financing to private entities, including build-operate-own (BOO) and build-operate-transfer (BOT) operations; managing and reviewing the portfolio, including risk and liquidity; providing advisory service to entrepreneurs and corporations wishing to undertake BOO and BOT and other private sector operations; and mobilizing funds for the Bank's private sector activities, including syndicating loans and equity in private sector transactions, and designing mutual funds and venture capital funds for small and medium enterprises.

- **Programs Departments (East and West)**

The two Programs Departments (East and West) formulate the Bank's operational strategies for individual countries (excluding the Pacific DMCs), including economic and policy analyses, and undertake country performance reviews which provide a basis for policy dialogue with DMC governments. The departments develop country assistance plans, which include identification of individual technical assistance and loan projects and programs. They are also responsible for establishing and maintaining relationships with DMC governments for overall country economic reporting and for conducting loan negotiations.

- **South Pacific Regional Mission**

The South Pacific Regional Mission, located in Vanuatu, undertakes Bank operations in the South Pacific DMCs (Cook Islands, Fiji, Kiribati, Solomon Islands, Tonga, Tuvalu, Vanuatu, and Western Samoa). As part of the responsibilities with the Office of Pacific Operations, the Mission strengthens the working relationship between the Bank and South Pacific DMC governments in processing and implementing technical assistance and loan projects in coordination with bilateral and multilateral donor agencies.

- **Strategy and Policy Office**

The Strategy and Policy Office undertakes strategic planning for the Bank, including the formulation and monitoring of the Bank's medium-term strategic plans, and coordinates and prioritizes the Bank's overall multiyear and annual operational programs for loans, technical assistance, economic and sector work, and aid coordination activities. The Office also formulates the Bank's operational policies to enable the Bank to respond better to the changing needs of the DMCs. It identifies new directions and approaches for the Bank to follow, and reviews the Bank's operations in terms of their results and impact against the Bank's objectives and the needs of its DMCs. It is responsible for policy matters relating to regional and interagency cooperation, relationships with bilateral aid donors and other multilateral development finance institutions, and plays a major role in mobilizing the Bank's resources such as in general capital increases and ADF replenishments. The Office formulates strategies, policies, and approaches in relation to capacity building, and acts as an interim focal point of coordination for various activities of departments and offices in relation to capacity building.

- **Treasurer's Department**

The Treasurer's Department is responsible for mobilizing funds required for the Bank's operations, and for planning and managing its finances. It arranges borrowings in capital markets, and negotiates and administers these borrowings. The Department coordinates all work relating to increases in the Bank's capital, and replenishments of its concessional loan window, the Asian Development Fund. It manages the Bank's investment portfolio and ensures that the Bank's liquidity requirements are met at all times.

- **Viet Nam Resident Mission**

The Viet Nam Resident Mission (VRM) was approved by the Board in 1996. Establishing a resident mission in transition economies such as Viet Nam will strengthen the Bank's capacity to create a stronger base for its increasingly complex operations.

VRM would assist activities related to country programming and processing of new loans, provide a suitable local perspective to project design, and improve "quality at entry." VRM would also play a useful role in collecting data and information on economic and policy changes. A major function of VRM would be to provide ongoing coordination with other aid agencies resident in Viet Nam. It would also assist in project implementation to improve the quality of the Bank's portfolio.

DISASTER REHABILITATION

Under a policy formalized in 1989, the Bank may provide quick rehabilitation assistance to DMCs to address specific repair activities and regional restoration of physical infrastructure and production activities, following natural disasters that damaged or destroyed parts of the existing physical capital assets of a DMC, and interrupted ongoing development activities. The Bank follows a policy to include vulnerability assessment and risk analysis in its projects and disaster-mitigation elements in project design.

DISBURSEMENTS

After loan approval, the implementation of the project generally involves selection of consultants, detailed engineering work, preparation of specifications for tender, invitation for bids, bid evaluation, award of contract, and construction of the project, including civil works. Since Bank loans are, in most cases, made to meet the foreign exchange cost of the project, significant disbursements under a loan can take place only when all the preliminary or earlier steps, right up to the placing of orders, are completed. Even then, depending on the nature of the capital equipment ordered and the time-scheduling of various segments of the project, it may take quite some time for completion of delivery of the items ordered. Therefore, where a project takes about five years to complete, disbursements do not usually start until it is well into the second year, and may not reach any sizeable proportion until the fourth or fifth year.

Recognizing the importance of providing borrowers with training to improve their implementation capabilities, the Bank regularly conducts seminars on disbursement, procurement, and project implementation management, both at its Headquarters and in selected borrowing member countries.

E

ECONOMIC RESEARCH

The Bank engages in and facilitates research, training, and exchange and dissemination of information through publications, conferences, workshops, and symposia. While research is primarily done at the Economics and Development Resource Center (EDRC), the newly established Asian Development Bank Institute (ADBI) will also have a research component, focusing on themes or issues critical for long-term, broad-based, and sustainable development.

The main role of EDRC is to undertake and promote research on key development issues, and strengthen analytical awareness on matters of economic relevance to Bank operations. This primarily translates into (i) undertaking research and analysis on development policy issues and disseminating the findings for the use of developing member countries (DMCs); (ii) providing operational support by reviewing the quality of project evaluation and sector work; (iii) providing information and advice to Management and the rest of the Bank on economic events, studies and policy debates in the field of development; (iv) providing statistical assistance to DMCs and other parts of the Bank; and (v) providing resource center activities.

EDUCATION

(See Social Infrastructure, page 65.)

ENERGY SECTOR POLICY

The focus of the energy sector policy is on increasing private sector participation in large-scale energy investments; improving energy efficiency on both supply and demand sides; and integrating environmental considerations in energy development. A major portion of the Bank's lending and technical assistance for the power subsector will be directed to DMCs committed to increasing efficiency and mobilizing resources from the private sector. In general, the Bank will finance new capacity additions if it is satisfied that the utility concerned is paying adequate attention to supply efficiency and demand management. The Bank will encourage power utilities, and provide training assistance, to incorporate into their planning models key elements of integrated resource planning, including demand-side management and internalization of environmental costs. DMCs will be encouraged to phase out subsidies to the power subsector and minimize cross-subsidies. In the hydrocarbon subsector, the Bank will play an important role in funding natural gas development, processing, transportation, and distribution. It will actively promote environmentally sound coal-mining practices and clean-coal technologies. In respect of rural energy systems, assistance to provide commercial energy in rural areas will receive priority if it is economically and financially viable to do so. If a project is only economically viable, assistance will depend on the power utility's ability to accommodate it without adversely affecting its overall financial viability. Technical assistance

will be provided to assess the economic viability of solar, mini-hydropower, and wind-energy options in rural areas, particularly in isolated locations.

ENVIRONMENT

The Bank is committed to promoting environmentally sound development in the region. To fulfill this objective, the Bank (i) reviews the environmental impacts of its projects, programs, and policies; (ii) encourages DMC governments and executing agencies to incorporate environmental protection measures in their project design and implementation procedures, and provides technical assistance for this purpose; (iii) promotes projects and programs that will protect, rehabilitate, and enhance the environment and the quality of life; and (iv) trains Bank and DMC staff in, and provides documentation on, environmental aspects of economic development.

- **Lending**

The proportion of projects designed to improve the environment in total Bank lending to its DMCs has been modest, compared with the total borrowed funds. However, there has been a clear upward trend in environment-oriented lending since 1985, and the number of loan and technical assistance projects with an environmental orientation continued to rise in recent years.

The major emphasis of these projects ranged from pollution control and energy efficiency in the industry and power sectors, to integrated urban environmental development, tropical forestry management, and biodiversity conservation.

- **Planning**

Environmental considerations are important aspects in project planning and design. Greater assistance is being given to the Bank's DMCs to strengthen their environmental and natural resource planning and management capabilities, and their ability to promote environmentally sound projects.

Recognizing the importance of the environmental dimension in socioeconomic development, the Bank established an Environment Unit in 1987, upgraded it to a Division in 1989, and to an Office in 1990. The Bank has established a system which integrates environmental considerations into country operations, project and program planning, design and implementation, and postevaluation. An initial environmental evaluation (IEE) or environmental impact assessment (EIA), or both, are required for projects which have a significant impact on the environment, and a summary EIA is provided to locally affected groups and nongovernmental organizations (NGOs), and is also placed in selected DMC libraries.

The Office of Environment and Social Development provides technical advice on environmental matters to Bank staff, DMC governments, and NGOs. It also plays a role in building institutions and improving the capability of environmental planners and managers throughout the region. While an increasing number of Bank projects are aimed specifically at enhancing the environment and addressing environmental problems, many more are designed to accelerate economic development in an environmentally responsible way. Projects in agriculture, industry, energy,

and infrastructure, and those designed to reduce poverty, are increasingly planned and executed with environmental considerations foremost. Compliance with environment-related Bank policies is incorporated in the design and implementation of projects for Bank funding.

The Earth Summit held in Rio de Janeiro in 1992 forged agreements expected to influence the policies, projects, and programs of developed and developing countries, international organizations, and multilateral development finance institutions (DFIs) like the Bank. For its part, the Bank has already developed a post-Rio strategy and operational agenda. A Bank-funded technical assistance project entitled "A Study of Emerging Asia" is expected to provide the Bank with new operational focus in its environmental program.

EQUITY INVESTMENTS

The Bank equity investment operations complement domestic resources, and encourage other external resources to finance the private sector in the Bank's DMCs. They assist a wider range of productive private enterprise than is normally possible through the Bank's loan operations, and help speed up the development of domestic capital markets in DMCs.

The Bank's equity operations may take the form of investment in the equity of productive enterprises for financing specific projects; investment in the equity of DFIs and other similar institutions set up to finance or promote industry, mining, agro-industry or allied activities; and investment in relatively small enterprises through lines of equity to DFIs.

EUROPEAN REPRESENTATIVE OFFICE

(See Departments and Offices, page 19.)

EVALUATION CRITERIA

The Bank's Charter states that only economic considerations should be relevant in the decisions taken by the Bank, the Management, and staff, and such considerations should be weighed impartially to achieve and carry out the work of the Bank. All DMCs are entitled to borrow from the Bank so long as the project concerned satisfies the Bank's lending and evaluation criteria.

In evaluating projects, the Bank pays specific attention to the economic viability, technical feasibility, and financial soundness of projects; their effect on development activity in the country concerned; their contribution to the removal of economic bottlenecks; the capacity of the borrowing country to service additional external debts; the introduction of new technologies to raise productivity; the expansion of job opportunities; and the integration of environmental and social considerations into Bank projects.

The social aspects of Bank lending cover poverty reduction, women in development, human development (including population planning), and the effects of economic development on vulnerable groups. The Bank is concerned about job opportunities, vocational training, land reform, the provision of basic necessities of modern life to a large number of

people, dispersal of economic activities and residential communities to ease the problem of urban congestion, reduction of regional disparities in income, and the provision of facilities which will ensure wider and more assured markets for agricultural crops.

Allowing for differences that may be inherent in the nature of the projects financed, the criteria adopted in evaluating projects for financing from Special Funds are similar to those used for lending from ordinary capital resources. Generally, projects selected for concessional loans must have a distinct and justifiable priority in the socioeconomic development plans of the country concerned. They should also be translated into corresponding financial or foreign exchange returns. Recipients of loans from Special Funds are mainly the poorest and least-developed of the DMCs.

(See also Postevaluation, page 52.)

EXCHANGE RISK MANAGEMENT

Bank loans and investments are made in the same currencies in which they are borrowed or received. Occasionally, borrowed funds are swapped into other currencies and, at the same time, forward exchange agreements are entered into to recover the currencies converted. The Bank does not otherwise convert one currency into another except for limited amounts to meet certain obligations in the ordinary course of its business. The Bank does not maintain a currency position whereby it could realize an exchange gain or loss in its operations.

F

FEEDBACK

The feedback mechanism is a crucial part of the evaluation system. It refers to the dynamic process of presenting and disseminating evaluation information, as well as ensuring its application into new or existing projects and development activities. The usefulness of postevaluation is, therefore, essentially dependent upon the effectiveness of the application of the findings and lessons of experience to improve new or existing projects and development activities. Lessons of experience can be applied at different stages of the project cycle, for example, to select a suitable project at the identification stage, to improve the design of new projects at preparation, to minimize or avoid problems during implementation of ongoing projects, and to enhance performance of completed projects during the operational stage. By providing an accessible track record of performance of completed projects, the evaluation feedback also serves to enhance the organization's accountability and transparency.

The Post-Evaluation Office (PEO) plays an important role in promoting the effectiveness of the feedback process. PEO is directly responsible for the dissemination of evaluation findings to audiences within and outside the Bank. The dissemination mechanisms have been gradually modified, expanded, and institutionalized to facilitate the communication of the results of evaluation work to users. The key dissemination mechanisms used by PEO include (i) the circulation of postevaluation reports such as project/program performance audit reports, technical assistance performance audit reports, impact evaluation studies, reevaluation studies, and special studies to the Board of Directors, departments and offices concerned within the Bank, the executing agencies, and government agencies concerned; (ii) the preparation of Annual Review of Postevaluation Reports, which highlights the major findings of postevaluation reports, and analyzes issues and recommendations relevant to the Bank's operations; (iii) the preparation of the Abstracts of Postevaluation Findings, which contain information from the highlights of postevaluation reports, and are compiled on a project-by-project basis for individual countries and sectors; (iv) the maintenance of computerized postevaluation information system for the storage and retrieval of all postevaluation information which can be made accessible on-line to all Bank staff; (v) the organization of feedback workshops to discuss and exchange views with operational staff on important issues arising from postevaluation findings; (vi) the preparation of the country and sector syntheses of postevaluation findings, which are brief documents providing a review of postevaluation experience, including synthesis and analysis of important issues and lessons learned in a given country or sector; (vii) the preparation and review of the annual performance evaluation program which brings together the activities of different departments and offices related to project performance; and (viii) the development of a project performance management system, which improves the present benefit monitoring and evaluation system.

The Bank has adopted certain mechanisms to strengthen the feedback process to encourage the application of evaluation results. These are (i) issuance of management's instructions requiring postevaluation findings

to be taken into account in the formulation of country operational strategies and programs, and in the design of new projects; (ii) PEO's provision of commentary on operational documents such as the Project Brief, Report and Recommendation of the President, Country Assistance Plan, and technical assistance paper, as well as participation in project processing meetings; and (iii) establishment of a high-level Management Committee on Postevaluation Findings to reinforce the linkage between postevaluation staff and senior management of the Bank.

(See also Departments and Offices: Post-Evaluation Office, page 24.)

FINANCIAL POLICY AND PRACTICES

The Bank adheres to prudent borrowing and lending practices. It maintains adequate levels of net income, liquidity, and reserves, continuously monitors the creditworthiness of its borrowers, and requires thorough technical, financial, and economic justifications for all projects for which loans are provided. The Bank, in accordance with its Charter, restricts loans, equity investments, and guarantees to an amount not more than its paid-in and callable capital plus its ordinary reserve and surplus.

FINANCIAL RESOURCES

The financial resources of the Bank consist of ordinary capital resources, comprising subscribed capital, reserves and surplus, and funds raised through borrowings; and Special Funds made up largely of contributions from member countries for the Bank's concessional lending and technical assistance activities.

FINANCIAL SECTOR

The Bank's operations in the financial sector are designed to promote market-based financial systems, capable of mobilizing and allocating financial resources in an efficient and effective manner. Key elements of the Bank's operational policy in the financial sector include assisting developing member countries (DMCs) in (i) building a financially sound banking sector, which includes promoting commercialization and competition in the banking sector, improving the credit analysis of banks, introducing Bank of International Settlements standards to improve the capital adequacy of banks, and enhancing banking supervision; (ii) strengthening nonbank financial institutions (NBFIs), in particular, developing adequate legal frameworks for the efficient operation and supervision of NBFIs, including credit cooperatives, trust and investment corporations, leasing and finance companies, venture capital firms, insurance companies, pension funds and mutual funds, and promoting the development of institutional investors through liberalizing the fund management industry; and (iii) developing and deepening capital markets – both equity markets and markets for long-term debt – with a view to improving allocative efficiency, through supporting necessary legal, regulatory, and institutional reforms. In support of developing domestic bond markets, the Bank's operations focus on extending benchmark yields, and on strengthening the market infrastructure, including clearing and settlement facilities, and improving market

transparency and comparability of financial information, particularly information related to publicly traded debt securities.

The Bank's operations in the sector closely reflect the differences in the levels of development among DMCs and, consequently, the variety of demands that are being placed on domestic financial systems. Thus, in the transition economies, where the principal shortcoming is the absence of basic banking skills and financial infrastructure, the Bank's operations focus on the development of the banking system, with an emphasis on transferring basic banking skills while upgrading banking regulation and supervision within the context of market-based approaches. In market-based economies with financial sectors that have been dominated by public sector banks, for example, in most parts of South Asia, the focus is more on deregulation while enhancing prudential and regulatory mechanisms. In the more sophisticated financial sectors of Asia, the Bank's operations are directed at developing capital markets, principally but not exclusively, to facilitate the long-term domestic debt financing that is required to meet the region's rapidly growing needs for infrastructure. Here, too, a strong emphasis is placed on regulation of financial markets, although the weight of the emphasis is placed on developing self-regulatory mechanisms.

Underpinning the Bank's overall assistance to DMCs in the financial sector is the recognition of the crucial role played by the sector in promoting the allocation of savings to the most productive investments. Improved allocation of saving promotes increased growth, as well as still higher incomes and saving. Under a regulatory framework that promotes market-based provision of financial services, the competition within the sector will also help ensure efficiency with reduced intermediation costs. Such a financial system will tend to be more flexible and resilient when confronted with domestic and external shocks, and will contribute to macroeconomic stability.

FORESTRY SECTOR POLICY

The Bank's policy for the forestry sector is based on three imperatives: protection, production, and participation. Accordingly, the following guiding principles have been outlined for Bank operations in this sector: (i) the multiple and complementary uses of forests for their economic, environmental, and social values should be borne in mind; (ii) the renewable character of forest resources should be capitalized on; (iii) forest development strategies should recognize and support the identity, culture, and rights of forest-dwelling communities, and involve the recent encroacher in a constructive way; and (iv) the vital role of forests in maintaining biodiversity, acting as a global carbon storage area, reducing air pollution, and mitigating global warming should be recognized.

The policy identifies several priority areas for the Bank's operations in the forestry sector. These include the improvement of DMCs' policy and regulatory frameworks for forestry development; support for technological, policy, and valuation research; public consultation in forestry development; the development of investment strategies; and raising the capability of forestry agencies for sector analysis, planning, regulation, enforcement, and monitoring.

Different strategic approaches are followed in respect of DMCs that are forest-rich and those that are now net importers of wood products. In the case of the former, the emphasis is on maximizing the area to be kept as functioning forests, and ensuring that adequate areas are set aside for harvesting, catchment protection, plantations, and forest-dwelling communities. In the case of the latter, the objective is to increase domestic wood supplies through plantations, and better forest management. In both cases, the Bank encourages the use of wood substitutes and alternative fuel energy sources to reduce the demand on forest resources.

G

GOVERNANCE POLICY

The Bank's policy on governance marks an important step toward the promotion of sound development management. Governance issues, which have drawn increasing attention in recent development debates, matter in relation to the effectiveness with which development assistance is used, the impact of development programs and projects, and the absorptive capacity of borrowing developing member countries (DMCs). The Bank recognizes that the policy environment in which development takes place should be appropriate, that equity issues should be addressed, that DMCs should strengthen their ownership of projects and take a participatory approach in project design and implementation, and that the experience of the high-performing economies in the region could be useful in formulating development strategies. To make the elements of good governance operationally relevant, the Bank has identified four areas for action: accountability (building government capacity), participation (participatory development processes), predictability (legal frameworks), and transparency (openness of information). The Bank integrates these dimensions into its operations, and supports projects and programs to raise the quality of governance in its DMCs.

A Bank-sponsored workshop on governance and development was followed by a series of workshops in the Philippines, called "Partnership for Development," highlighting opportunities for closer collaboration among the national government, local government units, nongovernmental organizations, the private sector, and external donors. A seminar was also organized in Sri Lanka on "Governance and Economic Development," which laid the groundwork for further work on public administration reform in the country.

H

HEALTH AND POPULATION

(See Social Infrastructure, page 65.)

HUMAN DEVELOPMENT

Investment in people – human resources – is a vital part of development, and is one of the Bank's strategic objectives. Educated, skilled, innovative, and healthy people are the major contributors to economic growth. Human development relates not only to education and skills development, but includes investment in such vital areas as health and population, water supply and sanitation, and urban and rural development. Such investment will help improve the skills, living standards and quality of life of present and future generations of people, and will help increase their contribution toward sustained and accelerated economic growth.

Countries that neglect this aspect of human development are likely to suffer the consequences of slow and inadequate economic growth, with poor technology and a mismatch of labor supply and demand, often coupled with rapid population growth. Investment in sectors such as health, education, training, and related services, as well as population planning, not only benefits the people receiving these services, but also accelerates economic growth, and helps to sustain it over the long term.

The Bank's operations that directly address human development cover the sectors of health and population, education, water supply and sanitation, and urban development.

I

IMMUNITY FROM JUDICIAL PROCEEDINGS

The Bank is immune from every form of legal process, except in relation to borrowings, guarantees, and the purchase, sale, or underwriting of securities, in which cases, action may be brought against the Bank in a court of competent jurisdiction. The Bank at its discretion may waive such immunity in such manner and upon such conditions as it may determine to be appropriate in the best interests of the Bank.

INDIA RESIDENT MISSION

(See Departments and Offices, page 20.)

INDONESIA RESIDENT MISSION

(See Departments and Offices, page 20.)

INDUSTRY AND NONFUEL MINERALS SECTOR

In the industry sector, the Bank seeks to encourage and support the effective operation of markets. Generally, this entails a reduction in government involvement in production, and is achieved through the establishment of market-oriented and outward-looking policies, promoting reforms in state-owned enterprises, and encouraging privatization. However, in situations where the market cannot be relied on to produce the most desirable outcomes, the Bank plays an important role in identifying and assisting in the introduction of the most efficacious interventions.

INFORMATION

- **Confidentiality and Disclosure**

In 1994, the Board of Directors approved a new policy (i) providing for transparency and disclosure in all areas and aspects of Bank activities and operations; and (ii) establishing procedures for its implementation, including a revised classification system concerning release of documents relating to the public and private sector operations of the Bank. The policy has been effective since 1 January 1995.

The policy is designed to (i) encourage debate and a two-way flow of information; (ii) ensure local participation in decision-making and ownership of decisions; (iii) broaden understanding of the Bank's role and support for its mission; and (iv) facilitate cooperation and coordination with others having common goals.

- **Information Policy and Strategy**

The Board of Directors approved an Information Policy and Strategy to deliver the Bank's messages more effectively in member countries. The policy codifies the Bank's information requirements and objectives,

while the strategy identifies the key messages the Bank should deliver, its target audience, and the most cost-effective modes of delivery.

(See also Departments and Offices: Information Office, page 20.)

INSPECTION FUNCTION POLICY

The policy on inspection function establishes formal procedures for any community, organization, or other group affected by a Bank public sector project, to assert that the formulation or implementation of the project was inconsistent with Bank policies, to the material detriment of that group. The community, organization, or group making a request for inspection must present reasonable evidence that its rights or interests have been or are likely to be directly, materially, and adversely affected as a result of the Bank's failure to follow its operational policies and procedures in connection with the project concerned.

An applicant must first raise its grievance with Management. If the applicant is not satisfied with Management's response, it can submit a request for inspection to a six-member committee of the Board of Directors (the Board Inspection Committee), which will decide whether to recommend an inspection to the Board of Directors. The Board of Directors will consider the recommendation. If the Board authorizes an inspection, a panel composed of at least three individuals from a standing roster of independent outside experts will be formed to carry out the inspection. The panel's report will (i) identify all relevant facts; (ii) determine whether the Bank has complied with its operational policies and procedures; and (iii) recommend, if appropriate, any remedial changes in the scope or implementation of the inspected project. The report of the panel and Management's response to it will be considered by the Board of Directors for appropriate decision.

INTEREST AND OTHER CHARGES DURING CONSTRUCTION

In 1983, the Bank reviewed and revised its policy on the financing of interest and other charges payable to the Bank on its loans during construction or implementation. The review took into account the economic difficulties of its developing member countries (DMCs), and the Bank's local cost financing policy adopted that same year. Under the revised policy, the Bank may provide "interest and other charges" financing for its loans from ordinary capital resources, and concessional resources from the Asian Development Fund during the construction period.

INVOLUNTARY RESETTLEMENT POLICY

The policy on involuntary resettlement formalizes and strengthens the Bank's approach to the issue of a population displaced by a development project. The policy enunciates the following objectives and principles:

- involuntary resettlement should be avoided wherever feasible;
- where population displacement is unavoidable, it should be minimized;

- displaced people should be compensated and assisted, so that their economic and social future would be generally as favorable as it would have been in the absence of the project;

- affected people should be fully informed of and consulted on resettlement and compensation options;

- existing social and cultural institutions of resettlers and their hosts should be supported and used to the greatest extent possible, and resettlers should be integrated economically and socially into host communities;

- the absence of a formal legal title to land should not be a bar to compensation;

- as far as feasible, involuntary resettlement should be conceived and executed as a part of the project;

- the full cost of resettlement and compensation should be included in the presentation of project costs and benefits; and

- costs of resettlement and compensation may be considered for inclusion in Bank loan financing for projects.

The policy requires an initial social assessment of every development project from 1996 onwards. Where significant involuntary resettlement is necessary, the Bank will provide the government concerned and other project sponsors with necessary capacity-building support.

J

JAPAN SPECIAL FUND

The Japan Special Fund (JSF) was established in 1988 and is administered by the Bank. It seeks to help developing member countries (DMCs) restructure their economies and broaden the scope for new investments by recycling funds, and to support DMC efforts in industrialization, natural resource and human development, and technology transfer. JSF is used for financing or cofinancing, on a grant basis, technical assistance projects, and private sector projects through equity investments.

(See also Special Funds, page 66.)

JAPANESE REPRESENTATIVE OFFICE

(See Departments and Offices, page 21.)

L

LAW AND DEVELOPMENT

As part of its efforts to support capacity building and governance for sound development management, the Bank continued to expand law and development work in 1996, promoting policies, legal reforms, and regulations supporting economic growth; enhancing the status of women; and protecting the environment. Such work has focused on capacity building among institutions responsible for the administration and enforcement of laws and regulations, continuing legal education for government lawyers working with front-line development ministries and with government enterprises, and fostering research into the relationships between economic development and legal reforms.

(See Capacity Building, page 11, and Governance Policy, page 35.)

LENDING

The Bank provides three types of loans for different purposes: project loans to finance specific projects; program loans to support developing member countries' (DMCs) efforts to improve the policy, institutional, and investment environment of sector development, and help meet short-term costs that policy adjustments entail; and sector loans to develop a specific sector or subsector and finance a large number of subprojects in a single sector or subsector.

- **Borrowing Countries**

The Bank assists all its DMCs and gives special regard to the needs of the smaller or less-developed countries of the region. The Bank has made loans to several less-developed countries, which were their first loans from an international banking institution. But in these countries, bankable projects can generally be identified and formulated only by providing technical assistance, which takes more time and effort.

The Bank's concessional lending started later than its ordinary operations. Special Funds are in short supply, and the Bank's concessional lending activities have, therefore, been limited. The Bank has no problem in providing ordinary loans to the smaller or less-developed countries as long as they can afford the burden involved.

The Charter underscores the desirability of avoiding a disproportionate amount of the Bank's resources being used for the benefit of any single member. Therefore, the Bank consistently tries to bring about a more even spread of assistance and to step up its lending to the smaller or less-developed countries through greater assistance in project identification and preparation.

- **Eligibility**

The Bank may make, or participate in, direct loans to governments of its DMCs, to any of their agencies or political subdivisions, and to public and private entities and enterprises operating within such countries, as well as to international or regional agencies concerned

with economic development in the region. The Bank does not, however, finance any undertaking in the territory of a member if the member country objects to such financing.

- **Governments**

The Bank's policy for lending to governments is based on each country's special situation — its economy, access to other funds, needs, priorities, and national development plans.

- **Lending Rate**

Currently, the Bank has three lending windows for loans from ordinary capital resources (OCR): (i) pool-based multicurrency loan window where loan disbursements are made in a variety of currencies of the Bank's choice; (ii) pool-based currency-specific loan window in United States dollars which the Bank commenced in July 1992; and (iii) market-based loan (MBL) window which was established in December 1994.

The pool-based multicurrency loan window, adopted by the Bank effective 1 July 1986, is applicable to all ordinary operations loans (public sector) approved on or after that date (and at the borrowers' option, those approved after 24 September 1985), except the currency-specific United States dollar loans approved after 1 July 1992. Under this system, the lending rate, currently 6%, is determined by adding a spread to the average cost of a pool of outstanding Bank borrowings settled on or after 1 July 1986, and is adjusted every six months, on 1 January and 1 July of each year. Such spread is determined from time to time by the Board of Directors, with a view to ensuring that the Bank's income flows stabilize at appropriate levels, and is currently set at 0.4% per annum.

For the currency-specific United States dollar public sector loans, the lending rate, currently 6.79%, is determined by adding the same spread to the average cost of a pool of outstanding dollar borrowings settled after 1 July 1992. Under this system, the lending rate is also adjusted every six months, on 1 January and 1 July of each year.

The MBL window provides single-currency loans in United States dollars, Japanese yen, or Swiss francs, to private sector and government-guaranteed financial intermediary borrowers at current terms prevailing in international financial markets. MBL borrowers have the option of having the interest rates of their loans in either fixed or floating-rate terms. The lending rate on floating-rate loans is determined by adding a lending spread over six-month LIBOR (London interbank offered rate) of the loan currency. For fixed-rate loans, the lending rate is based on the cost of the Bank's fixed-rate borrowing in the currency concerned, plus a lending spread. MBL lending to government-guaranteed financial intermediaries is limited to US$1 billion, and subject to review at the end of the first two years of the operations of the MBL window.

- **Loan-Loss Provisioning Policy**

Where there are doubts about the ultimate collectibility of the principal of loans, the following provisioning policies will apply.

■ In the case of public sector loans from OCR and the Asian Development Fund (ADF), specific loan-loss provisions will be initiated

after payment obligations to the Bank in respect of a borrower's interest or principal which are in arrears to the Bank for one year, unless there is clear and convincing evidence warranting the deferment or acceleration of such provisioning.

■ The Bank will continue to make specific loan-loss provisions for private sector loans and equity investments as determined by Management after quarterly reviews of Bank projects in the Bank's portfolio.

■ On the remainder of the private sector portfolio not covered under specific provisions, the Bank will make general loan-loss provisions at a rate to be determined by the Board of Directors from time to time. For the years 1993 to 1995, the Bank's Board of Directors approved the setting-up of a general loan loss provision at the level of 4%, 6%, and 8%, respectively, at the end of each of those years.

■ The amount of provisioning to be charged against the Bank's current OCR and ADF income each year for both public and private sector loans and equity investments will be reviewed and approved by the Board of Directors.

- **Losses**

The Bank's loans have been made to or guaranteed by members, with the exception of loans to the private sector, and have maturities ranging between 10 and 30 years. The Bank requires its borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies which it has disbursed. The Bank has not suffered any loan losses to date on loans made to or guaranteed by members and follows a policy of not taking part in debt-rescheduling agreements. It is the policy of the Bank to place in nonaccrual status all loans in which principal, interest or other charges are overdue by six months. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the Bank.

The Bank makes specific provisions for possible losses on loans in which principal or interest is in arrears for one year for loans made to or guaranteed by a member and six months for loans to the private sector, based on an evaluation by Management of the collectibility of loans outstanding. On the remainder of the private sector portfolio, the Bank makes a general loan-loss provision at a rate to be approved by the Board of Directors.

- **Policies**

Loans are made for projects with high developmental priority. The Bank provides financing to its borrowers to cover foreign exchange expenditures incurred on a project and also finances local currency expenditures in certain cases. Loans from OCR are denominated in United States dollars but are disbursed in a variety of currencies. The Bank requires its borrowers to absorb exchange risks caused by fluctuations in the value of the currencies which it has disbursed. The Bank's

borrowers share the exchange risk on loans through the Bank's Exchange Risk Pooling System. As a general rule, the less-developed Bank members borrow from ADF, the Bank's Special Funds for financing loans on concessional terms, while members with stronger economies borrow from OCR.

- **Procedures**

Only projects of high national priority and having the support of the DMC concerned are considered by the Bank in respect of the public sector operations. Therefore, requests are normally made through the government concerned. Prospective borrowers usually address preliminary inquiries to the Bank. When the Bank receives an inquiry, it decides what additional information, if any, is required.

- **Purposes**

Bank loans are provided for projects in the fields of agriculture and natural resources; energy; industry and nonfuel minerals; financial sector; transport and communications; social infrastructure (water supply and sanitation, urban development, education, and health and population); and multisector loans. This listing does not, however, preclude the Bank from responding to proposals in other sectors which conform with its purpose and fall within its functions.

- **Relationship with Subscribed Capital**

Under the Bank's Charter, the total amount outstanding of loan commitments from OCR, as well as equity investments and guarantees made by the Bank, may not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surplus included in its OCR. This gearing restriction of a one-to-one ratio of loans to capital is more conservative than that of a typical commercial bank.

- **Repayment of Loans**

In making a loan, the Bank pays due regard to the capability of the borrower and its guarantor, if any, to meet their obligations under the loan agreement. The Bank is also guided by sound banking principles in its operations.

- **Sectors**

The Bank finances a variety of development activities, including irrigation and rural development, fisheries development, agricultural credit, livestock, seed production, fertilizer plants, forestry, agroprocessing industries, power generation and distribution, industries, highways and feeder roads, ports and harbors, airports, railways, telecommunications, water supply and sewerage, urban development, health and population, education, finance, and multisector.

The DMCs of the Bank comprise a heterogenous group of countries with different needs and in varying stages of development. The Bank, therefore, tries to follow a flexible policy.

- **Terms and Conditions**

In the case of direct loans, the loan agreement sets out the terms and conditions of the loan, including those relating to payment of

principal, interest and other charges, maturities, and dates of repayment. Interest charged by the Bank on loans from OCR and the service charge on loans from Special Funds are computed on the outstanding amount of the loan. The Bank also levies a commitment charge on loans made from OCR.

The borrower is normally permitted to draw on the loan only to meet expenditures as they are actually incurred in connection with the project. In the interest of economy and efficiency, the Bank generally requires that borrowers seek competitive bids from potential suppliers in member countries of the Bank; engineering plans and specifications be drawn up independently of the suppliers; and, if appropriate, independent consulting engineers be retained by borrowers. Except as otherwise determined by the Bank's Board of Directors, the Bank requires that the proceeds of loans or other financing by the Bank be used only for procurement in member countries of goods and services produced in member countries.

- **Types of Loans, by Source**

The Bank provides two kinds of loans – loans from OCR and from ADF. OCR loans are provided to middle-income DMCs, and ADF loans are provided to its poorer DMCs on highly concessional terms.

The Bank's interest lending rate for public sector loans from OCR is determined every six months and is dependent on the Bank's cost of borrowing funds. (On 1 July 1995, the variable interest rate is 6.05% per annum for multicurrency loans, and 6.91% per annum for US dollar loans.) The repayment period varies from 10 to 30 years, including a grace period of two to seven years.

The Bank also provides single-currency loans in United States dollars, Japanese yen, or Swiss francs to private sector and government-guaranteed financial intermediary borrowers at current terms prevailing in international financial markets. Market-based loan (MBL) window borrowers have the option of having the interest rates of their loans in either fixed or floating-rate terms.

Concessional loans, for the poorer borrowing countries, have no interest charge, carry only a service charge of 1% a year, with repayment periods of 35 or 40 years, including a grace period of ten years.

The floating interest rates for private sector loans are mostly based on rates offered by prime banks in the London Interbank market plus a suitable spread.

- **Utilization**

A loan approval by the Bank does not mean that the amount of the loan is immediately transferred to the borrower in a lump sum. The loan is disbursed to meet expenditures authorized under the loan agreement, as and when such expenditures are incurred by the borrower. Specific procedures are laid down in loan documents and in the Bank's guidelines for the procurement of goods and services, and the *Loan Disbursement Handbook*.

LIQUIDITY MANAGEMENT

The Bank's policy is to maintain liquid assets amounting to at least 40% of the total of undisbursed balances of approved loans at the end

of the year. The main purpose of the liquidity policy is to ensure the uninterrupted availability of funds to meet loan disbursements, debt servicing, and other expenditures.

Investment of liquid assets is governed by the Investment Authority approved by the Bank's Board of Directors. The main objective is to maintain security and liquidity. Subject to these constraints, the Bank actively seeks the highest possible return on investments.

The Bank may purchase and sell bonds, notes, or other obligations (other than subordinated obligations) which are:

- issued or unconditionally guaranteed by the member whose currency is involved in the investment;
- issued or unconditionally guaranteed by a nonborrowing member, and denominated in the currency of another member whose currency is convertible (provided certain minimum credit rating requirements are fulfilled);
- issued or unconditionally guaranteed by an autonomous government entity or a government-sponsored corporation of a nonborrowing member, and denominated in the currency of such member or another convertible currency, provided certain minimum credit rating requirements are fulfilled;
- issued or unconditionally guaranteed by a multilateral organization, denominated in a convertible currency, and fulfilling certain minimum credit rating and eligibility requirements; and
- time deposits and other unconditional obligations of banks or other financial institutions in member countries meeting minimum credit rating and eligibility requirements.

In addition, the Bank may purchase and sell exchange-traded financial futures and option contracts relating to the investments authorized. The Bank may lend, against adequate collateral, and may borrow securities which it has obtained or may obtain. The Bank may also engage in covered forward investments or enter into short security positions.

As a general rule, the Bank's investments are made in the same currencies as received. The Bank is prohibited from taking foreign exchange exposure. At present, liquid investments are held in 24 different currencies.

LOAN PROJECTS

Loan projects are classified in terms of the Bank's strategic development objectives: (i) promote economic growth; (ii) reduce poverty; (iii) support human development (including population planning); (iv) improve the status of women; and (v) protect the environment.

LOCAL-CURRENCY FINANCING

The Bank can finance the foreign exchange cost as well as a portion of the local currency cost of projects. In doing so, the Bank observes

certain standard percentage limits which determine the maximum share of total project cost which the Bank is able to finance. These limits differ according to country groups. In Group A, the standard percentage limit is generally 80%; in Group B, 60%; and in Group C, 40%. The maximum amount of local cost financing (LCF) normally allowed is the difference between the foreign exchange cost of the project and the amount derived by applying the applicable standard percentage limit to total project cost.

These standard percentage limits are not applied mechanically. The actual percentage of Bank financing depends on project and country considerations. Priority is generally given to projects addressing social or environmental concerns, and to the least-developed DMCs. Also, the Bank provides LCF only if it is satisfied that the recipient DMC is making reasonable efforts toward mobilizing its own domestic resources.

(For classification of countries, see pages 5-6.)

M

MEDIUM-TERM STRATEGIC FRAMEWORK

The Bank's *Medium-Term Strategic Framework* (MTSF) defines its strategic agenda, inclusive of strategic development objectives and roles, and determines its operational priorities over the medium term.

The first MTSF was adopted in March 1992. Since then, the MTSF has been updated and strengthened every year. The MTSF (1995-1998) adopted in March 1995 reconfirmed the five medium-term strategic development objectives: (i) promoting economic growth; (ii) reducing poverty; (iii) supporting human development (including population planning); (iv) improving the status of women; and (v) protecting the environment. To effectively pursue these strategic objectives, the Bank adopted the following as its operational foci: (i) policy support; (ii) capacity building for development management; (iii) creating and strengthening productive capacity, infrastructure, and services; and (iv) regional cooperation. To achieve these operational objectives, the Bank will (i) provide loans and technical assistance in accordance with the strategic thrusts adopted for each developing member country (DMC); (ii) efficiently manage implementation of loans and technical assistance; (iii) provide regional TAs to promote regional cooperation, and organize regional conferences on key policy and capacity-building issues; and (iv) help mobilize additional resources for DMCs through cofinancing and guarantee operations.

(See also Strategic Development Objectives, and Strategic Planning, page 67.)

MEMBERSHIP

Membership in the Bank is open to members and associate members of the Economic and Social Commission for Asia and the Pacific, and to other regional countries and nonregional developed countries which are members of the United Nations or any of its specialized agencies. As of 31 December 1996, the Bank had 56 members – 40 from the region and 16 from outside the region.

N

NEPAL RESIDENT MISSION

(See Departments and Offices, page 21.)

NONGOVERNMENTAL ORGANIZATIONS

The Bank seeks closer ties with nongovernmental organizations (NGOs) in several ways, including information sharing, practical assistance at project level, and cofinancing. The Bank, as well as other parties involved, benefits from such cooperation. For NGOs, greater financial resources help them expand activities such as project preparation and implementation, community organization, and social mobilization. Governments gain through better project implementation. Above all, more effective assistance benefits the poor and disadvantaged, and improves natural resource management and conservation activities.

In 1987, the Bank adopted a policy framework for cooperation with NGOs. Since that time, cooperation between the Bank and NGOs has expanded greatly. The sectors where the Bank and NGOs can work more fruitfully are agriculture and rural development, social infrastructure, urban development, water supply and sanitation, health and population, education and training, small-scale industry, and environmental protection. Moreover, consultation with NGOs has become a regular event during the Bank's annual meetings.

The most effective areas of cooperation have been in identifying, designing, implementing, monitoring, and evaluating projects which focus on poverty reduction, the social sectors, and environmental conservation and management. Such projects have to assess people's needs and demands, the assistance required, and the degree of community involvement. NGOs often provide such assessments better than government agencies or consultancy firms.

(See also Cooperation with NGOs, page 15.)

NORTH AMERICAN REPRESENTATIVE OFFICE

(See Departments and Offices, page 21.)

O

ORDINARY CAPITAL RESOURCES

The Bank's ordinary capital resources (OCR) comprise subscribed capital, reserves and surplus, and funds raised through borrowings. Loans from OCR, which account for about 70% of cumulative Bank lending, are generally made to developing member countries (DMCs) which have attained a somewhat higher level of economic development.

The effective and efficient management of OCR is governed by five key sets of financial policies: capital resources management policies, borrowing policies and strategies, net income and management policies, liquidity policy, and loan products and credit risk policies.

ORGANIZATION STRUCTURE

The organization structure of the Bank consists of a Board of Governors, a Board of Directors, a President, three Vice-Presidents, Heads of Departments and Offices, and other officers and staff.

Each member country nominates one Governor and an Alternate Governor. The Governor or Alternate Governor exercises the voting power of the member represented.

The Board of Directors, which is elected by the Board of Governors, consists of 12 Directors (each with an alternate) – eight representing regional countries, and four representing nonregional countries.

The President is elected by the Board of Governors for a term of five years, and may be reelected. The President is Chairperson of the Board of Directors and, under the Board's direction, conducts the business of the Bank.

Since its reorganization in 1995, the Bank has emphasized a country focus in programming and implementing Bank operations.

(See also ADB Organization Structure, page 76.)

P

PACIFIC DMCs

The Pacific developing member countries (PDMCs) of the Bank are Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu, and Western Samoa.

The Bank plays an important role in financing development projects in PDMCs to maximize the use of their human and natural resources to achieve sustainable development.

PAKISTAN RESIDENT MISSION

(See Departments and Offices, page 24.)

PARTICIPATORY APPROACH TO DEVELOPMENT

Participatory development is a process through which stakeholders can influence and share control over development initiatives that affect them directly, as well as decisions and resources that are part of development initiatives. Participation facilitates the interaction of each stakeholder group in development initiatives in a more equitable and collaborative manner. If stakeholder interests are not identified and addressed before commitments to development are made, these interests often will emerge during project implementation, compromising the effectiveness and sustainability of initiatives in place.

In the past, some of the Bank's investment projects have focused on increasing outputs or providing physical or other infrastructure, without paying enough attention to people who would use either the outputs or the infrastructure services. Examining the impact of these projects has led the Bank to accept that many of the potential benefits of the investments have not been achieved fully, owing to inefficient or inappropriate use of the outputs or infrastructure. Also, adverse impacts of these projects on people and the environment often were not adequately addressed. As a result of these experiences, the Bank is increasingly according greater attention to beneficiary concerns, including identifying the potential clientele for the project, as well as their needs, constraints, and demands; their capacity to organize, participate, manage, operate, and maintain project facilities; and their ability and willingness to pay for the project and its services. All new projects are reviewed so that the priority requirements of the people can be successfully met, and that the facilities concerned are operated, managed, and sustained after project completion.

Some of the areas in which the Bank sought active beneficiary participation in the design, implementation, and/or maintenance of project facilities are in livestock development, water supply and sanitation, agriculture, energy, area conservation, rural infrastructure and irrigation development, education, and family health and nutrition.

POLICY AGENDA

The Bank's policy agenda encompasses a wide range of issues, including the regulatory and legal frameworks for growth, trade and investment regimes, relative roles of the private and public sectors, pricing and tariffs, cost recovery, good governance, decentralization, beneficiary participation, and social and environmental issues.

POLICY DIALOGUE

A major part of the Bank's contribution, aside from lending, is its role in the policy formulation and reform process. Policy dialogue, designed to promote an environment conducive to sustainable economic growth and development, is an important element of the Bank's operations in its developing member countries (DMCs), and has been increasingly focused on broad macroeconomic and sector concerns as well as crosscutting issues.

The Bank's strength lies in its ability to provide technical assistance and advice on policies tailored to the needs of each DMC, coordinated with financial support and implementation assistance. Its involvement in policy dialogue occurs at four levels – national, sectoral, institutional, and project. The extent of Bank involvement in policy dialogue varies, but it seeks to ensure complementarity of views and approaches to be established among the Bank, its DMCs, and other lending institutions. To sustain policy dialogue, the Bank devotes substantial resources to economic and sector work.

POSTEVALUATION

The Bank undertakes postevaluation of completed projects to (i) provide accountability to its shareholders; and (ii) distill lessons of experience with a view to improving the quality of design of future projects, and the quality and development impact of its lending to DMCs. The process seeks to identify the major lessons from earlier projects and to ensure that these lessons are taken into account in the formulation of policy and design of new projects. The Bank adopts a two-step evaluation system. The first step consists of the preparation of Project Completion Reports (PCRs) for all completed projects/programs by the operational divisions responsible for their processing and implementation, the principle being that for most effective learning and impact on future operations, the initial evaluation should be carried out by those who have been directly involved. To ensure an independent evaluation, the second step consists of the preparation of Project Performance Audit Reports (PPARs) by the Post-Evaluation Office. The PPAR evaluates the effectiveness of a project in achieving its objectives, and provides an analytical commentary and supplement to the PCR. The PPAR audits the PCR for adequacy and integrity, and focuses on specific issues meriting closer attention.

Postevaluation is undertaken not only through the preparation of PPARs, but also through evaluation studies which are aimed at more intensive analysis of particular issues or subjects of broader relevance to the Bank's operations, practices, and procedures. These studies comprise impact evaluation, reevaluation, and special studies. Impact evaluation provides insights into the extent to which the benefits of Bank lending in a particular

sector are sustained and spread. Reevaluation focuses in depth on project impact and sustainability about five years after the postevaluation stage. Special studies provide intensive analyses of particular issues or comprehensive reviews of postevaluation findings in a specific country or sector.

Postevaluation has recently been expanded to cover the Bank's technical assistance operations. However, the Technical Assistance Performance Audit Reports have been prepared on a limited scale.

(See also Departments and Offices: Post-Evaluation Office, page 24.)

POVERTY REDUCTION

Poverty reduction is a Bank priority. Poverty still remains a trap for more than half a billion Asians, with some 420 million of them facing "absolute poverty." The total figure represents more than two thirds of the world's poor. Even though the number of poor in Asia is expected to decrease to about 435 million by the year 2000, the region will still have more than half the world's poor living in it. Because its roots lie in a complex mesh of sociological factors, poverty reduction is a difficult task.

Since the start of Bank operations in 1966, poverty reduction has been an implicit element in its activities. Its concerns were sharpened by the findings and recommendations of an internal task force on the Bank's role in poverty reduction in 1988, and of an external panel which examined the role of the Bank in the 1990s. A comprehensive action plan has been developed to ensure that new policy components are fully integrated with all Bank operations. Poverty issues are now considered systematically during country strategy and operational programming exercises, and an increasing number of projects and programs are being aimed at meeting specific poverty-reduction goals.

The Bank pays special attention to poverty-reduction issues when formulating and implementing conventional projects, and initiates core poverty-reduction projects which specifically focus on impoverished groups. The Bank is increasingly concerned with developing projects to increase income and job opportunities for the poor, and to improve their access to basic social services, such as education and health care. It also supports policy adjustments to involve the poor in the development process.

PRIVATE SECTOR POLICY

The private sector policy sharpens the focus of the Bank's private sector operations, and reconfirms the importance of technical assistance and policy advice to improve the environment for private sector development. The Bank will particularly emphasize policy, legal and regulatory reforms, institutional enhancement, and human development. The formulation and implementation of reforms will continue to be supported, on a selective basis, through program lending. In the direct financing of private sector projects, the priority will be on capital market and infrastructure development. Plans for private sector development will be dovetailed with country operational strategy studies and country assistance plans.

The Bank's private sector operations are intended to help selected private enterprises undertake financially viable projects which have significant

economic merit. The Bank provides assistance in the form of loans without government guarantee and equity investments, and helps mobilize domestic and external resources. The growing emphasis placed by DMCs on the role of the private sector in economic development makes direct support for private enterprise a priority for the Bank. At the same time, through policy dialogue, technical assistance, and program lending, the Bank continues to contribute to the creation of a conducive environment for private sector development in DMCs.

The current strategy for the Bank's private sector operations is designed to optimize the benefits of Bank resources alloted to these operations. It calls for (i) focusing support on projects for financial intermediation, capital market, or infrastructure development, with industry sector projects being given lower priority; (ii) taking into account the differing circumstances and needs of host DMCs and the Bank's overall operational strategy for each country; and (iii) leveraging the Bank's own funds to mobilize a larger flow of private funds into DMCs.

PRIVATE SECTOR SUPPORT

The role of the private sector varies among the Bank's DMCs, but in many countries it contributes substantially to the growth of national income, investment, employment, export earnings, and the transfer of technology. Many DMCs are trying to stimulate private enterprise by limiting or reducing public sector involvement in the economy, and by creating an improved policy environment.

The private sector is seen by the Bank as the main vehicle for the economic growth of its DMCs. In this context, a priority objective of the Bank's medium-term planning is to help its DMCs establish a healthy environment for the private sector's growth. This is done mainly through policy discussions and dialogues with DMC governments on various aspects of policy, and the statutory, regulatory, and fiscal frameworks that have a bearing on the growth and development of the private sector.

Since the beginning of its operations, the Bank has provided credit lines to selected DMC financial intermediaries for onlending to small and medium private enterprises by means of government-guaranteed loans. Support for the private sector was enhanced in 1983 when an equity investment facility was introduced. This facility allowed the Bank to make direct equity investments in private enterprises and financial institutions, and to extend lines of equity to selected financial intermediaries.

Beginning in 1995, the Bank's unguaranteed private sector operations are handled by the Private Sector Group. The Infrastructure, Energy and Financial Sectors Departments (East and West) manage the Bank's government-guaranteed operations in support of the private sector.

(See also Departments and Offices: Private Sector Group, page 24.)

PROCUREMENT

- **Domestic Suppliers**

Goods for Bank-financed projects are normally procured through international competition under the Bank's procurement guidelines. When a domestic contractor or supplier participates in international competitive bidding and wins a contract, the Bank will finance the contract in

foreign exchange, to the same extent as in the case of a foreign supplier or contractor.

To promote the domestic industry of the borrowing countries and to compare bids offering domestically manufactured goods and imported goods on a more equal basis, a margin of preference may be granted under international competitive bidding procedures. Such a preference may also be granted to eligible civil works contractors from the Bank's Group A DMCs. If the borrowing countries want to avail of this scheme, the methods set forth in the loan agreement for the evaluation and comparison of bids should be indicated in the tender documents.

In appropriate cases, the Bank also allows the procurement of domestically manufactured goods or domestic construction services without going through the Bank's normal procedures of international competitive bidding. The Bank finances the foreign exchange component of such procurement. In these cases, the Bank, before agreeing to the proposed procurement arrangement, makes an assessment to ensure that it is unlikely that foreign bidders will be interested and that local production or construction facilities are available at reasonable costs, efficient and adequate in terms of prompt delivery.

- **Specifications**

The *Guidelines for Procurement under Asian Development Bank Loans* provides that descriptions contained in specifications should not prescribe brand names, catalogue numbers or types of equipment of a specific manufacturer, unless it has been determined that this is necessary to ensure inclusion of certain essential features – in which case the reference is followed by the words "or equal." Specifications should, as a rule, permit offers of alternative equipment, articles, or materials which have similar characteristics, and provide equal performance and quality to those specified.

(See also Business Information, page 9.)

PROFITS

It is the Bank's policy to maintain an adequate level of net income in relation to annual interest charges payable with respect to its borrowings and the need to build up its reserves. The Bank has consistently made profits on its ordinary operations since 1967.

PROGRAM LENDING

Program lending supports the efforts of the Bank's DMCs to improve the policy, institutional, and investment environment of sector development through a lending mechanism which, being quick-disbursing, also helps meet the short-term costs that policy adjustment entails.

The Bank's project lending, as compared with program lending, also seeks to address policy and institutional issues that are relevant to project objectives, but cannot readily tackle policy constraints and opportunities that are underlying and sectorwide in nature, or bear upon the links between particular sectors and the macroeconomy. Program lending meets these wider needs.

To take account of the experience with program lending as well as the changed circumstances in many DMCs, changes were introduced in the Bank's program lending policies in 1996. Program loans will be utilized to facilitate and accelerate the adoption of necessary policy reforms. In addition, a new sector development program modality has been introduced; this combines project or sector and program lending with a view to addressing sector needs more comprehensively.

The new program lending policy also emphasizes sector analysis as a precondition for program lending; assesses the policy performance record and programs of DMCs; gives attention to social and environmental issues, including mitigating measures in case of adverse short-term impacts on the poor; and reviews budgetary allocations to and within the sector to ensure that essential needs are met.

PROJECTS

Loan projects are classified in terms of the Bank's strategic development objectives: (i) promote economic growth; (ii) reduce poverty; (iii) support human development (including population and planning); (iv) improve the status of women; and (v) protect the environment. Public sector projects are assigned a maximum of two objectives, one primary, and one optional secondary. Projects are classified as having social or environmental objectives only if they are designed to specifically and primarily address poverty, human development, status of women, or the environment, and if their expected impact in terms of benefits and beneficiaries is adequately documented, and fulfills the relevant classification criteria.

A project is classified as a growth project if its primary aim is to promote economic growth through investments that increase economic production capacity and/or enhance economic efficiency. A project is classified as a growth-oriented project if social emphasis is a secondary aim.

PROJECT BENEFIT MONITORING AND EVALUATION

Project benefit monitoring and evaluation (BME) is being promoted by the Bank to determine a project's social significance. The Bank increasingly recognizes that people should be the centerpiece of development, and that economic growth should be efficient, equitable, and sustainable.

There are three major BME activities: preparation of benchmark information, project benefit monitoring, and project benefit evaluation. Benchmark information is prepared during the implementation of a feasibility study of a proposed project to assist the feasibility study team, as well as project formulation and appraisal missions.

Project benefit monitoring is an integral part of a management control process, which is used by the project office and executing agency to ensure that project facilities are being fully utilized so that the flow of benefits which emanates from a project is maximized.

Project benefit evaluation refers to special studies which are commissioned by project managers, executing agency executives or policymakers to assist in making decisions about the effects of procedures, standards, and policies of the executing agency or other external events on the achievement of benefits from projects. These studies are conducted as the need arises, while monitoring is a routine practice of management.

PROJECT CYCLE

The series of steps in a typical Bank-financed project includes project identification; fact-finding to establish project feasibility; appraisal to assess project soundness and viability; consideration and approval by the Bank's Board of Directors; and finally, project implementation, within the guiding framework of the Bank's loan administration procedures. Many Bank-financed projects are also subject to postevaluation when completed.

The first step – project identification – is generally taken during the Bank's annual country programming missions in consultation with member governments. It is preceded by a study of the country's economic situation and its development plans and priorities. Based on such a study, the Bank prepares a country operational strategy, and this is followed by the preparation of a country assistance plan, with close scrutiny of the role of each project with respect to the national development program. If a project is relatively straightforward or has been prepared well, it is possible to proceed to fact-finding and appraisal immediately after identification. Otherwise, technical assistance may be provided to collect pertinent information and undertake preliminary project design.

In appraising a project, its technical, financial, economic, social, environmental, production, marketing and management aspects, and loan conditionalities are closely examined. This helps to pinpoint specific steps necessary to ensure its smooth and efficient implementation and operation. Bank loans are often channeled through existing agencies such as power, port, railway or water boards; government departments; semigovernment and public enterprises; and to the private sector, often through national development banks.

A loan approval by the Bank does not mean that the amount of the loan is immediately transferred to the borrower in a lump sum. The loan is disbursed to meet expenditures under the loan agreement, as and when they are incurred. Specific procedures are laid down in the loan documents and in the Bank's guidelines for the procurement of goods and services.

PROJECT IDENTIFICATION

Bank resources compared with the needs of its borrowing members are limited, so projects are selected carefully. Before any project is identified for Bank financing, Bank staff review a country's economy, particularly its national and sectoral development programs, and determine the prospects for its success. Country programming missions visit DMCs regularly to discuss topics of mutual interest with government officials and to select suitable projects for Bank assistance. Since the levels of economic growth, as well as the priorities for development, vary from one DMC to another, the Bank tries to select those projects which will most effectively contribute to the economic and social development of the country concerned, in conformity with the country and Bankwide strategies. Once it is confirmed that investment in the project is justified, then the Bank evaluates the project.

In some cases, especially in the smaller and less-developed DMCs, project identification may require the help of outside experts. If so, the Bank can provide technical assistance to a country to help it identify and prepare a project for possible Bank financing.

PROJECT IMPLEMENTATION

Normally, the loan documents allow 90 days for the loan agreement to become effective. The preparatory work for construction (including recruitment of consultants, preparation of tender documents and detailed designs, procurement of equipment, and selection of contractors for construction) may take from 12 to 18 months or longer. In certain cases, the engineering designs may be completed before the Bank's approval of the loan. Usually, these activities cannot begin until the loan agreement becomes effective. However, certain preliminary steps in the procurement of goods and selection of consultants can begin at an earlier stage to speed up project implementation.

Implementation time generally ranges from two to five years, and depends on the type and nature of the project. The progress of project implementation is assessed by Bank review missions, which visit the project about once a year throughout the implementation period.

PROJECT QUALITY

The Bank aims to achieve better project quality and development impact. An important ingredient of project quality is effective implementation. While implementation of projects is mainly the responsibility of its DMCs, the Bank will place greater emphasis on project administration and portfolio review than it has in the past to enhance project effectiveness and efficiency.

In its report released in January 1994, the Bank's Task Force on Improving Project Quality (TFIPQ) has identified four attributes of project quality: economic and financial viability, social impact, implementability, and sustainability. Emphasis on the broader objectives of capacity building, beneficiary participation, and project performance, rather than simply on the physical completion aspects of projects, were emphasized.

A complementary step to the work of the Bank's TFIPQ was the Regional Workshop on Improving Project Quality, held in November 1994. The Agenda for Action was developed by the participants, which establishes the foundation for a strengthened partnership between the Bank and its DMCs; and for substantive efforts by DMCs, in conjunction with the Bank, in support of improved project quality. The Agenda for Action covers several areas of concern which include strengthening project "ownership;" commitment to medium- and long-term technical assistance designed to achieve sustainability of projects over time; strengthening economic and sector work; streamlining approval procedures and instituting feedback mechanisms that will link monitoring and evaluation; and developing skills for postevaluation.

(See also Project Cycle, page 57.)

PROTECTION OF VULNERABLE GROUPS

Vulnerable groups include children, the aged, tribal people, ethnic minorities, illegal settlers/squatters, people at the bottom rungs of the social ladder, disabled people, and new and old immigrants. They are often poor and socially powerless, with very little capacity to absorb economic and social shocks. Thus, the costs of adjustment imposed on the vulnerable groups may be out of proportion to their capacity to bear such a burden.

The Bank is aware that while carrying out policy adjustments, institutional reforms, and project investments aimed at improving economic efficiency, enhancing growth, and protecting the environment, it is necessary to provide safety nets to the vulnerable groups that may be adversely affected. Compensating adversely affected people is in the interest of equity and overall social harmony. In its development activities, the Bank follows the principle that as a result of an adjustment, reform, or investment, no group will be worse off, and at least some groups better off, than before.

PUBLICATIONS

The Bank issues news releases on loan and technical assistance approvals, and on other major items of public interest. News releases on loans contain technical information about project details of interest to prospective suppliers of goods and services under the loans. News releases are mailed to addressees on the Bank's mailing list. The Bank also publishes and distributes an *Annual Report*, various information brochures, and a bimonthly *ADB Review* (in English, French, German, and Japanese). Information on the Bank is also available on *Internet* at: http://www.asiandevbank.org

In an effort to promote regional economic growth and development, the Bank conducts major regional surveys. The Bank also publishes an *Asian Development Outlook* and an *Asian Development Review*, a semi-annual journal discussing economic issues in the Asian and Pacific region, and disseminates the results of its economic work through its *Economic Staff Paper Series*, occasional papers, statistical report series, EDRC report series, and selected environmental work through its Office of Environment and Social Development. It also publishes statistics of its DMCs under the title *Key Indicators of Developing Asian and Pacific Countries*.

The Bank created a Publications Committee in 1992 to recommend to Management approaches regarding the coordination and control of the Bank's publications activities. For the Publications Committee's purposes, publications are defined as publications for general external circulation, including publications arising from technical assistance projects, conferences and seminars, but not necessarily including the Bank's statutory publications.

The Committee reviews policies governing the Bank's publications activities, and provides recommendations to Management with regard to changes in existing policies or the formulation of new policies. As requested or as appropriate, the Committee may also recommend guidelines, and explore new standards, vehicles, and strategies for publication.

(Further details on all Bank publications may be obtained from the Information Office.)

PUBLIC SECTOR PROJECTS

Public sector projects are assigned a maximum of two objectives: one primary and one optional secondary.

(See Strategic Development Objectives, page 67.)

PURCHASES

Loans made from the Bank's ordinary capital resources may be used for purchases from any member country. Under the Bank's present policy, loans made from the concessional Asian Development Fund (ADF) may be used for purchases from any developed member country which has contributed to ADF, and from any DMC.

R

RECRUITMENT

Staff are recruited to the Bank based on their professional experience and technical competence. The Bank advertises vacancies in international and national newspapers and journals. Assistance of various international recruitment contacts visited during recruitment missions abroad are also sought in identifying potential candidates.

The Bank employs various specialists such as Economists (macro, micro, research), Project Engineers, Financial Analysts, Treasury Officers, Control Officers, Investment Officers, Environment Specialists, Counsels, Evaluation Specialists, Social Sector Specialists, and Capital Markets/ Private Sector Specialists, as well as other professional staff for administrative functions.

The Bank also has a Young Professionals Program, which was established in 1983 to recruit and assimilate annually into the Bank a small number of exceptionally well-qualified younger personnel. Gender diversity is likewise being addressed intensively.

Although there is no formal quota system, the Bank seeks to balance the representation of staff from each member country using the country's subscription to the Bank's capital as a guideline.

More information on employment opportunities is available on the Bank's internet address: http://www.asiandevbank.org

REGIONAL COOPERATION

The Bank attaches considerable importance to regional cooperation. Its role in fostering regional cooperation is to intensify the synergy between groups of countries at different stages of development. This is effected by strengthening trade and investment complementarities through the formation of growth zones in particular subregions within the context of global integration; catalyzing the development of capital markets, and tapping those markets to raise resources; institutional strengthening and infrastructure building; and facilitating the dissemination and distillation of development experiences to its developing member countries (DMCs).

In addressing the Bank's agenda on regional cooperation, a phased approach is followed. In the first phase, the emphasis is on increasing DMCs' understanding and awareness of the potential and importance of regional cooperation. This is done by taking stock of research useful to identify areas for promoting regional cooperation; and providing regional technical assistance for in-depth research aimed at quantifying the potential benefits of improved regional cooperation, or the real cost of its absence. The second phase identifies potential projects and programs which have regional and subregional implications. The third phase includes financing of selected pilot projects with strong economic rationales, highlighting areas of regional and subregional importance. Particularly notable is Bank support for cooperation in the Greater Mekong Subregion (GMS). The Bank is also assisting other regional cooperation initiatives such as the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA).

REGIONAL STUDIES AND SURVEYS

Regional projects involve close collaboration among member countries. Positive results in respect of regional projects can be expected only when the initiative comes from the countries themselves. Major surveys undertaken by the Bank were primarily in response to requests made by DMCs. The projects that have resulted from some of these surveys justify Bank involvement in such studies as part of its regional role.

RESOURCE TRANSFERS

The net transfer of resources refers to gross loan disbursements minus principal repayments and prepayments, payments of interests and other charges, plus net equity investments from the Bank to its DMCs.

S

SECTOR LENDING

Sector loans assist in the development of a specific sector or subsector in a developing member country (DMC) by financing a part of the investment need of a DMC in that sector or subsector. A sector loan would be more suitable than a project loan if, under the loan, a large number of subprojects in a single sector or subsector is to be financed.

Sector loans are normally provided to well-established and experienced institutions, and to sectors or subsectors where the policy framework is sound. If the criteria for sector lending are not adequately met, the Bank may consider providing technical assistance for project preparation, and a sector study prior to or together with the provision of a sector loan. Technical assistance may also be provided for institution building prior to or along with the provision of a sector loan. Where necessary, sector loans may also seek to improve sector policies.

SEMINAR ACTIVITIES

The Bank regularly holds seminars and workshops intended to enhance the implementation capabilities of executing agencies. In addition, in-house seminars are also held to improve the skills of Bank staff dealing with project processing and administration, as well as other emerging areas such as environment and natural resource management.

Among the major regular seminars are business opportunities seminars to apprise contractors, manufacturers, suppliers, and consultants of opportunities available under Bank financing and of the requirements in preparing acceptable bid proposals.

SOCIAL DEVELOPMENT ACTIVITIES

In contrast to the sectoral focus of the Bank's project activities, social development is a concern extending across the Bank's operations. Social development is based on a framework encompassing the entire range of the Bank's policies and procedures, and applies at each step of the Bank's operational cycle. The Bank's focus on social development is based on the fact that despite the relatively high and sustained rates of economic growth achieved within the region, poverty remains endemic in many DMCs, and that development must address all people.

Social development encompasses poverty reduction, enhancing the role of women in development, and avoiding or minimizing involuntary resettlement. It also includes efforts to avoid or mitigate the adverse effects of development interventions on vulnerable groups that do not have the capacity to absorb them. It is the Bank's strategy to incorporate these social dimensions in its development efforts and operations.

Human development, including population and planning, is an important part of social development and is recognized as one of the Bank's strategic objectives. The rapid development of human resources is widely recognized as a necessary condition for sustaining high rates of economic growth. A number of studies have confirmed that investment in human development,

especially in primary education and preventive health care, yields significant gains in productivity and income. At the same time, beyond any relationship between human development and economic growth, improvement of the quality of life must be regarded as a developmental goal in itself.

SOCIAL DIMENSIONS

The Social Development Division in the Office of Environment and Social Development handles the social dimensions activities of the Bank.

The concept of social dimensions captures the key elements of human perspectives in development, including poverty reduction, enhancing the role of women in development, human development, and avoiding or mitigating the adverse effects of development interventions on groups that do not have the capacity to absorb such effects. The Bank recognizes the importance of incorporating social dimensions in all its development efforts and operations, and social dimensions are a major consideration in the formulation of development strategies, including operational strategies; the translation of these strategies into operational programs; and the design, implementation, and evaluation of development projects and programs.

Promoting a balance between economic growth and social development continues to govern the Bank's development efforts in the Asian and Pacific region. The focus on the social aspects of development is sharpened by an ever-increasing number of the region's population living in poverty, despite the overall economic growth of the region. Documents such as *The Bank's Medium-Term Strategic Framework (1995-1998)* and *The Report of the Task Force on Improving Project Quality* reflect the Bank's commitment to the social dimensions of development.

The Bank continually refines its activities by reorienting policies and practices toward its objectives of poverty reduction, enhancing the role of women, human development, beneficiary participation, and protection of vulnerable groups. The Bank emphasizes these social dimensions in all aspects of its operations.

The key social dimensions are described below.

- **Poverty Reduction**

  Helping the poor through assistance directly targeted to support productive activities that generate employment and income; identification of development policies and investments that expand the employment opportunities for the poor; and improvement of the access of the poor to health, family planning, education and related services, and expansion of these services.

- **Women in Development**

  Promoting policies and activities that help women develop their full potential, improve their productivity, increase their contribution to the economy, and share in the rewards of development as equal partners with men.

- **Human Development, including Population Planning**

  Investment in people – human resources – through services such as health and population, education, water supply and sanitation, and

urban and rural development. Such investment will help improve the skills and productivity, living standards and quality of life of present and future generations of people, and help increase their contribution toward sustained and accelerated economic growth.

- **Vulnerable Groups**

Vulnerable groups include children, indigenous and tribal people, ethnic minorities, illegal settlers and squatters, people at the bottom rung of the social ladder, disabled people, and new and old immigrants. Often, members of vulnerable groups are poor and unable to absorb economic, environmental, and social shocks. Generally, vulnerable groups are people whose condition may be made worse by a policy reform, a new program, or some form of project intervention. Vulnerable groups often do not have the capacity to absorb shocks. It may be necessary to provide social safety nets and compensation mechanisms for vulnerable groups that are affected adversely.

SOCIAL INFRASTRUCTURE

The development of social infrastructure is an important operational priority of the Bank. Social infrastructure provides the enabling foundation for future economic growth. It improves people's general welfare, and satisfies the basic needs of the vulnerable. The development goals of DMCs are met through Bank investments in education, health and population, water supply and sanitation, urban development, housing, and tourism. These investments directly reflect the Bank's strategic development and operating objectives.

The Bank's specific objectives in social infrastructure sectors are as follows.

- **Education**

The private and social rates of return on investment in education, especially basic (primary and lower secondary) education, tend to be among the highest rates of return on all investment. The Bank therefore aims to support the education sector needs of its DMCs by improving the quality of, and increasing access to, formal and nonformal basic and secondary education, and postsecondary education. This provides a sound foundation for growth and improves equity. To realize gender equality, the Bank either invests in the subsectors where the interests and needs of women are prominent, such as primary and nonformal education, or targets women through special programs that will expand their income-earning opportunities. Provision of skills development, and technical and vocational education and training, supports productivity growth. Rehabilitation and strengthening of education systems are a particular concern in the transition economies.

- **Health and Population**

The Bank's main objective for the health and population subsector is to improve the quality of services, increase efficiency, and widen access, particularly for women and children, to primary health care and family planning services. Improved management and increased finance, as well as greater private sector participation, decentralization,

and devolution to the local level are important to achieve the overall objective.

- **Water Supply and Sanitation**

Access to adequate supplies of water and complementary sanitation facilities is critical to the health and well-being of the population. The Bank's main operational objective is to ensure the provision of reliable and safe drinking water and sanitation services. These services should meet basic needs, and be cost-effective, sustainable, and affordable. Appropriate water and sanitation services are necessary to support human development – both in urban and rural areas; improve the status of women; and protect the environment. Water supply and sanitation components are often included in integrated urban development projects to provide a balanced package of development benefits. The Bank also supports institutional capacity building for water and sanitation agencies, environmental protection, NGO and community involvement, and participation of the private sector in the development, operation, management, and maintenance of water supply facilities.

- **Urban Development and Housing**

Through the Bank's projects, emphasis is given to developing and strengthening the capability, capacity, and operational efficiency of the institutions and agencies responsible for the delivery, management, and maintenance of urban services. The Bank supports measures to mobilize local resources by broadening the tax base, improving revenue generation, introducing cost-recovery mechanisms, setting appropriate consumer charges, including cross-subsidies for the urban poor, and improving the efficiency of revenue collection. The Bank also promotes the participation of the private sector in urban development, including water supply, wastewater and solid waste management, and the contracting out of public services.

SOUTH PACIFIC REGIONAL MISSION

(See Departments and Offices, page 25.)

SPECIAL FUNDS

In addition to its ordinary capital resources (OCR), the Bank is authorized by its Charter to establish and administer Special Funds, which consist of the Asian Development Fund (ADF), the Japan Special Fund (JSF), and the Technical Assistance Special Fund (TASF). Special Funds resources are, at all times, held, used, and committed separately from OCR.

The ADF provides loans on concessional terms to those DMCs with low per capita GNP and limited debt-repayment capacity. The same strict standards for loan approval and administration which apply to OCR loans are applied to ADF loans. ADF loans have a nominal annual service charge of 1%, and are repayable over periods of 35 or 40 years, including a grace period of ten years. The resources for these loans mainly consist of contributions mobilized under periodic replenishments from member countries.

The JSF is another important source of financing for the Bank's technical assistance operations. The main objective of the JSF is to help the Bank's borrowing countries broaden the scope of opportunities for new investment. The JSF is used to finance or cofinance technical assistance on a grant basis, and private sector development projects through equity investments.

The TASF is an important source of grant financing for the Bank's technical assistance operations. It is funded mainly by regularized replenishment contributions, voluntary contributions of member countries, and allocations from OCR net income. Technical assistance enables the Bank to help its DMCs improve their capabilities to formulate, design, implement, and operate development projects.

(See also Japan Special Fund, page 40, and Technical Assistance Special Fund, page 71.)

STRATEGIC AGENDA

The Bank's strategic agenda, as specified in the 1992 *Medium-Term Strategic Framework*, consists of development promotion, resource mobilization, and regional cooperation.

For development promotion, the Bank's agenda over the medium term suggests that, while emphasizing economic growth, the Bank should increasingly address social concerns and environmental problems, the resolution of which will have a positive impact on growth.

In addressing its agenda on resource mobilization, the Bank is concerned with mobilizing external resources, as well as fund-raising and investment activities, augmenting external capital flows, and promoting domestic resource mobilization in DMCs.

A phased approach will be followed in addressing the Bank's agenda on regional cooperation, which emphasizes economic aspects. In the first phase, the emphasis will be on increasing DMCs' understanding and awareness of the potential and importance of regional cooperation. The second phase will clearly identify potential projects and programs which have regional and subregional implications. The third phase will finance selected pilot projects with strong economic rationales highlighting areas of regional and subregional importance.

STRATEGIC DEVELOPMENT OBJECTIVES

The Bank's strategic development objectives include (i) promoting economic growth; (ii) reducing poverty; (iii) supporting human development; (iv) improving the status of women; and (v) protecting the environment. The term human development means an increase in the value of human capital and quality of life, and is pursued through investment in education, health, population planning, water supply, sanitation, housing, and other basic human needs.

(See also Medium-Term Strategic Framework, page 48.)

STRATEGIC PLANNING

The Bank has established a system of strategic planning to respond to the needs of DMCs and meet its strategic development objectives. The *Medium-Term Strategic Framework*, adopted to cover four-year periods, sets out the Bank's strategic development objectives. They are: (i) promoting economic growth; (ii) reducing poverty; (iii) supporting human development; (iv) improving the status of women; and (v) protecting the environment. As a measure to manage and monitor Bank lending activities along these strategic development objectives, the Bank has adopted a system of project classification. All Bank loan projects are classified into: (i) projects whose primary objective is economic growth; (ii) projects whose primary objective is to address social concerns (poverty reduction, human development, and status of women); (iii) projects whose primary objective is protection of the environment and sound management of natural resources; and (iv) projects primarily aimed at economic growth having secondary features to address social and/or environmental concerns. The desirable project mix adopted by the Bank for all of its public sector lending operations is the "50:50" ratio: at least 50% of projects will have social or environmental objectives either as primary or secondary objectives; the remaining will support projects with economic growth as the primary objective. This project mix is monitored on a three-year rolling basis. The Bank's desirable lending mix, to be achieved by the end of the decade, will comprise 40% of total public sector lending (in terms of volume) for projects with social or environmental objectives.

The Bank's strategic planning approach focuses on the need for strengthened partnership with DMCs so that proper emphasis can be given to factoring DMCs' priorities and preferences into Bank decision-making. The cornerstone of the approach is its country focus. The approach will strengthen the earlier part of the project cycle. The Country Operational Strategy Study and Country Assistance Plan are now guided by the *Medium-Term Strategic Framework*, and expected to result in a more focused country operational program that will help attain the Bank's development objectives.

(See also Medium-Term Strategic Framework, page 48; Strategic Development Objectives, page 67; and Country Operational Strategy Studies, page 16.)

SUBSCRIBED CAPITAL

Subscribed capital refers to a member's subscription to shares of the capital stock of the Bank.

SUBSCRIPTIONS

The original subscriptions of regional member countries were determined by allocations agreed to by prospective regional members. These allocations were made on the basis of a formula which took into account gross domestic product figures adjusted for population, tax revenues, and exports on a weighted basis. Some regional members subsequently increased their subscriptions.

There was no specific formula in regard to subscriptions by nonregional developed countries. Their subscriptions were largely negotiated on the basis of their foreign aid policies, and budgetary allocations for financial

support to multilateral institutions. Some nonregional members also voluntarily increased their subscriptions.

SUPPLEMENTARY LOANS

The Bank provides financing for cost overruns on its projects. In determining the amount of a supplementary loan, standard percentage limits, set under the Bank's local cost financing policy, will be applied as appropriate to the revised total cost of an ongoing project with the actual level of finance determined on a case-by-case basis.

In any event, the Bank is prepared to consider financing the entire foreign exchange cost, both direct and indirect costs, of the project and is also prepared to consider using savings under the Bank loan for the project to meet either the foreign exchange or local cost overrun, even though there may not be a total project cost overrun.

Whether the supplementary loan comes from OCR or concessional Special Funds depends on the eligibility of the borrowing country concerned under ADF criteria prevailing at the time the loan is being processed.

SUSTAINABLE DEVELOPMENT

For more than two decades, there has been increasing awareness of the links between environmental degradation and economic growth. On the one hand, economic growth can have deleterious effects on the environment. On the other, degradation of the environment often undermines the development process as resources are used at rates that cannot be sustained.

One response to concerns such as these was the appointment in 1987 by the United Nations of a World Commission on Environment and Development (WCED). The Commission's report, *Our Common Future*, stated that growth, poverty reduction, sound environmental management, and the conservation of natural resources are all important objectives of society and must be considered in an integrated fashion when drafting economic development plans and policies. It recommended that current economic development programs be reexamined and revised, if necessary, to achieve a better balance and closer integration among these objectives. After exhaustive study of many complex issues, the Commission concluded that only by putting into effect a new pattern of management of natural resources and taking vigorous steps to reduce environmental degradation can poverty be challenged and overcome. The Commission urged all agencies in the United Nations system, and especially multilateral financing institutions like the Bank, to study its recommendations and make the necessary changes in their own operating procedures and program priorities.

Against this background, the Bank makes every effort to promote development policies which are environmentally sound and serve the long-term needs of the region and the world. The challenges facing the Bank involve the concerns identified by the WCED.

T

TAX LIABILITY

- **Status of the Bank**

The Bank's Charter states that the Bank, its assets, properties, income, and its operations and transactions, are exempt from all taxation and customs duties. The Bank is also exempt from any obligation for the payment, withholding, or collection of any tax or duty.

- **Status of Obligations and Securities of the Bank**

Under the Bank's Charter, no member country may impose any tax on the Bank's obligations if such tax discriminates against such obligations solely because they are issued by the Bank; or if the sole jurisdictional basis for such tax is the place or currency in which the obligations are issued, made payable or paid, or the location of any office or place of business maintained by the Bank. The Bank is not under any obligation to withhold or pay any tax on its borrowings.

TECHNICAL ASSISTANCE

Technical assistance plays an important role in the Bank's operations and is an integral part of its country programming exercises. Technical assistance helps developing member countries (DMCs) identify, design, implement, and operate development projects, and strengthens their ability to formulate development strategies, policies, programs, and plans. It also promotes technology transfer and enhances regional cooperation.

- **Financing**

The Bank's technical assistance is financed through grants or loans, or a combination of both. Funding for grants comes from voluntary contributions to the Bank's Technical Assistance Special Fund (TASF) by both developed and developing member countries, allocations to the TASF from the Asian Development Fund (ADF V and VI), investment from TASF, income from ordinary capital resources (OCR) operations, allocations from Japan Special Fund, and grants from multilateral and bilateral sources (under cofinancing and exclusive financing arrangements).

- **Types**

The Bank's technical assistance operations fall broadly under four categories.

■ **Project Preparation:** to assist the recipient country in the preparation of a project to bring it to the stage of being ready for investment financing.

■ **Project Implementation:** to assist an executing agency in the implementation of a Bank-financed project. This type of technical assistance usually comprises consultant services with expertise in the operation, management, and implementation of the project, the

training of local personnel, and the improvement of financial management of the project entity.

- **Advisory Technical Assistance:** to help establish or strengthen an institution, carry out studies on sectoral policies and strategies, or formulate national development plans. This type of technical assistance may not be directly related to a Bank-financed project.

- **Technical Assistance for Regional Activities:** to prepare regional studies, and conduct – by the Bank or in cooperation with other organizations – conferences, seminars, workshops, and training courses for participants from several DMCs, and in this way promote the role of the Bank as a development resource center.

TECHNICAL ASSISTANCE SPECIAL FUND

The Technical Assistance Special Fund is an important source of grant financing for the Bank's technical assistance operations. It is funded by voluntary contributions of member countries, funds earmarked from ADF V and VI resources, and income from OCR operations.

TRAINING AND INSTITUTIONAL DEVELOPMENT

The Bank considers human development as an essential part of socio-economic progress in its DMCs. This is reflected in its efforts to provide basic education for all, train and develop personnel to be responsive to changing labor and economic conditions and to the demands of science and technology, and build up the institutional capacity of beneficiary agencies. In addition to direct assistance to the education sector, the Bank supports built-in education, training, and institutional development components in loan and technical assistance projects in almost all sectors, and has created other operational instruments, such as scholarship programs not related to projects.

TRANSPORT AND COMMUNICATIONS SECTOR

Bank lending to the transport sector is focused on alleviating bottlenecks and constraints to economic development by rehabilitating and improving existing infrastructure, improving transport efficiency, providing necessary capacity, and selectively constructing high-priority transport links. Sector operations increasingly address the changes associated with the provision of transport infrastructure and operations. The considerable demand for additional infrastructure, as well as resources to operate and maintain existing facilities, is placing a severe strain on national resources. If economic and social development is not to be constrained by increasingly congested and inefficient networks, even greater investment will be required in the future. With limited public sector budgets, substantially more resources will be required from private sector sources. Bank operations are increasingly focusing on the need to define the role of both the public and private sectors, and to provide a suitable framework to enhance opportunities for the participation of the private sector. In creating the right conditions, the Bank is actively pursuing, through policy dialogue,

the need to examine existing institutional setups to define constraints to accessing capital and expertise of private sector institutions.

As with all Bank activities, the environmental and social sustainability of projects is carefully examined during project preparation. This aspect is especially important in this sector. Wherever necessary, mitigation measures are provided to reduce adverse impacts, and project facilities are conceived in a wider developmental context, taking into account social considerations. Prolonged sustainability also requires institutions with the capability and skills to implement, operate, and maintain infrastructure as well as to define future needs. Development of human resources is an important part of sector operations, and capacity-building components are featured in many projects.

TRIPLE-A RATING

Bank bonds are rated Triple-A by Moody's, Standard & Poor's, and the Japan Credit Rating Agency. The Triple-A rating reflects the Bank's high-asset quality, strong membership support, "preferred creditor status" with its borrowers, outstanding financial performance, and very conservative financial policies.

(See also Creditworthiness, page 16.)

U

URBAN DEVELOPMENT AND HOUSING

Rapid urbanization is emerging as a major development issue for many of the Bank's DMCs, and the trend is expected to continue well into the next century. The Bank encourages an integrated approach to urban development aimed at delivering a balanced range of infrastructure and services to meet basic needs and improve living conditions, particularly for the urban poor. The subsectors covered include water supply and sanitation, flood control, drainage, solid waste management, roads, urban transport, and land development and housing for low-income groups.

(See also Social Infrastructure, page 65.)

V

VALUATION AND MAINTENANCE OF VALUE OF CAPITAL STOCK

The amount of a member's subscription to the Bank's capital must be maintained at a fixed value which is calculated in terms of the US dollar in effect on 31 January1966. In the event of a change in the exchange value of a member's currency, an appropriate adjustment (involving payment of that member's currency by the Bank to the member or vice versa) will be made to maintain the value of the paid-in portion of the member's subscribed capital which has been paid in the member's currency and held by the Bank. The value of the callable portion of a member's capital subscription, being fixed in terms of the 1966 US dollar, will be unaffected by changes in the exchange value of the member's currency.

Before 1 April 1978, the Bank translated the 1966 dollar into the current US dollar (the Bank's unit of account) on the basis of its par value in terms of gold. Since 1 April1978, at which time the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, currencies no longer have par values in terms of gold. Pending the Bank's selection of the appropriate successor to the 1966 dollar, the Bank's capital stock has been valued for purposes of its financial statements, in terms of Special Drawing Rights (SDRs) at the value in current US dollars as computed by IMF. The mutual obligations of each member and the Bank, with respect to maintaining the value of currency holdings, are also measured by the same standard, but settlement of such obligations is being held in abeyance.

VIET NAM RESIDENT MISSION

(See Departments and Offices, page 26.)

VOTING POWER

The total voting power of each member shall consist of the sum of its basic votes and proportional votes. The basic votes of each member shall consist of such number of votes as results from the equal distribution among all members of 20% of the aggregate sum of the basic votes and proportional votes of all members. The number of proportional votes of each member shall be equal to the number of shares of the capital stock of the Bank held by that member.

W

WATER SUPPLY AND SANITATION

(See Social Infrastructure, page 65.)

WOMEN IN DEVELOPMENT

The Bank recognizes that improvements in the status of women are integral to achieving its other strategic development objectives, such as poverty reduction, economic growth, development of a healthier and better-educated society, and overall sustainable development. Investments in women are now widely acknowledged as crucial in achieving sustainable development, in that poor health, low education and training levels, and limited access to resources not only limit women's quality of life but also their contribution to economic efficiency and growth. Public policies and investments that improve the status of women have such benefits as improved public health, low infant and maternal mortality, lower fertility rates, increased life expectancy, and reduced health and welfare costs. The Bank's policy on women in development (WID), adopted in 1986, is currently being revised.

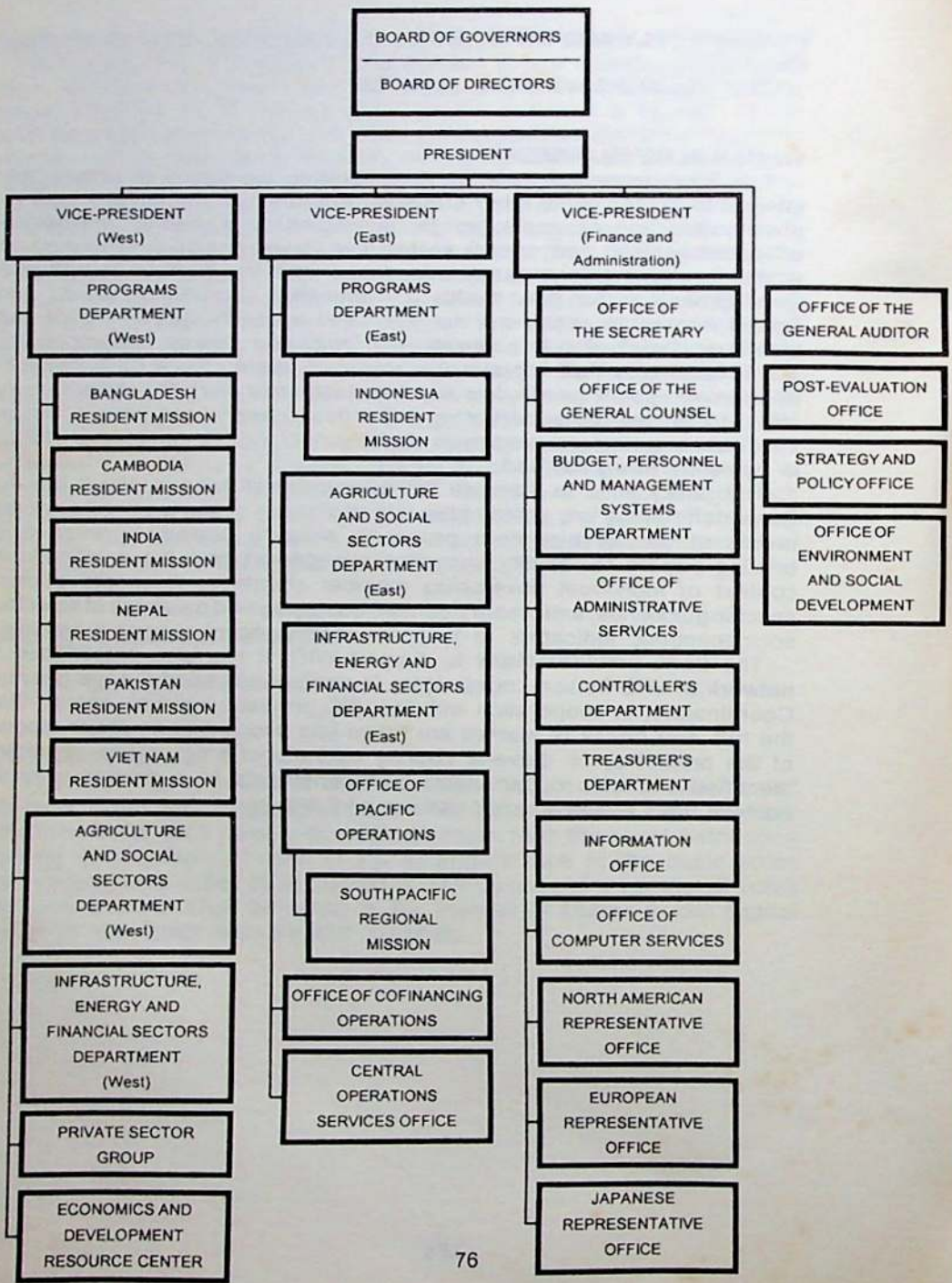
The policy aims to increase the awareness of gender issues among Bank staff (taking into account the role and needs of women in all relevant facets of the development process), prepare country profiles and briefing papers to identify special circumstances and the sociocultural context of individual developing member countries, formulate sector-specific guidelines, and create a gender-disaggregated database of selected socioeconomic indicators to facilitate monitoring of women's welfare.

The Bank provides loans to support WID. It has also established a network of WID liaison coordinators in various operational departments. Coordinators, in cooperation with the WID project specialist, ensure that the role and needs of women are taken into account at all major stages of the project cycle. Several country operational program papers have identified women's opportunities and constraints in a macroeconomic context, and reflect specific issues and requirements.

ASIAN DEVELOPMENT BANK

ORGANIZATION STRUCTURE

(as of 31 December 1996)



ADB MEMBER COUNTRIES

(as of 31 December 1996)

Regional	Year of Membership
Afghanistan	(1966)
Australia	(1966)
Bangladesh	(1973)
Bhutan	(1982)
Cambodia	(1966)
China, People's Republic of	(1986)
Cook Islands	(1976)
Fiji	(1970)
Hong Kong	(1969)
India	(1966)
Indonesia	(1966)
Japan	(1966)
Kazakstan	(1994)
Kiribati	(1974)
Korea, Republic of	(1966)
Kyrgyz Republic	(1994)
Lao People's Democratic Republic	(1966)
Malaysia	(1966)
Maldives	(1978)
Marshall Islands	(1990)
Micronesia, Federated States of	(1990)
Mongolia	(1991)
Myanmar	(1973)
Nauru	(1991)
Nepal	(1966)
New Zealand	(1966)
Pakistan	(1966)
Papua New Guinea	(1971)
Philippines	(1966)
Singapore	(1966)
Solomon Islands	(1973)
Sri Lanka	(1966)
Taipei,China	(1966)
Thailand	(1966)
Tonga	(1972)
Tuvalu	(1993)
Uzbekistan	(1995)
Vanuatu	(1981)
Viet Nam	(1966)
Western Samoa	(1966)

Nonregional	Year of Membership
Austria	(1966)
Belgium	(1966)
Canada	(1966)
Denmark	(1966)
Finland	(1966)
France	(1970)
Germany	(1966)
Italy	(1966)
Netherlands	(1966)
Norway	(1966)
Spain	(1986)
Sweden	(1966)
Switzerland	(1967)
Turkey	(1991)
United Kingdom	(1966)
United States	(1966)