ASIAN DEVELOPMENT BANK

TR/150.01/IU/2004-263
30 June 2004

AUS-4-L
ASX Trading Market Development
Level 6 Exchange Centre
20 Bridge Street
Sydney NSW 2000 Australia

Attention: Herlina Susilo
Business Analyst

Dear Sir,

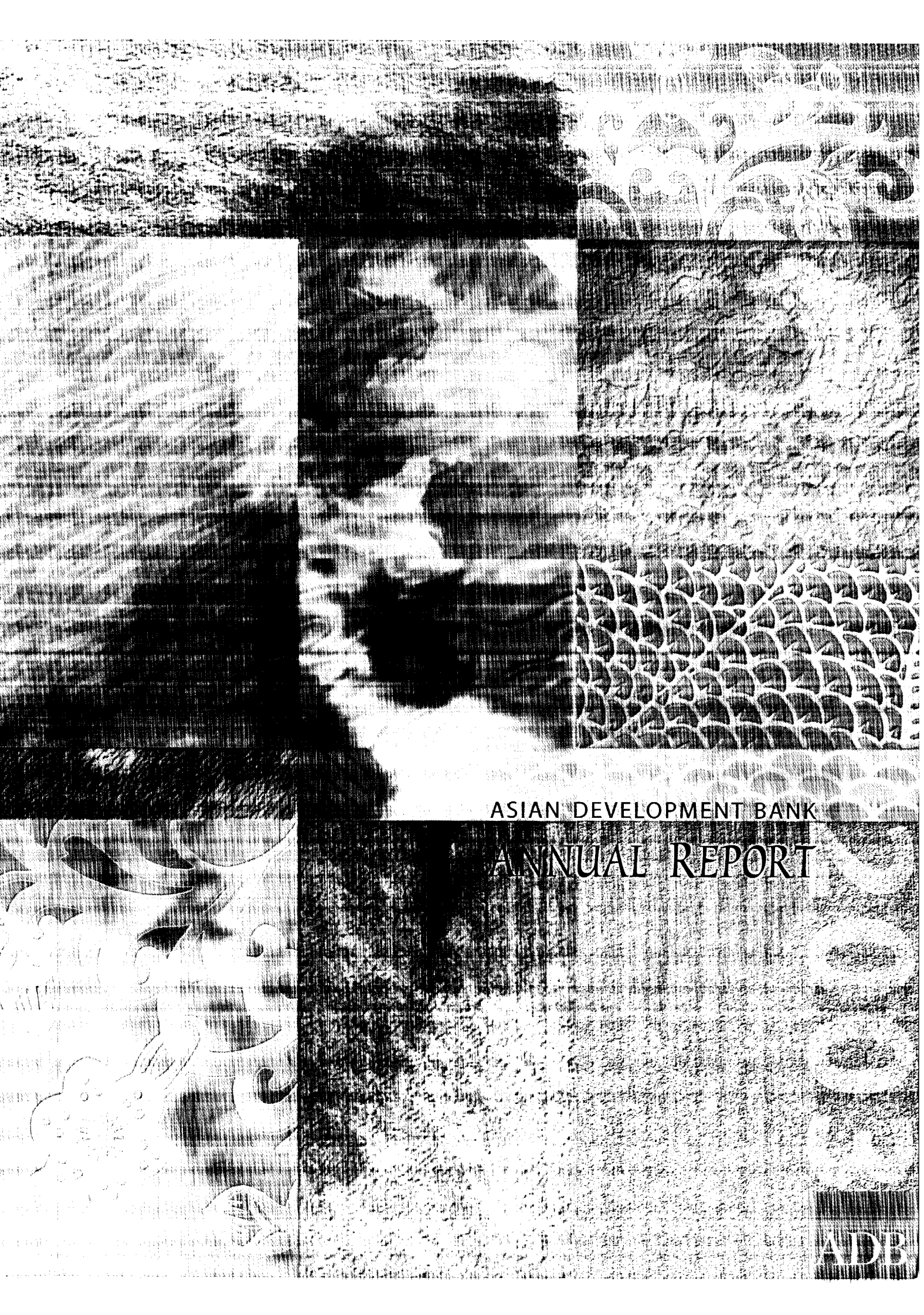
In connection with the listing of the Asian Development Bank's bonds on the stock exchange, we are pleased to forward a copy of the ADB's 2003 Annual Report.

Yours sincerely,

IM-EM UNKAVANICH
Treasury Specialist

Enclosure

6 ADB Avenue, Mandaluyong City, 0401 Metro Manila, Philippines • Postal Address: P.O. Box 789, 0980 Manila, Philippines
Tel. (632) 632-4444 Facsimile: (632) 636-2444 E-Mail: information@adb.org Website: http://www.adb.org



ASIAN DEVELOPMENT BANK

ANNUAL REPORT

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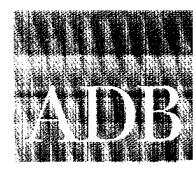

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The term "country," as used in the context of ADB, refers to a member of ADB and does not imply any view on the part of ADB as to the member's sovereignty or independent status.

In this publication, $ refers to US dollars.

Also available in CD-ROM and can be downloaded from ADB's web site at *http://www.adb.org/publications/*.

ISSN 306-8370

Printed in Singapore by Tien Wah Press (Pte) Ltd.

Message from the Chairman of the Board of Directors

For Asia and the Pacific, 2003 was a year of many challenges and uncertainties marked by geopolitical concerns, threats of terrorism, global economic and financial instability, and outbreaks of epidemic diseases such as the severe acute respiratory syndrome followed by the avian flu in early 2004. In our ongoing efforts to be an effective and dynamic development partner for our developing member countries (DMCs), we at ADB have initiated many changes and reforms in our organization and in our operations to address these challenges and to better position ourselves to respond to future challenges. All of these initiatives emphasize greater development effectiveness by focusing operations on the achievement of impacts and outcomes.

The extensive reorganization and the introduction of new business processes in January 2002 marked the beginning of a series of organizational changes and reforms. In 2003, we conducted a review of the reorganization and business processes, and initial findings and recommendations of the review have already been implemented. In 2004, an independent assessment of the reorganization will be conducted by a panel of external experts and will also include consultations with key stakeholders in our DMCs. Other steps ADB took in 2003 toward greater organizational effectiveness include the appointment of a fourth Vice-President to oversee knowledge management and sustainable development, and the creation of a new Managing Director General position to facilitate the coordination of the work of senior management.

To reinforce accountability, particularly to address in a fair and proper manner the concerns of persons affected by ADB-assisted projects, a new accountability mechanism was established in May 2003. The new mechanism consists of a consultation phase and a compliance review phase, and the offices for the Special Project Facilitator and the Compliance Review Panel are now operational. A comprehensive review and revision of all sections of the Operations Manual were completed in October, and copies have been disseminated to ADB Management and staff as well as to the public on ADB's web site to promote greater and clearer accountability. ADB is now preparing a unified public communications policy that will help increase transparency in all aspects of its activities and will hence improve outreach to all stakeholders and development partners. In addition, ADB has initiated a review of the implementation of our governance and anticorruption policies. In 2003, ADB also adopted the policy, "Enhancing ADB's Role in Combating Money Laundering and the Financing of Terrorism."

In December 2003, the Board of Directors approved a set of recommendations to enhance the independence and effectiveness of the Operations Evaluation Department (OED). Effective January 2004, OED reports directly to the Board of Directors. This important

organizational change not only brings ADB into harmony with practices in other international institutions, but it also enhances the external credibility of ADB's evaluation procedures and results.

To address the human resource dimension of development effectiveness, ADB is preparing a new Human Resource Strategy with three strategic objectives: to enhance organizational capacity, to establish an effective performance management system, and to strengthen leadership and accountability for performance. One of the priorities is to implement the Gender Action Plan II as part of our diversity framework and to mainstream gender issues in ADB's internal initiatives as well as in the regional development agenda. The Board of Directors on the recommendation of the President has recently appointed ADB's first female Vice-President.

All of these initiatives have helped ADB maximize its institutional effectiveness. As a result, ADB is now a more accountable, more efficient, and more transparent institution that is better positioned than ever to respond to the needs of its DMCs.

For ADB to provide the necessary assistance to its DMCs, it must optimize the management of its financial resources. This requires making the most efficient use of existing resources as well as securing adequate levels of additional funds, particularly in the Asian Development Fund (ADF) which offers concessional loan terms to poorer DMCs. To strengthen ADB's strategic planning and efficient allocation of existing resources, the performance-based allocation system of the ADF was reviewed. Discussions with donors also started in 2003 concerning the replenishment of the ADF. Significant milestones have been achieved including ADF IX donors' meetings in Copenhagen and Tokyo in the last quarter of the year and in Lisbon in early 2004. Additionally, the review of the management and effectiveness of technical assistance operations resulted in important improvements in the management of those limited resources.

The most important initiative of 2003 was a comprehensive review of ADB's Poverty Reduction Strategy, the outcome of which is so crucial to refining our operations to achieve our overarching goal of poverty reduction. Based on empirical evidence across countries which demonstrates that robust and sustained pro-poor economic growth is the single most important factor in attaining rapid poverty reduction, initial findings of the review emphasized the importance of infrastructure development and private sector participation. The review also reinforced the importance of the nonincome dimensions of poverty, especially the need to focus on thematic and crosscutting issues like environment and gender, many of which are included in the Millennium Development Goals (MDGs). We have sharpened our focus on the attainment of the MDGs by aligning ADB's country strategies and programs with them; in fact, achieving the MDGs has become a framework for measuring development progress in the region.

Significant efforts were also made in 2003 to formulate an agenda and action plan for moving toward managing for results that will allow us to better gauge development effectiveness. We created in 2004 a Results Management Unit that will lead the implementation of the action plan at the country, institutional, and partnership levels. Furthermore, ADB is currently piloting results-based country strategies and programs in selected DMCs.

Recognizing that knowledge is of critical importance in development and that ADB's enhanced role in knowledge generation and sharing is a prerequisite for achieving our overarching goal of poverty reduction, ADB is committed to becoming a primary source of development knowledge in Asia and the Pacific. To guide ADB's transition to a knowledge-based organization, the preparation of the Knowledge Management Framework started in 2003.

We all know that peace is a prerequisite for development, but we also know that poverty reduction and development are essential for attaining peace. As a regional development bank, we at ADB are aware of the role we should and can play in promoting development and reducing poverty in Asia and the Pacific. ADB will continue to work hard in cooperation with our member countries as well as with our development partners and stakeholders to realize an Asia and Pacific region free of poverty where all people can enjoy economic prosperity and lasting peace.

ASIAN DEVELOPMENT BANK
Manila

12 April 2004

Chairman of the Board of Governors
Asian Development Bank

Dear Mr. Chairman,

In accordance with Article 39 of the Articles of Agreement of the Asian Development Bank and Section 13 of its By-Laws, I submit to the Board of Governors *Annual Report 2003*, including a separate report on the activities of the Special Funds, which has been prepared under the direction of the Board of Directors. The *Annual Report* also includes the financial statements prescribed in Section 15 of the By-Laws.

Sincerely,

Tadao Chino

TADAO CHINO
President and Chairman
Board of Directors

Members, Capital Stock, and Voting Power

(as of 31 December 2003)

	Year of Membership	Subscribed Capital[a] (% of total)	Voting Power[b] (% of total)
REGIONAL			
Afghanistan	1966	0.034	0.345
Australia	1966	5.851	4.998
Azerbaijan	1999	0.450	0.677
Bangladesh	1973	1.032	1.143
Bhutan	1982	0.006	0.322
Cambodia	1966	0.050	0.357
China, People's Republic of	1986	6.516	5.530
Cook Islands	1976	0.003	0.320
Fiji Islands	1970	0.069	0.372
Hong Kong, China	1969	0.551	0.758
India	1966	6.402	5.439
Indonesia	1966	5.507	4.723
Japan	1966	15.781	12.942
Kazakhstan	1994	0.816	0.970
Kiribati	1974	0.004	0.321
Korea, Republic of	1966	5.094	4.393
Kyrgyz Republic	1994	0.302	0.559
Lao People's Democratic Republic	1966	0.014	0.329
Malaysia	1966	2.754	2.520
Maldives	1978	0.004	0.321
Marshall Islands	1990	0.003	0.320
Micronesia, Federated States of	1990	0.004	0.321
Mongolia	1991	0.015	0.330
Myanmar	1973	0.551	0.758
Nauru	1991	0.004	0.321
Nepal	1966	0.149	0.436
New Zealand	1966	1.553	1.560
Pakistan	1966	2.203	2.080
Palau	2003	0.003	0.320
Papua New Guinea	1971	0.095	0.393
Philippines	1966	2.409	2.245
Samoa	1966	0.003	0.320
Singapore	1966	0.344	0.593
Solomon Islands	1973	0.007	0.323
Sri Lanka	1966	0.586	0.787
Taipei,China	1966	1.101	1.199
Tajikistan	1998	0.290	0.549
Thailand	1966	1.377	1.419
Timor-Leste	2002	0.010	0.325
Tonga	1972	0.004	0.321
Turkmenistan	2000	0.256	0.522
Tuvalu	1993	0.001	0.319
Uzbekistan	1995	0.681	0.862
Vanuatu	1981	0.007	0.323
Viet Nam	1966	0.345	0.594
Subtotal Regional		**63.241**	**64.878**

	Year of Membership	Subscribed Capital[a] (% of total)	Voting Power[b] (% of total)
NONREGIONAL			
Austria	1966	0.344	0.593
Belgium	1966	0.344	0.593
Canada	1966	5.289	4.549
Denmark	1966	0.344	0.593
Finland	1966	0.344	0.593
France	1970	2.354	2.200
Germany	1966	4.374	3.817
Italy	1966	1.828	1.780
Luxembourg	2003	0.344	0.593
The Netherlands	1966	1.037	1.147
Norway	1966	0.344	0.593
Portugal	2002	0.344	0.593
Spain	1986	0.344	0.593
Sweden	1966	0.344	0.593
Switzerland	1967	0.590	0.790
Turkey	1991	0.344	0.593
United Kingdom	1966	2.065	1.970
United States	1966	15.781	12.942
Subtotal Nonregional		**36.759**	**35.122**
TOTAL		**100.000**	**100.000**

Note: Figures may not add due to rounding. *For other details, see tables on pages 102 and 103.*

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

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

The Record

(amounts in $ million)

	1966–2003	2000	2001	2002	2003
OPERATIONAL ACTIVITIES					
TOTAL LENDING *(amount)*	**105,070**[a]	**5,583**[a]	**5,339**[a]	**5,658**	**6,105**
Number of Projects[b]	1,818	72	60	70	66
OCR Loans *(amount)*	**76,276**[a]	**4,015**	**3,977**[a]	**4,008**	**4,726**
Number of Loans	1,031	37	30	35	38
Disbursements *(amount)*	50,371[a]	2,884	2,850	3,067	2,688
ADF Loans *(amount)*	**28,793**[a]	**1,567**	**1,361**	**1,650**	**1,379**
Number of Loans	1,018	48	46	53	47
Disbursements *(amount)*	19,816[a]	1,135	1,024	1,136	1,128
A. Government and Government-Guaranteed Loans *(amount)*	**103,441**	**5,431**[a]	**5,301**	**5,548**	**5,918**
Number of Projects[b]	1,735	68	57	67	62
OCR Loans *(amount)*	74,662	3,863	3,940	3,898	4,539
Number of Loans	948	33	26	32	33
Disbursements *(amount)*	49,253	2,823	2,799	3,011	2,575
ADF Loans *(amount)*	28,779	1,567	1,361	1,650[c]	1,379
Number of Loans	1,013	48	46	53	47
Disbursements *(amount)*	19,801	1,135	1,024	1,136	1,128
B. Private Sector Loans *(amount)*	**1,629**	**152**	**38**	**110**	**187**
Number of Projects[b]	83	4	3	3	4
OCR Loans *(amount)*	1,615	152	38	110[d]	187
Number of Loans	83	4	4	3[d]	5
Disbursements *(amount)*	1,117	61	51	55	113
ADF Loans *(amount)*	14	–	–	–	–
Number of Loans	5	–	–	–	–
Disbursements *(amount)*	14	–	–	–	–
EQUITY INVESTMENT[d] *(amount)*	**740**[a]	**78**	**30**	**36**	**36**
Number of Investments	116	6	3	4	3
EQUITY UNDERWRITING *(amount)*	**40**	–	–	–	–
Number of Commitments	6	–	–	–	–
GUARANTEES					
Political Risk Guarantee *(amount)*	703	251	–	382[e]	70
Number of Projects	7	3	–	3	1
Partial Credit Guarantee *(amount)*	2,384	120	90	500	170
Number of Projects	15	1	1	1	2
TECHNICAL ASSISTANCE[f, g] *(amount)*	**2,394**	**169**	**144**	**179**	**177**
Number of Projects	5,357	301	253	323	315
COFINANCING[h] *(amount)*	**40,648**	**2,885**	**1,310**	**2,832**	**2,418**
Number of Projects	637	40	24	37	28
RESOURCES					
Ordinary Capital Resources					
Authorized Capital *(at end of period)*	51,997	45,485	43,834	47,288	51,997
Subscribed Capital *(at end of period)*	51,997	45,271	43,628	47,234	51,997
Borrowings *(gross)*	53,694	1,693	1,607	6,145	4,141
Outstanding Debt *(at end of period)*	26,359	25,340	24,813	26,324	26,359
Ordinary Reserve *(at end of period)*	8,892	7,166	7,812	8,470	8,892
Special Reserve *(at end of period)*	186	182	183	184	186
Gross Income	31,429	2,301	2,239	2,060	1,740
Net Income after Appropriation of Commissions/ Guarantee Fees to Special Reserve	10,946	626	862	978	436
Special Funds Resources					
Asian Development Fund					
Total Resources *(at end of period)*	26,759	20,999	19,887	22,853	26,759
Technical Assistance Special Fund					
Total Resources *(at end of period)*[i]	1,006	899	911	920	1,006
Japan Special Fund					
Regular and Supplementary Contributions *(at end of period)*[j]	853	783	814	836	853
Asian Currency Crisis Support Facility[j]	241	241	241	241	241
ADB Institute Special Fund[j]					
Total Resources *(at end of period)*	83	43	61	71	83

– Data not applicable.
a Totals may not add due to rounding.
b Projects with multiple loans are counted once. Cumulative number of projects excludes supplementary loans.
c Adjusted to reflect changes in loan amounts.
d Adjusted to exclude terminated loans.
e Adjusted to reflect actual commitments.
f Comprising technical assistance grants funded by ADB and other sources. Regional technical assistance projects included.
g Adjusted to reflect changes in technical assistance amounts and number of projects.
h Adjusted to reflect changes in cofinancing arrangements.
i Figures revised to include other resources and transfers to the Asian Development Fund.
j Figures represent contributions.

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Abbreviations and Acronyms

ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
ADF	Asian Development Fund
ASEAN	Association of Southeast Asian Nations
CARs	Central Asian republics
CFA	channel financing arrangement
CSP	country strategy and program
CSPU	country strategy and program update
DFID	Department for International Development (of the United Kingdom)
DMC	developing member country
FAS	Financial Accounting Standards
GDP	gross domestic product
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome
ICR	interest coverage ratio
ICT	information and communication technology
IOS	interim operational strategy
ISO	International Organization for Standardization
JSF	Japan Special Fund
Lao PDR	Lao People's Democratic Republic
LBL	LIBOR-based loan
LIBOR	London interbank offered rate
LTSF	Long-Term Strategic Framework
MBL	market-based loan
MDB	multilateral development bank
MDG	Millennium Development Goal
NGO	nongovernment organization
OAG	Office of the Auditor General
OCR	ordinary capital resources
OED	Operations Evaluation Department
OHSAS	Occupational Health and Safety Assessment Series
OPEC	Organization of Petroleum Exporting Countries
PCG	partial credit guarantee
PMCL	pool-based multicurrency loan
PPA	poverty partnership agreement
PRC	People's Republic of China
PRG	political risk guarantee
PSCL	pool-based single currency loan
RLR	reserve to loan ratio
SARS	severe acute respiratory syndrome
SME	small and medium enterprise
SWAP	sector-wide approach program
TASF	Technical Assistance Special Fund
US	United States
WSIS	World Summit on the Information Society
WTO	World Trade Organization

in Review

Board of Directors' Report

With the strong support of the Asian Development Bank (ADB), the Asia and Pacific region has continued its progress toward achieving the Millennium Development Goals (MDGs) by 2015 (*see page 36*). Overall poverty rates in the region have fallen, and growth has continued. Many of ADB's members have made investments in health and nutrition that have reduced maternal and child mortality rates and lowered the incidence of communicable diseases.

Yet challenges remain, and enormous efforts are still required. Women and girls do not always benefit equally with males from social services. Cross-border public health problems continue to take a toll on families and nations. Diseases such as HIV/AIDS, tuberculosis, and malaria are major causes and effects of poverty in the region as is the lack of access to safe water and to sanitation. Although employment is a principal means to escape from poverty, many of the poorest and most vulnerable people, including the elderly, female heads of households, and people with special challenges, are unable to work.

In 2003, global and regional uncertainties directly and indirectly influenced ADB's daily activities. The reconstruction of Afghanistan continued, the war in Iraq created uncertainty around the region, and the outbreak of the severe acute respiratory syndrome (SARS) had a heavy impact on the economies of many ADB members. Furthermore, growth prospects for industrial economies during the first half of the year were subdued.

While the goal of reducing poverty continued to guide its operations, ADB also responded quickly to the urgent needs of its developing member countries[1] (DMCs). Emergency lending in 2003 included loans to Afghanistan, Kyrgyz Republic, and Sri Lanka. ADB acted swiftly to assist the

Board of Directors
First row (from left): Rolf Eckermann, Dante Canlas, President Tadao Chino, P. G. Mankad, Chaiyuth Sudthitanakorn; *Second row* (from left): Jusuf Anwar, Jeung-Hyun Yoon, Nicola Jenns, Paul Speltz, Osamu Tsukahara, Sein Tin; *Third row* (from left): M. Saiful Islam, Kuilin Ju, Emile Gauvreau, Masaichiro Yamanishi, Miranda Rawlinson, Tryggve Gjesdal, M. Akram Malik; *Fourth row* (from left): Stephen Sedgwick, Shaolin Yang, Pascal Gregoire, Batir Mirbabayev, Michele Miari Fulcis, Troy Wray, Richard Stanley.

Profile

The Asian Development Bank was established in 1966 through a multilateral agreement ratified by 31 members. Luxembourg and the Republic of Palau joined in 2003 bringing the total membership to 63, of which 45 are in Asia and the Pacific. ADB has its headquarters in the Philippines and offices worldwide including resident missions in Afghanistan, Bangladesh, Cambodia, People's Republic of China, India, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Pakistan, Papua New Guinea, Sri Lanka, Tajikistan, Uzbekistan, and Viet Nam. ADB also maintains a country office in the Philippines; a regional mission for the South Pacific in Vanuatu; a special office in Timor-Leste; and an extended mission in Gujarat, India. It has representative offices for Europe in Frankfurt, Germany; for Japan in Tokyo; and for North America in Washington, DC, United States. It recently approved resident missions for Azerbaijan and Thailand; a subregional office for the Pacific in Suva, Fiji Islands; and a liaison and coordination office for the Pacific in Sydney, Australia.

ADB's vision is an Asia and Pacific region free of poverty with better living conditions and quality of life for all its inhabitants. The strategic agenda focuses on pro-poor, sustainable economic growth; inclusive social development; and governance for effective policies and institutions with crosscutting themes of environmental sustainability, gender and development, private sector development, and regional cooperation and integration for development. (*For more on ADB, see http://www.adb.org.*)

region in responding to the SARS outbreak by preparing emergency technical assistance as well as providing technical assistance to the People's Republic of China (PRC).

ADB also faced internal challenges and opportunities. ADB personnel continued to adapt to the new organizational structure and to new business processes; extensive reviews of both were completed with recommendations to further improve the efficiency of operations. A staff engagement survey pointed out specific issues and concerns that ADB began addressing in 2003 with the preparation of the new human resource strategy.

Recognizing these complex issues, the Board of Directors supported ADB Management and staff in their efforts to improve institutional effectiveness and internal governance and to demonstrate development impact.

Funding

The main instruments for providing help to ADB's DMCs are policy dialogue, loans, technical assistance, grants, guarantees, and equity investments (*see page 7*). ADB offers a range of modalities and terms for loans aimed at improving performance.

About 70% of cumulative lending comes from ordinary capital resources (OCR) from three distinct sources: private placements and capital markets in the form of borrowing, paid-in capital provided by shareholders, and accumulated retained income (reserves) that provides a buffer for risks.

Loans are also provided from Special Funds. The Asian Development Fund (ADF) offers loans on concessional terms to members with low per capita gross national products and weak debt-repayment capacities. The ADF is financed by periodic, voluntary contributions from donors. A major constraint in 2003 was the level of available resources for concessional lending and technical assistance, a situation that might potentially jeopardize the institution's ability to deliver its program. Discussions were held with donors concerning the replenishment of ADF resources. Significant milestones included the ADF VIII Midterm Review followed by the ADF IX donors' meetings in Copenhagen and Tokyo. As part of these meetings, ADB has agreed with donors to undertake a wide range of initiatives and reforms aimed at improving its efficiency and effectiveness in providing development assistance to DMCs. Other Special Funds are the Technical Assistance Special Fund, the Japan Special Fund, and the ADB Institute Special Fund.

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

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

ADB has a triple-A credit rating[2] and actively mobilizes financial resources through its cofinancing operations tapping official, commercial, and export credit sources. Assistance to its DMCs creates an enabling environment for private sector development. ADB also directly finances private sector projects to assist commercial investors and lenders. (*For more on ADB financial management, see http://www.adb.org/About/fmcemgt.asp.*)

Policies and Procedures

The Board of Directors approved several policy, financial, and administrative papers in 2003. One was "Enhancing ADB's Role in Combating Money Laundering and the Financing of Terrorism." Another was the review of the inspection function that resulted in the establishment of a new accountability mechanism that is now in place. It consists of two complementary functions: the consultation phase and the compliance review phase. For consultation, a special project facilitator was appointed. For compliance, the Board of Directors appointed a full-time chair and part-time members of a review panel and the Board Compliance Review Committee to replace the Board Inspection Committee. The new mechanism provides important structural and procedural means to address the concerns of project-affected people, to improve project quality, and to enhance development effectiveness. (*For more on ADB policies and procedures, see http://www.adb.org/Development/policies.asp.*)

Review of Existing Policies

A review of the Poverty Reduction Strategy was initiated in 2003 to refine ADB's institutional response to its overriding goal of poverty reduction. Reviews of policies on financial management included the "Review of ADB's Lending and Borrowing Limitations," the "Review of the Resource Position of ADB," and the "Review of ADB's Income and Policy Framework" (ongoing). The "Review of the Management and Effectiveness of Technical Assistance Operations" resulted in important improvements in the management of ADB's limited resources. "The Pilot Study for Delegation of Consultant Recruitment and Supervision under Technical Assistance to Executing Agencies" and reviews of the 1994 "Policy on Confidentiality and Disclosure of Information" and the "Information Policy and Strategy" were initiated.

Changing Focus

Many of ADB's internal initiatives explicitly and implicitly focused on results with a greater emphasis on impact and outcome. Changes in senior management in 2003 reflected this change in focus. An additional Vice-President was appointed to oversee knowledge management and sustainable development activities, bringing the total number of vice-presidents to four. In addition to that, a new position of Managing Director General was created to coordinate the work of the vice-presidents.

A change in the reporting structure for the Operations Evaluation Department (OED) likewise reflected the shift. Noting that the credibility of evaluation depends on the quality and integrity of analysis, the degree of transparency, and the independence of the evaluation unit, ADB examined the reporting structure and accountability of its evaluation work. In 2004, OED will report directly to the Board of Directors through the Development Effectiveness Committee (*see http://www.adb.org/OED/*).

Also reflecting the emphasis on results, the functions and responsibilities for representative offices were transferred from the Strategy and Policy Department to the Office of the President. The change in reporting will allow representative offices to better operate under the general direction of the President for matters such as high-level, broad-range dialogues with external counterparts.

Broadening Development Partnerships

ADB continued to provide support for partnerships throughout the region. Indicative of its active engagement in regional and international issues was its support for and participation in the following:

(i) the High-Level Forum on Harmonization,

(ii) the Third World Water Forum,

(iii) the Brunei Darussalam-Indonesia-Malaysia-Philippines East Association of Southeast Asian Nations (ASEAN) Growth Area Leaders' Meeting,

(iv) Asia-Pacific Economic Cooperation,

(v) Asia-Europe Finance Ministers' Meeting,

(vi) the Twelfth Ministerial Conference on Subregional Cooperation in the Greater Mekong Subregion, and

(vii) the Second Ministerial Conference on Central Asian Economic Cooperation.

In addition, ADB signed cooperation agreements with the following institutions:

(i) Southeast Asian Ministers of Education Organization to complement their knowledge base and to expand the network of institutions active in educational development;

(ii) World Health Organization to fight SARS and other emerging diseases;

(iii) United Nations Human Settlement Programme to build the capacity of Asian cities to secure and manage pro-poor investments and to help the region meet the MDG of "halving, by 2015, the proportion of people without safe drinking water and basic sanitation"; and

(iv) Gender and Water Alliance to promote gender mainstreaming into DMC water sector activities.

ADB's resident missions played an essential role in enhancing the institution's country focus enabling staff to work more closely with all stakeholders to achieve results. ADB and its resident missions worked with nongovernment organizations (NGOs) and civil society to strengthen partnerships and interaction in all areas and to build capacity. In May 2003, ADB approved the ADB-Government-NGO Cooperation:

A Framework for Action, 2003–2005. The Framework put in an operational context the directives contained in ADB's Long-Term Strategic Framework 2001–2015 and Medium-Term Strategy 2001–2005, particularly promoting improved conditions for wider and more effective participation in decision making by civil society.

Governing Structure

The highest policy-making body is the Board of Governors which comprises one representative from each ADB member. The Governors meet annually and elect the 12 members of the Board of Directors who serve 2-year terms. Each Director appoints an Alternate. The President is elected by the Board of Governors for a 5-year term and serves as Chairperson of the Board. The President manages ADB assisted by four Vice-Presidents and a Managing Director General. (*For a current list of Governors and Directors, see appendixes 2 and 3.*)

The Board of Directors met formally on 48 occasions and held 24 informal meetings in 2003 including briefings, discussion seminars, and presentations. In their informal meetings, the Directors examined a range of issues, including the Poverty Reduction Strategy, disaster and emergency assistance, Afghanistan's development, cooperation with governments and NGOs, and human resource activities.

Board Committees

The Board of Directors had four standing committees and one working committee. (*For membership, see Appendix 4.*)

Audit Committee

In accordance with its mandate, the Committee reviewed the adequacy of ADB's internal controls, particularly for financial reporting, and of internal and external audits. Monitoring continued of ADB's decision to provide parallel reporting for derivative instruments before and after the introduction of Financial Accounting Standards (FAS 133) and related amendments in 2001. ADB's financial statements refer both to pre-FAS 133 reporting practice and to the new, current-value reporting practice. Parallel reporting and the need for close monitoring of accounting and reporting practices were Committee priorities. In this context, the importance of cooperation among the multilateral development banks (MDBs) and of the professional partnership of the outside auditors who provided experience and advice were emphasized.

The Committee also monitored the development of ADB's institutional risk management capability, again in close consultation with other MDBs. Using the Audit Recommendations Implementation Report and the report of the auditors, monitoring of the effectiveness and efficiency of control systems, including access control procedures, continued. The Committee also reviewed and endorsed the following: (i) the 2003 work program of the Office of the Auditor General (OAG); (ii) the Audit Recommendations Implementation Report with a focus on highly critical items associated with risk management in both operations and financial management; and (iii) the annual report of the Anticorruption Unit of OAG with close attention to ADB's handling of debarment of firms and individuals to ensure sanctions against them were effective.

Budget Review Committee

The Committee recommended approval of ADB's proposed 2004 budgets for internal administrative expenses and annual capital expenditures. The proposed internal administrative budget is higher than in past years though without the additional initiatives it included, growth could have been kept below past averages. The increase in the provision for the Board of Directors was mainly due to the inclusion of the costs associated with the new accountability mechanism. The Board's budget may increase significantly in future years should it include the cost of the independent OED. (*For a summary of the budget for 2004, see Appendix 8.*)

The Committee supported continued delegation to resident missions and stressed the need for cost-effectiveness in their establishment and in managing their operating costs. The Committee also emphasized the importance of resident missions in portfolio management and the need to ensure that adequate resources are allocated to project administration both in resident missions and at headquarters.

The Committee raised several questions regarding the adequacy of staff resource allocations and was informed that staff and budget resources were extremely tight in part because work has become

Board and Management Retreat

The Board and Management met in October for a 2-day retreat on the theme "Development Effectiveness: Managing for Results." Discussions focused on ways of strengthening results-based management in ADB including how to measure, monitor, and manage for development results; how to handle accountability and human resource management aspects; and lessons to be learned from other development institutions and partners. The retreat followed an earlier Management Committee meeting on the same topic at which the President called for a positive reorientation in ADB's management processes. Retreat inputs were used in finalizing a paper for the ADF IX donors meeting in Tokyo in December (*see http://www.adb.org/Documents/Reports/ADF/IX/RBM_ADF_IX_Donors_Meeting_Tokyo.pdf*).

increasingly complex in recent years as a result of multiple policy mandates and compliance requirements. It recommended developing in-house capability and institutional memory and that consultants be used prudently and judiciously. The Committee also queried the regional directors on how they proposed to motivate staff in a resource-constrained environment; they said that changes arising from a new human resource strategy and implementation of managing-for-results would improve staff morale.

A series of meetings was held in November to discuss the work programs of departments and offices of the ADB Institute (ADBI) and to review the budgets of ADB and ADBI. As part of the deliberations, the Committee met with the Dean of the Institute and the heads of departments and offices and their staff, resulting in better understanding and appreciation of the activities of ADB and ADBI. The Committee also reviewed the progress on implementing the recommendations it made during the 2003 budget deliberations.

The Committee recommended approval of the proposed ADBI 2004 budget. It noted the contributions and achievements of ADBI and welcomed the increase in resources allocated to capacity building and training and the enhanced internal coordination among ADBI, the Economics and Research Department, and the Regional Economic Monitoring Unit. The need for further institutionalized coordination among the three research bodies to avoid duplication was stressed.

The Committee noted the progress made to date on the reorganization of ADB but expressed concern on the operational support, quality assurance, and compliance roles of the Regional and Sustainable Development Department and suggested that necessary changes be implemented as early as possible.

To make its work more meaningful and effective, the Committee proposed periodic meetings and also requested that the Budget, Personnel and Management Systems Department and the Office of the Secretary schedule the Committee's annual budget meeting before the budget document is circulated. Several changes to improve the format and presentation of the budget were suggested, and the need for more communication with the Board on budget matters was stressed.

The Committee also met to discuss the Information Systems and Technology Strategy II paper and raised numerous issues and concerns. These included assessment and incorporation of lessons learned from INTEGRA (an integrated web-enabled information system); more rigorous benefit analysis; improved accounting for project components; more detailed definition of project components; and inclusion of systems audits. These issues are being studied in detail by staff for incorporation in a revised paper.

Development Effectiveness Committee

The Committee reviewed a balanced selection of OED evaluation studies (*see box*) and presented its assessment to the Board of Directors in the annual report. The report also presented overall conclusions and recommendations from discussions on (i) the status of actions taken by ADB on key committee recommendations made in 2002; (ii) the *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2002* (*see http://www.adb.org/Documents/Reports/Portfolio_Performance/2002/2002_12.pdf*); and (iii) the *Annual Review of Evaluation Activities in 2002* (*see http://www.adb.org/Documents/PERs/RPE_OTH_2003_12.pdf*). The Committee expressed its satisfaction that evaluation activities had generally been adequate and efficient but at the same time noted areas for improvement.

Loan portfolio performance indicators in 2002 had improved since 2001 for all but 5 of the 18 DMCs with at least 5 active loans and a portfolio of more than $100 million. Areas that required further attention included the time taken for effectiveness of loans after approval, the need for extensions to loan closing dates, and the increasing proportion of loan cancellations. In its assessment of technical assistance portfolio performance, the Committee intended to closely monitor actions taken by ADB to improve management and effectiveness.

Reports Reviewed in 2003

Project/Program Performance Audit Reports
Agriculture Sector Program (Viet Nam)
Employment Generation Project (Mongolia)
Railway Recovery Program (Bangladesh)
Theun-Hinboun Hydropower Project (Lao People's Democratic Republic)

Technical Assistance Performance Audit Report
Selected Advisory Technical Assistance for Capital Market Development in Pakistan

Thematic Evaluation Studies
Country Assistance Program Evaluation in Bangladesh
Country Assistance Program Evaluation in the Philippines
Impact Evaluation Study: Impact of Rural Roads on Poverty Reduction
Special Evaluation Study of the Asian Development Fund (ADF) VI–VII Operations
Special Evaluation Study of Cost Recovery in the Power Sector

The Committee noted that the total number of evaluation reports in 2002 increased by almost 50% over the previous year, and that the scope of the program had also increased substantially. In addition to 31 individual project/program and 6 technical assistance performance audit reports, 9 thematic evaluation studies were carried out. In particular, three country program evaluations and a special evaluation study of ADF VI–VII operations were completed. The Committee also commended the first-time inclusion in OED's annual report of a chapter on long-term trends in evaluation results. This new analysis showed that the downward trend in the proportion of projects and programs rated successful was halted and reversed in 1989, and that subsequently a slow improvement in the social and agriculture sectors had been reinforced by higher success rates in economic infrastructure projects and with new borrowers.

The Committee recommended that future reports go beyond statistical reporting to identify lessons for development effectiveness.

Inspection Committee

In 2003, the Inspection Committee held six formal meetings, several informal meetings, and considered one request for inspection. In January, the Committee created a matrix for requests for inspection which provides a tracking system for monitoring the progress of ongoing requests and a depository of publicly available documents related to specific requests.

At the beginning of 2003, the Committee considered the request for inspection of the Chashma Right Bank Irrigation Project (Stage III) in Pakistan and forwarded it to Management for a response. As permitted by the Inspection Policy, the Committee decided to consult a member of the roster of experts in deciding whether to recommend that an inspection be authorized.

In March, the Committee submitted its report to the Board; it recommended that the Board authorize an inspection of the Project with a deferred start to allow the process for grievance redress put in place by the Government in consultation with ADB to take place. However, the Committee reserved the right to bring forward the proposed timetable for commencement of the inspection should it become evident to the Committee that the grievance redress process was unlikely to be successful. As a basis for making such a determination, the Committee requested Management to prepare two reports on grievance redress activities—one in July 2003 and one in January 2004.

The Board approved the Committee's recommendation. The Committee received the midterm report on the grievance redress process from ADB Management in July. Comments and additional information were sought from the requesters. The Committee considered the material provided at its meeting in September and published it on the ADB web site in October (*see http://www.adb/org/Inspection/Projects/chasma_right.asp*). The inspection commenced in December 2003 with the selection of a Panel of four members from the roster of experts and the preparation of a consultation draft of the terms of reference for the Panel.

Working Group on the Annual Report for 2003

The Board Working Group set the general direction for 2003 working closely with Management and staff and taking into account the responses from the Annual Report Readers' Survey. This year's report clearly demonstrates how ADB is optimizing its institutional effectiveness and resources, how it is progressing toward achieving the MDGs, and how it is moving the poverty reduction agenda forward.

Selected Policy/Strategy Papers Discussed in 2003

Review of the Asian Development Bank's Lending and Borrowing Limitations *6 February*
Review of the Inspection Function: Establishment of a New Accountability Mechanism *28 March* and *29 May*
Review of the Resource Position of the Asian Development Bank *31 March*
Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism *1 April*
Review of the Management and Effectiveness of Technical Assistance Operations of the Asian Development Bank *6 May*
Thirty-Sixth Annual Meeting: Allocation of Net Income *8 May*
Thirty-Sixth Annual Meeting: Resources of ADB *8 May*
Review of the Asian Development Bank's Income Outlook and Allocation of 2002 Net Income *8 May*
Delivering Better Services in the Pacific: Establishment of Pacific Offices *13 May*
Asian Development Bank: Forest Policy *22 July*
Review of the Summary Procedure for Loan Proposals *13 August*
Work Program and Budget Framework *15 October*
Review of the Asian Development Bank's Income Planning Framework *2 December*
ADB Institute: Three-Year Rolling Work Program for 2003–2005 and Budget for 2004 *16 December*
Budget of the Asian Development Bank for 2004 *16 December*
Borrowing Program for 2004 *17 December*
Enhancing the Independence and Effectiveness of the Operations Evaluation Department *17 December*

Financing Operations

Financial Resources

Authorized capital stock amounted to $52 billion, and subscribed capital stood at $52 billion. ADB raised long-term funds totaling about $4.1 billion, of which $1 billion was raised through a global public offering. Gross income amounted to $1.7 billion, $1.4 billion of which was generated from the loan portfolio, $308.7 million from the investment portfolio, and $48.5 million from other sources of which $41 million came from equity investment operations ($15 million from dividends, $25 million from gains realized on the sale of equity investments, and $600,000 representing the share in net income of the Asian Finance and Investment Corporation Ltd). ADB's Special Funds consisted of the Asian Development Fund with committed resources amounting to $511.1 million, the Technical Assistance Special Fund of $85.9 million, the Japan Special Fund totaling $19.9 million, and the ADB Institute Special Fund of $11.8 million.

Loans

Lending for both public and private sector operations in 2003 amounted to $6.1 billion for 85 loans to 66 projects. This was ADB's highest lending since 1997. The average loan size in 2003 was $72 million, compared with $64 million in 2002. Twenty-three DMCs and one regional project received loans. A total of $3.8 billion was disbursed. Of this, $2.1 billion (55%) were for project loans. The rest was for program, sector, and private sector loans.

Of the total lending, loans with government guarantees were over $5.9 billion for 62 projects comprising $4.5 billion for 33 loans from ordinary capital resources (OCR) and $1.4 billion for 47 loans from the concessional ADF. Thirteen were policy-based programs amounting to $1.1 billion representing 19% of total public sector lending. Of program lending, $912 million or 80% of the total came from OCR and $228 million or 20% from the ADF. Policy-based programs support DMC efforts to improve policy, institutional, and investment environments and to help meet short-term adjustment costs. Lending to the private sector without government guarantees, using OCR, amounted to $187 million.

Of the 62 public sector loans, 10 were for core poverty intervention projects and 29 were for poverty intervention projects. These 39 projects amounted to about $3 billion or 51% of total public sector lending. Grants from the Japan Fund for Poverty Reduction totaling $35.3 million were approved for nine projects. *(For details, see Table 32 in the Statistical Annex.)* Poverty partnership agreements were signed between ADB and PRC, Kazakhstan, Kiribati, Samoa, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu.

ADB Operations

	$ Million		%
	2002[a]	2003	Change
Lending	5,657.9	6,104.8	7.9
Public	5,547.9	5,917.8	6.7
OCR	3,897.8	4,538.7	16.4
ADF	1,650.2	1,379.2	(16.4)
Private			
OCR	110.0	187.0	70.0
Equity			
Investments	35.5	35.7	0.3
Technical			
Assistance	179.0	176.5	(1.4)
TOTAL[b]	**5,872.4**	**6,317.0**	**7.6**

( ) Negative.
a Adjusted to reflect terminated loan and changes in loan amount.
b Total may not add due to rounding.

Classification of ADB's Developing Members

Per capita gross national product and debt repayment capacity are the criteria used to determine the classification of borrowing developing members[1] and eligibility to borrow from the Asian Development Fund (ADF). Group A (ADF only) countries include Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Lao People's Democratic Republic, Maldives, Mongolia, Myanmar, Nepal, Samoa, Solomon Islands, Tajikistan, Tuvalu, and Vanuatu.

Group B1, ADF with limited amounts of ordinary capital resources (OCR), includes Azerbaijan, Bangladesh, Cook Islands,[2] Marshall Islands, Federated States of Micronesia, Pakistan, Sri Lanka, Tonga, and Viet Nam. Group B2 (OCR with limited amounts of ADF) includes People's Republic of China, India, Indonesia,[3] Nauru, and Papua New Guinea. Group C (OCR only) includes Fiji Islands, Kazakhstan, Malaysia, Philippines, Thailand, Turkmenistan, and Uzbekistan.

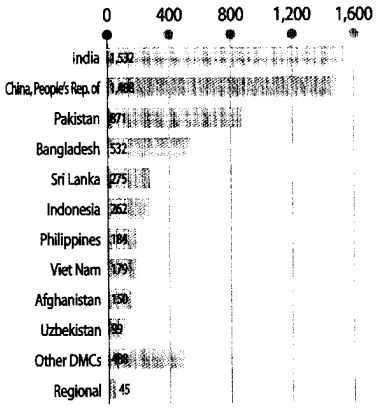
In 2003, cost-sharing limits for project loans were 80% for Group A,[4] 75% for B1, 70% for B2, and 65% for C. Government contributions to technical assistance should be at least 15% of total costs for Group A, 20% for B1 and B2, and 30% for C. The contribution will be subject to the limit of total technical assistance costs minus foreign exchange costs and costs of domestic consultants.

Criteria for graduation from regular ADB assistance have also been established. Hong Kong, China; Republic of Korea; Singapore; and Taipei,China have graduated from regular ADB assistance. *(For details see http://www.adb.org/documents/policies/graduation.)*

1 Timor-Leste has not been classified.
2 Limited eligibility for OCR will be applied only after the external debt situation improves.
3 On a watch list for graduation from the ADF.
4 As per the Board of Directors' paper, "Review of Afghanistan's Classification under ADB's Graduation Policy," 28 June 2002, the cost-sharing limit for loans and technical assistance operations for Afghanistan has been waived for 2002–2004.

Top Borrowers, 2003

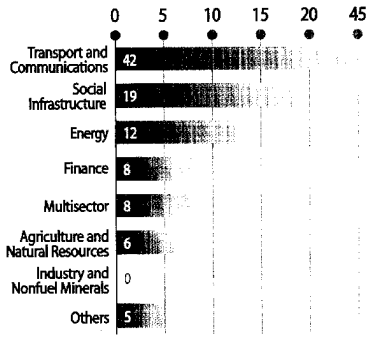
($ million)



Total: $6.1 billion

Loans by Sector, 2003

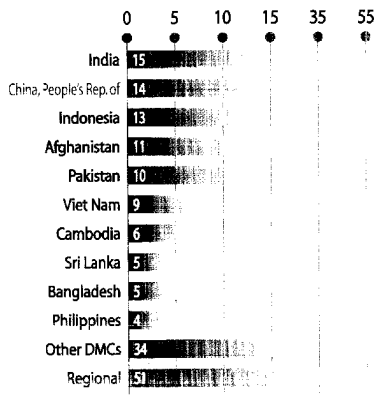
(percent)



Total: $6.1 billion

Top Recipients of Technical Assistance, 2003

($ million)



Total: $177 million

As in 2002, the largest DMC borrower in 2003 was India at $1,532 million (25% of the total). Other top borrowers included PRC $1,488 million (24%), Pakistan $871 million (14%), Bangladesh $532 million (9%), and Sri Lanka $275 million (5%). The transport and communications sector received the largest share of loans at $2,578 million (42%) followed by social infrastructure $1,131 million (19%), energy $757 million (12%), and finance $483 million (8%). The "others" sector received 5% of total lending. This included projects not falling under the economic sector classification that ADB uses, such as central government administration, operation and regulation, customs operations, public sector reform programs, judicial and legislative operations, public finance management, fiscal reforms, environment projects, gender and governance, and tourism (*see tables 1–5 in the Statistical Annex*).

Technical Assistance

A total of 315 technical assistance grants amounting to $176.5 million was approved in 2003. Of those, 74 were for project preparation; 165 was for advisory and operational purposes; and 76 were for regional activities such as conferences, research, studies, and training. Of the total amount for technical assistance, $87 million were from the Technical Assistance Special Fund using current income from OCR; $37 million were from the Japan Special Fund; and the remaining $53 million came from other multilateral and bilateral sources. The largest recipient of country-specific technical assistance (excluding regional technical assistance) was India at $14.7 million (12%), followed by the PRC $14.3 million (11%), Indonesia $12.5 million (10%), Afghanistan $10.5 million (8%), and Pakistan $10.0 million (8%).

Excluding regional technical assistance, the sector distribution was as follows: social infrastructure $24.5 million (20%), agriculture and natural resources $15.3 million (12%), energy $15.1 million (12%), transport and communications $11.4 million (9%), finance $10.7 million (9%), multisector $5.2 million (4%), and industry and nonfuel minerals about $3 million (2%).

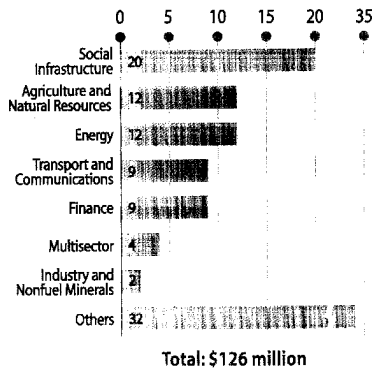
Other technical assistance received $41 million or 32% of the total (*see tables 21–25 in the Statistical Annex*).

Grants

Total grants amounting to $483.5 million were approved in 2003, consisting of grant cofinancing of loan components amounting to $433.2 million from bilateral and multilateral sources, of which $404 million were administered by ADB and $29.2 million were on

Technical Assistance by Sector, 2003

(percent)

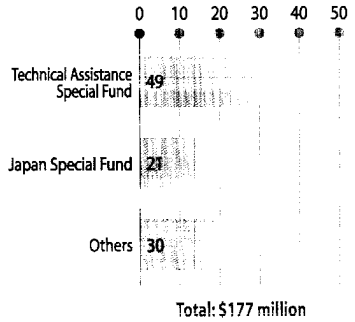


Total: $126 million

Note: Excludes regional technical assistance grants.

Technical Assistance by Source, 2003

(percent)



Total: $177 million

parallel financing; $35.3 million in projects financed by the Japan Fund for Poverty Reduction; and $15 million from the Kuwait Fund for Arab Economic Development (*see tables 6, 32 and 34 in the Statistical Annex*).

Equity Investments

ADB approved a total of $35.7 million in equity investments for regional investment funds and financial institutions (*see tables 9–12 in the Statistical Annex*).

Cofinancing and Guarantee Operations

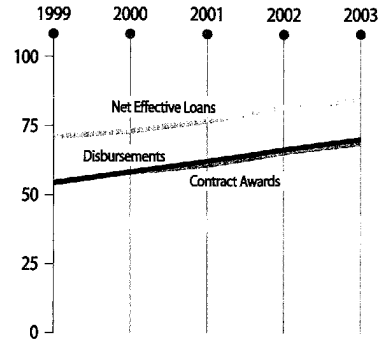
To maximize development impact, ADB closely coordinated with other development partners on its assistance programs to all DMCs to incorporate cofinancing and coordination opportunities. ADB systematically intensified coordination with official loan and grant cofinanciers to identify opportunities that directly complemented ADB projects or produced other benefits. In commercial cofinancing, ADB actively supported commercially attractive private sector projects and programs by using appropriate credit enhancement products such as guarantees. ADB continued the dialogue with its DMCs to identify the best financing solutions for public and private sector projects and programs, specifically the use of its credit enhancement products (*see http://www.adb.org/cofinancing/*).

ADB intensified efforts to promote commercial cofinancing and guarantee operations by developing initiatives such as trade finance and private sector investment funds like the ASEAN China Investment Fund and the Asia Clean Energy Fund. ADB also organized cofinancing seminars and training for its staff, DMC officials, and cofinancing partners; adopted an active role in structuring and mobilizing financial resources for public-private partnership initiatives; and strengthened partnerships with its cofinanciers and risk-sharing partners.

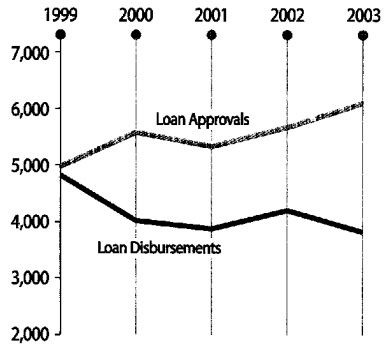
In total, cofinancing and guarantee operations mobilized about $2.4 billion, which represented about 40% of ADB's total lending of $6.1 billion. Twenty-eight projects in 14 DMCs including two regional projects involved cofinancing in 2003. The PRC received the largest amount ($1,241 million), primarily from its domestic financial institutions, followed by Bangladesh with $598 million and Thailand with $170 million (*see Table 6 in the Statistical Annex*).

Since 1970, cofinancing and guarantee operations have mobilized a cumulative total of $40.6 billion providing additional resources for 637 ADB-assisted loan projects and

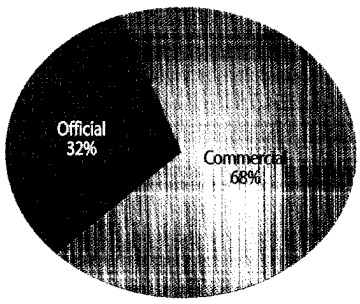
Contract Awards and Disbursements, 1999–2003
(cumulative, end of year)
($ billion)



Loan Approvals and Disbursements, 1999–2003
($ million)

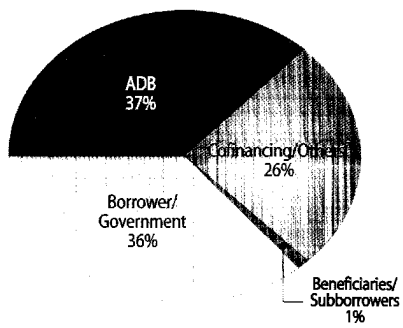


Cofinancing Arrangements, 2003



Total: $2.4 billion

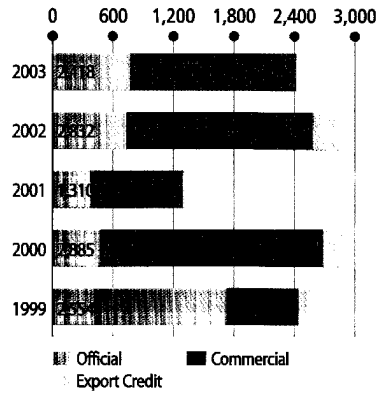
Total Cost of Loan Projects and Sources of Financing, 2003



Total: $13.6 billion

a Includes cofinancing from official and commercial sources, project sponsors, and participating local private companies and financial institutions.

Cofinancing Arrangements, 1999–2003 *($ million)*



programs. The cumulative total comprises $22.9 billion from official sources and $17.7 billion from commercial sources. The energy sector accounted for $17.1 billion (42%) followed by transport and communications $9.2 billion (23%), agriculture and natural resources $4.2 billion (10%), social infrastructure $4.0 billion (10%), and other sectors $6.1 billion (15%).

Commercial Cofinancing and Guarantee Operations. These totaled $1.6 billion for 12 projects, of which guarantee operations amounted to $240 million. Additional commercial cofinancing was raised in the form of parallel cofinancing from domestic financial institutions mainly in the PRC ($1.3 billion); from the complementary financing scheme ($100 million); and from parallel loans from financial lenders ($30 million).

Official Cofinancing. Cofinancing mobilized from ADB's bilateral development partners and multilateral financial institutions totaled $775 million for 18 projects comprising $433 million in grant funds and $342 million in loans. Of the grant funds, about $404 million were for the Second Primary Education Development Program in Bangladesh which was cofinanced under a sector-wide approach program (SWAP) with ADB taking the role of lead agency. Apart from the $150 million loan from the World Bank and tied grant funds from Australia and Japan, which were contributed to the Program on a parallel basis under the SWAP, ADB will administer untied grants of $389 million from the European Community ($100 million), Canada ($20 million), the Netherlands ($50 million), Norway ($40 million), Sweden ($29 million), and the United Kingdom ($150 million).

Parallel loans were provided by Finland ($5 million), France ($105 million), Japan ($20 million), the International Development Association ($166 million), the Islamic Development Bank ($9.5 million), the OPEC Fund for International Development ($6 million), and the Nordic Development Fund ($30.6 million) (*see tables 6 and 34 in the Statistical Annex*).

Resource Transfers

The net transfer of resources to ADB from its DMCs increased to $5.3 billion in 2003, compared with $1.4 billion in 2002. During the year, there was a net inflow of $6.0 billion ($2.1 billion in 2002) to ADB from OCR borrowers/investees, mainly from prepayments of $5.9 billion ($2.0 billion in 2002) of OCR pool-based loans. However, net transfers from ADB to ADF borrowers decreased from $717.8 million in 2002 to $640.8 million in 2003. *(For details, see tables 26 and 27 in the Statistical Annex.)*

Loan disbursements in 2003 totaled $3.8 billion comprising 95.8% of the target for the year. Of the total, OCR disbursements were $2.7 billion or 70% and ADF disbursements were $1.1 billion or 30%. *(For details, see tables 7, 8, and 14 in the Statistical Annex.)*

Loan service payments reached $9.1 billion in 2003, compared with $5.6 billion in 2002. The increase was mainly because of higher prepayments ($5.9 billion in 2003, $2.0 billion in 2002).

In 2003, the four largest net resource transfers from ADB were to Viet Nam, Sri Lanka, Cambodia, and Bangladesh (*see tables 26 and 27 in the Statistical Annex*).

Private Sector Operations

In 2003, ADB approved $562.7 million of assistance in private sector operations, a 174% increase over the 2002 level of $205.5 million. Assistance comprised loans of $187.0 million, equity investments of $35.7 million, guarantees of $240.0 million, and a complementary financing scheme of $100 million. Approved loan and equity investment will mobilize a total of $2,320 million of funding,

Resource Transfers to Developing Member Countries
($ million)

	2002	2003
OCR		
Loan Disbursements	3,067	2,688
Principal Repayments[a]	(3,334)	(7,137)
Payments of Interest/Charges	(1,814)	(1,488)
Net Equity Investment	(17)	(25)
Net	(2,098)	(5,962)
ADF		
Loan Disbursements	1,136	1,128
Principal Repayments	(262)	(312)
Payments of Interest/Charges	(156)	(175)
Net	718	641
TOTAL	**(1,380)**	**(5,321)**

( ) Represents resource inflow from developing member countries.
a Includes prepayments of $5,883.8 million ($1,977.1 million in 2002).

Private Sector Portfolio Distribution,[a] 2003

	Investments Held		
	No. of Companies	$ Million[b]	%
Infrastructure	20	744.8	52.3
Investment Funds and Financial Institutions	31	289.6	20.3
	25	249.2	17.5
Others	12	140.9	9.9
TOTAL	**88[c]**	**1,424.4**	**100.0**

a At exchange rates as of 31 December 2003.
b Refers to total exposure (loans, equity investments, and guarantees).
c Excludes a small and medium enterprise guarantee facility to Pakistan as there was no availment at year-end 2003.

leveraging ADB's own funds by about 9.4 times. Private sector operations focused on responding to changing market conditions and on promoting sustainable economic growth in DMCs. Pioneering initiatives included (i) trade finance, (ii) small and medium enterprise (SME) development, (iii) resolution of nonperforming loans to assist commercial banks in resolving "drag" on their portfolios, (iv) local currency financing, (v) projects to finance the upgrading or expansion of existing infrastructure, and (vi) financial restructuring/refinancing for existing infrastructure projects to eliminate currency and tenor mismatch.

Since its first private sector investment in 1983, ADB has approved 160 projects for a total of $3.5 billion, inclusive of equities, loans, guarantees, and complementary financing schemes. ADB's cumulative equity and loan approvals have catalyzed a total of $21 billion in funding for private sector projects, leveraging ADB's investments by a ratio of 7.8.

In 2003, the majority of the projects in the private sector portfolio were exposures to India (16.7%), Bangladesh (13.0%), PRC (11.0%), Viet Nam (10.5%), and Philippines (9.3%). Regional projects accounted for roughly 18.9% of total exposure.

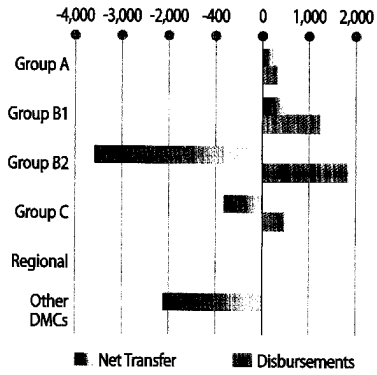
Infrastructure projects were the largest at 52.3%, followed by investment funds at 20.3% and financial institutions at 17.5% with the balance accounted for by other sectors at 9.9%.

As of 31 December 2003, the overall private sector portfolio (equity investments, loans, and guarantees) was about $1.4 billion. ADB disbursed a total of $147 million while collecting roughly $48.6 million in principal repayments and interest of $21.5 million. To free up capital resources for new investments, ADB fully or partially divested equity shareholdings in 11 project companies, resulting in net returns of 143% over investment costs. Six loans totaling $18.9 million were fully repaid during the year.

To manage risk effectively, ADB sets aside a general provision of 8% of the total outstanding healthy portfolio, excluding projects with specific provisions and mark-to-market investments. The general provision as of 31 December was estimated at $41.9 million with a total specific provision of roughly $111.1 million. The loss-reserve ratio as a percentage of the total outstanding direct portfolio was 19.9% at the end of 2003, compared with 18.9% in 2002.

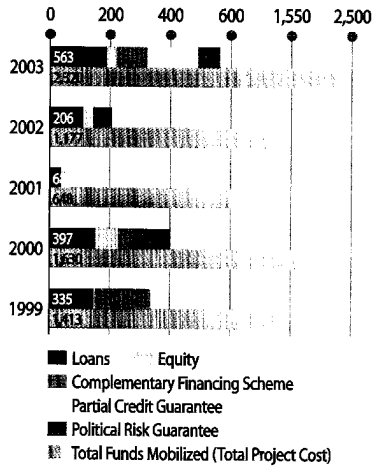
ADB recorded revenues of $40.3 million in capital gains and dividends during the year. Approximately $25.4 million were capital gains from the 11 projects sold/redeemed fully or partially, while cash dividends received from various projects amounted to $8.6 million compared with $8.6 million in 2002.

Disbursements and Net Transfer of ADB Resources to DMCs, 2003
($ million)

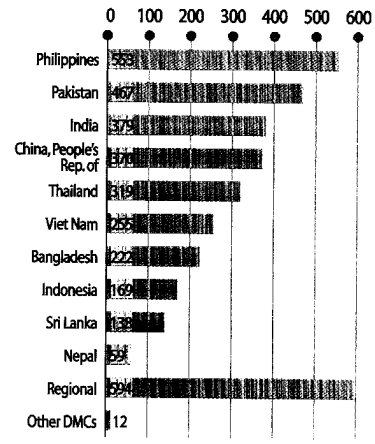


See page 7 for classification of countries.

Private Sector Operations, 1999–2003 *($ million)*



Private Sector Operations Portfolio Distribution by Country, 1983–2003
($ million)

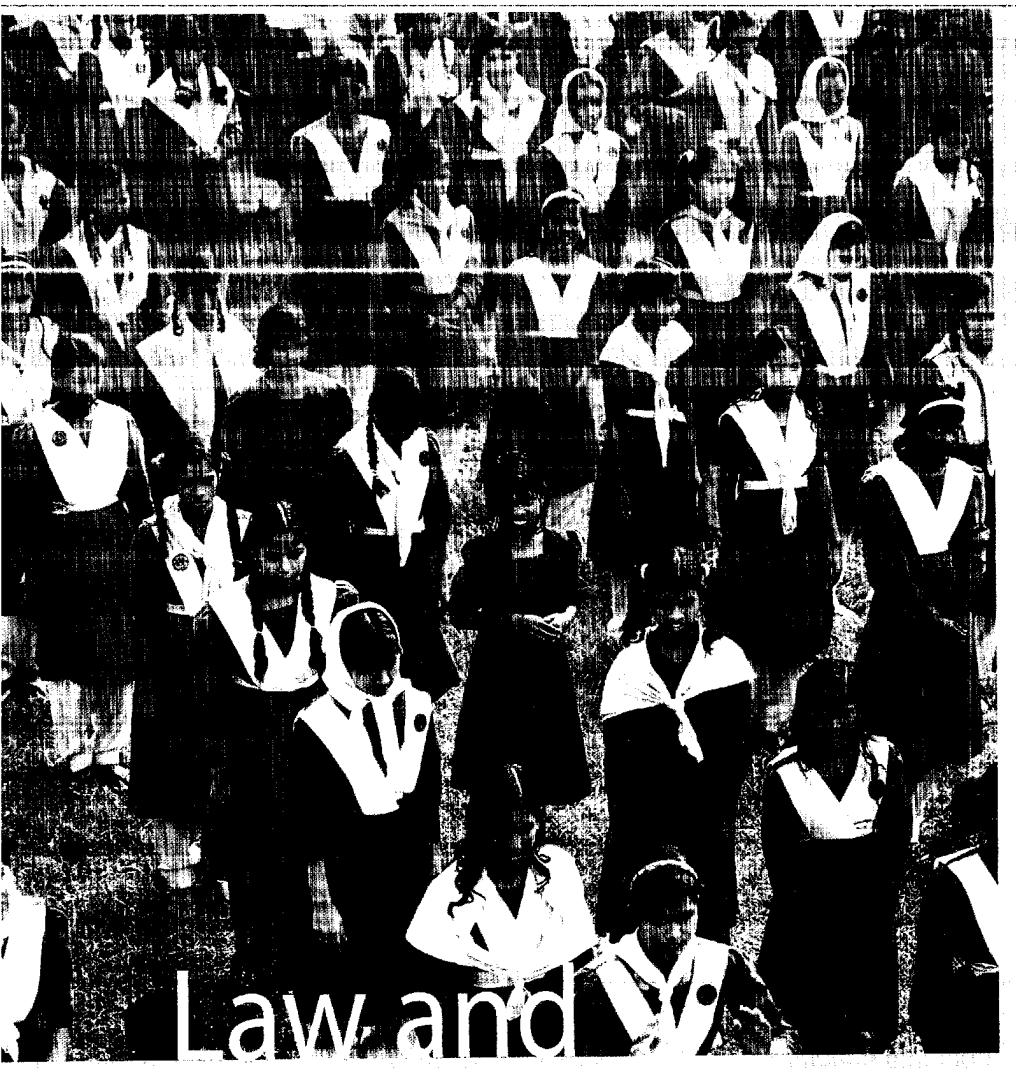


Total: $3.5 billion

ENDNOTES

1 The term "country," as used in the context of ADB, refers to a member of ADB and does not imply any view on the part of ADB as to the member's sovereignty or independent status.

2 Triple-A credit rating is the highest rating given by credit rating agencies such as Moody's Investors Service and Standard & Poor's and is assigned to entities that offer exceptional financial security and have the smallest degree of risk.



Law and Institutional Reform

Catalysts for Inclusive Development in the Asia and Pacific Region

The Challenge: Unleashing Human Capability in Asia

With over 3 billion people, Asia is home to a majority of the world's population. It includes the two most populous nations, the People's Republic of China (PRC) and India, as well as several small island states with populations of only tens of thousands.

The past several decades have ushered in major economic and social transformations. The Green Revolution has largely banished the specter of recurring famine, and immunization programs have reduced infant and child mortality. The phenomenal economic growth in some East Asian countries has been billed as the "East Asian Miracle." For the first time in the history of Asia in the span of one generation, entire countries have been lifted out of poverty and now rank among the prosperous societies of the world. The rapid economic growth in the PRC since 1980 has significantly reduced the number of poor people in the world. As the growth of the Indian economy accelerates, and as the prospect for peace and stability in South Asia brightens, the potential for further economic and social progress in the region is indeed impressive.

Despite these successes, Asia confronts a sobering array of challenges. The region is still home to more than half of the world's poor. Malnutrition, disease, violence, lack of education, and premature death haunt the lives of too many of those most likely to have been excluded from the surging economic boom. They may be women; uneducated; landless or unskilled; members of ethnic, religious, or cultural minorities; or simply people living in remote regions who are unable to migrate to settings with better economic opportunities. Such exclusion reinforces, often from one generation to the next, their disadvantages in society.

Deprivation is often an outcome of past policies and practices. To remedy this, the rules of the game must be re-examined and modified. At the beginning of the 21st century, the international community took a determined step in this direction in the Millennium Declaration.[1] The pursuit of the Millennium Development Goals outlined therein calls for a comprehensive re-examination of both the strategies for economic growth and the function and organization of institutions critical in meeting them. Consistent with this, ADB has defined poverty in a comprehensive manner.

"Poverty is a deprivation of essential assets and opportunities to which every human is entitled. Everyone should have access to basic education and primary health services. Poor households have the right to sustain themselves by their labor and be reasonably rewarded, as well as having some protection from external shocks. Beyond income and basic services, individuals and societies are also poor—and tend to remain so—if they are not empowered to participate in making the decisions that shape their lives."[2]

For wider economic participation, people must be able to control their lives and to reshape the opportunities that are open to them. As long as the poor have low productivity jobs and the exchange of labor continues at near subsistence levels, they will remain extremely vulnerable. Widening employment opportunities in higher productivity jobs will, therefore, continue to be of paramount importance in economic development. At the same time, efforts must be made to ensure that jobs offer fair wages and provide some measure of security against the uncertainties of the marketplace.

Development efforts that bypass vulnerable people can hardly succeed. The challenge is to pursue economic growth through inclusive development that combines initiatives to expand and equalize opportunities, to combat discrimination, to enable and foster participation, and to provide all with a stake in managing common resources. Inclusive development uses political, economic, and social policies to reduce vulnerability in a framework of pro-poor, sustainable economic growth. By its nature, it helps build consensus on the vital issues facing a nation. ADB's Poverty Reduction Strategy and supporting policy documents[3] articulate precisely this challenge (*see box*).

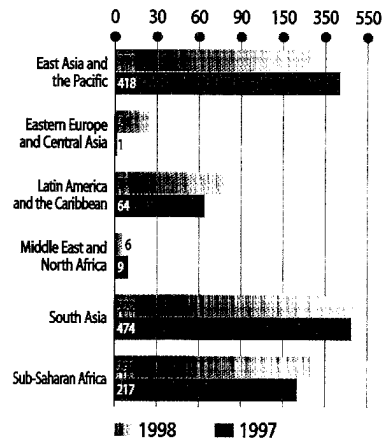
The Poverty Reduction Strategy of 1999 was the culmination of a long learning process in which ADB transformed itself from a project lender in the 1970s to the institution it is today: a supporter of development in its totality. It provides a comprehensive framework for ADB's approach to inclusive development and explicitly states that poverty reduction is ADB's primary goal. This goal is pursued through country poverty reduction strategies.

The Strategy rests on three main pillars: (i) pro-poor, sustainable economic growth, (ii) inclusive social development, and (iii) governance for effective policies and institutions. It also recognizes the importance of strengthening the private sector, of regional cooperation, of gender, and of promoting environmental sustainability. The Strategy recommends that ADB increase partnerships with civil society, local governments, and other stakeholders

ADB Policies that Advance Inclusive Development

In addition to the Poverty Reduction Strategy, ADB's broader development agenda is served by many other associated policies. Some of these are briefly listed here. Under the Gender and Development Policy (1998) (*http://www.adb.org/Documents/Policies/Gender/Gender_Policy.pdf*), gender mainstreaming was adopted as the key strategy with ADB undertaking to address gender concerns in all sectors of operations and in lending and nonlending activities. ADB's Social Protection Strategy (2001) (*http://www.adb.org/Documents/Policies/Social_Protection/social_protection.pdf*) focuses on reducing poverty and vulnerability by promoting efficient labor markets, reducing people's exposure to risks, and enhancing their capacity to protect themselves against the risk of interruption or loss of income. ADB's Governance Policy (1995) (*http://www.adb.org/Documents/Policies/Governance/govpolicy.pdf*) straddles both inclusiveness as well as institutional reforms by improving participation of beneficiaries, by encouraging more effective interface between the public and private sectors, by promoting decentralization, and through the nongovernment organization (NGO) policy (*http://www.adb.org/Documents/Policies/Cooperation_with_NGOs/ngo-policy.asp*) by increasing participation of NGOs and civil society. The Environment Policy (2002) (*http://www.adb.org/documents/policies/environment/environment_policy.pdf*) also supports inclusive development and emphasizes intervening both directly by reducing poverty and indirectly by promoting sustainable growth. The Policy on Indigenous Peoples (1998) (*http://www.adb.org/Documents/Policies/Indigenous_Peoples/IPPP.pdf*) aims to ensure that they have equal opportunities.

Population Living on Less Than $1 per Day *(millions)*



including its bilateral and multilateral development partners. A major review of the Strategy was launched in 2003 and is still under way.

The Role of Institutions in Inclusive Development

Well-functioning social institutions, both formal (legal) and informal (conventions/codes of behavior), can greatly aid in the fulfillment of human aspirations just as malfunctioning institutions can impede progress. Certain traits have come to be identified with effective performance: (i) mandates for participation and transparency of transactions, (ii) provisions for public and professional scrutiny and accountability, (iii) public voice in determining outcomes, and (iv) taking local circumstances into account in institutional design. Recognizing the close nexus between poverty reduction and institutional and legal regimes, ADB supports legal and institutional reform (*see boxes*).

The formal laws, policies, and rules that determine the efficient functioning of the state and the market are crucial for inclusive development in Asia. Most people recognize that the state has responsibilities to provide affordable, effective, and equitable public goods and services, including those targeted under the Millennium Development Goals. Understanding the relationship among governance, poverty, and vulnerability from the viewpoint of the poor is vital to institutional reform that promotes inclusive development. Equally important are reforms that protect the poor against the misuse of power. ADB has started identifying approaches that can enable the poor to exercise their rights to public entitlements and to seek protection from such misuse.

Policymakers must resist the temptation to replicate institutional arrangements simply because they have been successful elsewhere or because theoretically they seem optimal; instead, institutional make-up must be anchored in local knowledge of practices. The prospects for experimentation are vast, and the intersection of theory and practice promises to be incredibly dynamic. Regional and country analyses and interventions will yield the greatest insights going far beyond the few international best practices. Much remains to be done to learn from and support the positive lessons that are emerging from the region.

Legal Empowerment

An ADB-commissioned study examined how legal empowerment contributes to good governance, poverty reduction, and other development goals. Using seven country reports, the study identified the constraints faced by the poor in accessing the legal system and in participating in local or national governance. These included (i) lack of economic independence; (ii) minimal understanding of law and the rights it confers; (iii) limited access to affordable legal services; (iv) lack of knowledge, incentives, and resources among government officials; (v) limitations in the outreach and capacity of civil society organizations to provide legal services to the disadvantaged; (vi) inconsistency between formal law and traditional values; (vii) poorly drafted or contradictory laws and regulations; (viii) failure to implement sound laws; (ix) traditional use of law as an instrument of control; and (x) corruption.

Legal empowerment can be undertaken through a variety of activities and strategies. The first step is awareness of the law and the rights it confers. The second is assistance to poor communities to assert their rights or to enforce judgments through formal or informal decision-making bodies. A third and potent area of activity is participation in local governance by the poor or by nongovernment organizations representing their interests.

Evolution in ADB of the Concept of Legal Systems and Access to Justice

In the past, definitions of legal systems have been narrow and too limited to address poverty reduction and development objectives as they are now understood. Because of this, a definition that is much more robust and emancipating has been adopted by ADB: "A legal system encompasses the rights and obligations of any individual or private or public institution that is supported by formal or informal enforcement mechanisms."[1] Among other things, this functional definition eschews the traditional and often artificial line that is drawn between bureaucracies and judiciaries.[2]

Just as the scope of a legal system has expanded, so too has ADB's definition of what constitutes access to justice. Earlier definitions included a narrow and mostly formal set of institutions and activities. Research on legal empowerment supported by ADB demonstrated the need to expand the boundaries of what is meant by access to justice and the institutions involved in enhancing it. In this context, legal empowerment is defined as, "The use of law to increase the control that disadvantaged populations exercise over their lives." Thus, the law becomes a key instrument in the empowerment of people.

1 Lawrence M. Friedman. 1969. "On Legal Development" *Rutgers Law Review* 24:56–67.

2 Jensen, Erik G. and Thomas C. Heller, eds. 2003. *Beyond Common Knowledge: Empirical Approaches to the Rule of Law*. Stanford University Press. Erik G. Jensen, "The Rule of Law and Judicial Reform: The Political Economy of Diverse Institutional Patterns and Reformers' Responses."

To promote pro-poor, sustainable growth, developing member country (DMC) governments are reconfiguring existing institutions to improve access by the poor to credit and technology. Supporting small and medium enterprises (SMEs) is a major policy thrust as is widening the reach of markets by building transport networks.

In social development, investments and capacity building are essential for any meaningful improvement. However, without institutional and policy reform, many of these interventions will not bear fruit or be sustained. Areas of reform where ADB has been particularly active include (i) adequate budgetary allocations for human capital, (ii) basic social services for the poor, (iii) removal of gender discrimination, (iv) formulating effective population policies, and (v) designing social protection.

Better macroeconomic management and improved governance call for major institutional changes. ADB support, particularly in recent years, has been significant in this area. Legal and institutional changes have focused on improving bureaucratic responsiveness, supporting devolution and decentralization, strengthening the enforcement of justice, and providing greater information and transparency about performance and spending. Finally, ADB has worked closely with DMCs to overcome barriers to effective participation in globalization[4] by initiating national and regional institutional reforms.

Insolvency and Secured Transactions

The recommendations of an ADB study in 11 Asian countries provided the basis for determining good practice standards essential to debtor-creditor relations. Recognizing the pioneering nature of this work, the United Nations Committee on Trade Law adopted these standards and incorporated them into its draft Legislative Guide on Insolvency Law.

Good insolvency laws should provide for continued functioning of debtors, if possible, with effective rescue processes in which creditors and shareholders have confidence so that businesses can be rehabilitated and employees can retain their livelihoods. The laws can provide an awareness of what practices lead to insolvency, and in cases where there appear to have been infringements by corporate managers or directors, prosecution could be launched thus building awareness of what constitutes illegal corporate conduct. Sound insolvency laws also permit all economic players to understand in advance how their interests will be protected.

The Asian financial crisis highlighted the importance of developing a framework for regional cooperation to address the growing problem of cross-border corporate insolvency. ADB's discussions with key stakeholders on strengthening national frameworks led several countries to consider ways of cooperating in this area.

When the insolvency risk for a country is predictable and financial institutions can ascertain and price this risk, the cost of credit stabilizes and eventually falls. Evidence from the Asian financial crisis highlighted the potentially destabilizing impact of systems that were overly dependent on the banking sector for credit and on real estate as collateral for credit. Secured transaction regimes allow small and medium enterprises and farmers to use moveable property such as equipment and raw materials as collateral when these groups cannot provide real estate or land as collateral, thus reducing risks.

ADB's Experience and Lessons Learned

Improved Market Functioning and Access to Resources for Pro-Poor Economic Growth

Central to the efficient operation of markets is improving the security of private property, the sanctity of contracts, and the predictable and consistent application of rational laws ensuring access to economic resources by all, particularly the poor and the vulnerable. ADB has been assisting institutional reform in these areas. In addition, support has been provided for promoting competition, reducing market distortions, and introducing fair terms for labor.

Improving the Security of Property and Exchange

The need for a legal framework for a market economy is particularly salient in transition economies, i.e., the Central Asian republics, Cambodia, PRC, Lao People's Democratic Republic (Lao PDR), Mongolia, and Viet Nam. The demand for law and legal institutions has also accelerated in the wake of economic growth; for example, ADB has actively collaborated with the PRC in the development of bankruptcy laws, regulations on antidumping, and subsidy and countervailing duties and safeguards.

The Asian financial crisis highlighted the importance of strong insolvency and debtor-creditor regimes for crisis prevention, mitigation, and resolution (*see box*). The crisis exposed weaknesses in the proper functioning of financial and corporate institutions.[5] The rules under which the markets functioned were also scrutinized. Postcrisis assistance often included a cluster of loans supporting reforms in the financial and corporate sectors and in the policies governing competitive market functioning.

Specific attention has also been paid to improving the rules governing the functioning of corporations and stock markets so that they are more open and accountable. The Indonesia program loans in the financial governance sector are examples. In Thailand, operations focused on improving institutions to strengthen market regulation and supervision; restructuring the Securities and Exchange Commission into an autonomous agency was a key element. Philippine operations focused on reforms in the capital market and nonbank financial sectors.

The 1997 crisis raised awareness of the need for reforms even in countries that were not directly affected. That led to ADB assistance to several DMCs on institutional reforms in the financial and corporate sectors including projects in Cambodia, Kyrgyz Republic, Lao PDR, Marshall Islands, and Pakistan.

Improving Access to Resources and Opportunities

ADB is focusing on reforming domestic institutions to enable the poor to better access productive resources such as land, technology, and credit. Impediments to access

Indonesia: Legal Empowerment of Water Users' Associations

An ADB-assisted Asia Foundation study has helped to develop a legal empowerment component of the Participatory Irrigation Sector Project. As a result, water users' associations will become better positioned to negotiate agreements, and farmers can better negotiate irrigation transfer, management, and service agreements with the Government. Government officials are better informed and become more responsive to farmers' needs. Women play greater roles in irrigation management and in other community affairs. Farmers and their communities are better able to respond to outside encroachment on their water rights. Legal empowerment is enabling farmers and communities to address issues outside of irrigation, e.g., gender, local governance, and natural resource management. Through paralegal development and other mechanisms, farmers can assert their interests beyond the term of the Project. A network of nongovernment organizations, lawyers, law schools, and farmers' associations is further contributing to irrigation reforms.

can be as basic as the denial of a person's legal identity; other exclusions follow as a matter of course. At the very minimum, a person must be recognized by the state as legally existing, yet it is estimated that 63% of births in South Asia annually go unregistered, and 22% are not registered in East Asia and the Pacific. Registration of births is lower in rural areas than in urban areas, for girls than for boys, and for some minority groups. Registration at birth and the resulting legal identity may be prerequisites for social participation and inclusion. They could also potentially be useful in efforts to combat child labor and marriages and trafficking of women and children. ADB has initiated a study to more clearly understand the connection between proof of legal identity and access to resources, services, and opportunities, as well as the links among economic development, inequality before the law, and empowerment.

The most important resource for the poor is land. Cultivating land remains the primary means of sustenance for Asia's rural poor,[6] yet their access is often barred physically or legally. This also prevents them from accessing credit. Several projects have addressed these problems. In Cambodia where the great majority of land is unregistered, ADB collaborated with the Government in developing a land law and a system for registration of ownership. In Indonesia, legal empowerment support in an irrigation project is helping farmers get better access to water (*see box on page 16*).

ADB is supporting several microfinance and SME projects throughout the region to improve access to credit and to promote entrepreneurship. For microfinance services, this requires social intermediation covering (i) awareness building; (ii) disseminating information on service providers; (iii) training in basic literacy, numeracy, and skills; and (iv) forming community-based organizations and solidarity groups to actively participate in markets. Enhancing the capacity of the poor to effectively manage microenterprises[7] and service debts is critical for sustainability. Several governments have sought ADB support in the microfinance sector. A typical example is the Microfinance Sector Development Program in Pakistan (*see http://www.adb/org/Documents/profiles/LOAN/29229013.asp*).

Improved functioning of the labor market is crucial to efficient market performance and growth. The benefits of economic growth cannot be maximized if employees do not have proper working conditions and the right to fair termination. ADB has provided support to many DMCs in improving labor skills and training.[8] The 2001 Basic Skills Development Project in Bhutan is one such project (*see http://www.adb.org/Documents/Profiles/LOAN/31317013.asp*).

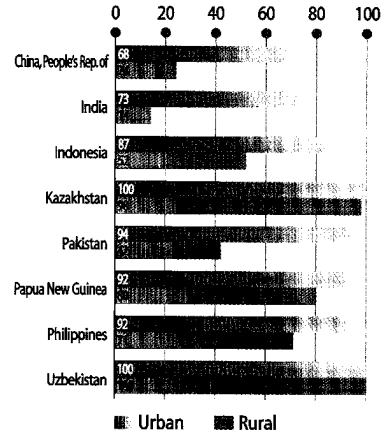
ADB's Social Protection Strategy aims to help DMCs create supportive labor conditions. In Indonesia, labor legislation provides help for workers facing retrenchment as a result of privatization. In Bhutan and the Maldives, support for employment legislation has been provided. In Bhutan, Maldives, and Pakistan, ADB also assisted in the development and operation of a labor administration system. ADB has promoted innovative approaches to labor protection such as labor law compliance strategies that include self-reporting and self-inspection.

Rectifying Geographical Exclusions and Imbalances

Left entirely to markets, growth and development tend to agglomerate resulting in spatial imbalance. In several countries, ADB has focused on the poorest, most isolated areas through targeted interventions. In the Philippines, Mindanao's conflict areas and poor ethnic minorities have been the targets of the country strategy and program. Other countries that have growing internal

Population with Access to Improved Sanitation Facilities in Selected DMCs

(% of total population, 2000)

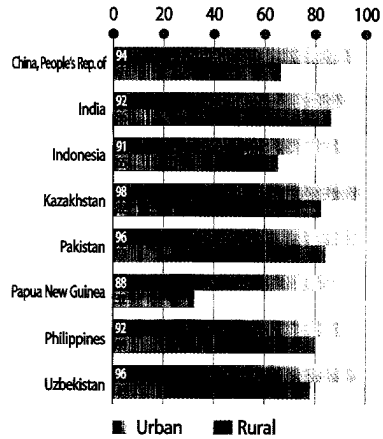


Source: *World Development Indicators, 2001.*

Note: Access to "improved sanitation facilities" refers to percentage of the population with access to at least adequate excreta disposal facilities (private or shared, but not public) that can effectively prevent human, animal, and insect contact with excreta (ranging from simple but protected pit latrines to flush toilets with a sewerage connection).

Population with Access to an Improved Water Source in Selected DMCs

(% of total population, 2000)

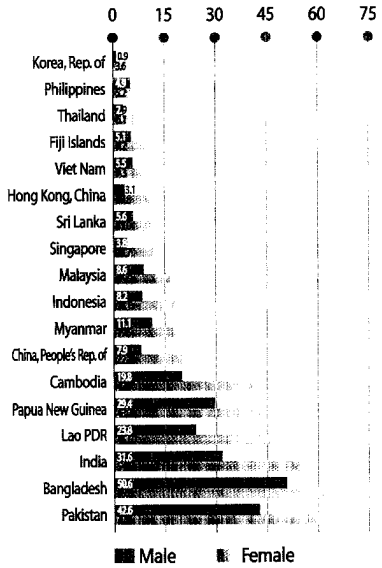


Source: *World Development Indicators, 2001.*

Note: Access to "improved water source" refers to the percentage of the population with reasonable access to an adequate amount of water from an improved water source (e.g., household connection, protected well spring, or rainwater collection).

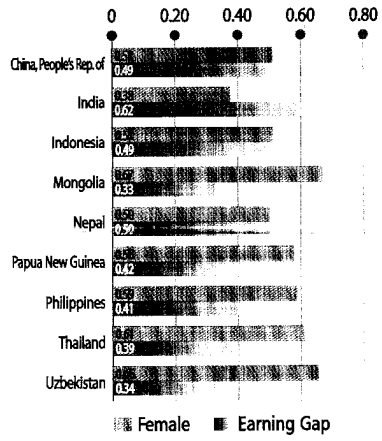
Illiteracy: Male and Female, Selected DMCs

(Age 15+, % of population, year 2000)



Female Income as a Fraction of Male, Selected Asian DMCs, 2003

(Male = 100)



disparities such as the PRC and India are also considering area-specific interventions.

In many cases, the absence of effective transport links with the economic mainstream has been the primary constraint to balanced development. ADB has supported several transport strategy studies and projects that helped to link less-developed areas and hinterlands with growth centers. An example is the PRC Western Yunnan Roads Development Project that supports development in poor western and central regions of the country (*see http://www.adb.org/Documents/ADBBO/LOAN/32336013.asp*).

In addition to infrastructure investments, ADB also provides macroeconomic policy support for addressing regional disparities. An example is recent technical assistance to the Indonesian central planning and development agency for decentralized management of regional disparities. Often, less-developed regions comprise remote areas in different countries where international boundaries have posed significant constraints to trade and infrastructure development. DMCs are addressing this with ADB support through regional cooperation.

Institutional Reforms for Social Development

Lack of access to basic social services has immense economic consequences, and social stratification prevents mobility of labor and skills, placing constraints on production. It is generally believed that the success of the East Asian economies in the late 20th century compared to other areas in Asia rested significantly on their ability to focus on widespread social development.[9]

Access to Basic Social Services and Empowerment

ADB encourages a shift in domestic policy and legislation to ensure better access and empowerment for disadvantaged groups. A recent project to improve decentralized health services in Indonesia, for example, focuses on strengthening delivery of services used mainly by the poor, by vulnerable groups, and by women. The 1997 health sector development program for Papua New Guinea and the 2002 health project for Cambodia are other examples. The importance of education, particularly basic education, has been one of ADB's primary areas of support to its DMCs. The possibility of changing social mores through education makes it an even more compelling intervention.

Legal reforms including constitutional provisions can also be significant. India, for example, has a policy of reservations for poor castes and tribes in public sector employment. India, Pakistan, and recently Afghanistan have reserved seats for women in local or national parliaments. These are big steps toward gender empowerment. Experience, however, shows that mere legislation is not enough to eliminate discrimination and that the process of changing social mores is long and slow.

Addressing Gender Exclusion

ADB has mainstreamed gender in its operations since the 1980s to improve the formal legal status of women and to encourage their active and equal participation in society.[10] Legal empowerment has been a major focus through training judges, lawmakers, lawyers, court officers, and law enforcement personnel in gender awareness and gender sensitization and through support for legal aid offices and women's organizations that promote women's legal awareness and protect their interests. The Governance Reform Program for Nepal, for example, recommended several amendments to the civil service act to increase the proportion of women and to address the sociocultural impediments to women's career advancement.

Supportive research and analysis are critical to policy advocacy for

gender mainstreaming. In Indonesia, studies identified maternal mortality and disadvantages in the labor market as critical barriers to women's empowerment; the country strategy incorporates a detailed gender strategy and action plan to address these problems. An ADB loan to support capacity building of regional governments following decentralization requires the development of gender action plans as an integral component. ADB is monitoring these action plans to see if significant improvements in women's participation result from these efforts.

Another example of gender mainstreaming is a health care project in Bhutan where a number of gender-sensitive policy reforms were suggested. Similarly, Pakistan's Access to Justice Project removes barriers and encourages women to enter the legal and judicial professions. It also provides gender sensitivity training for the judiciary and the police and a legal empowerment fund to advocate the rights of poor people and disadvantaged groups, particularly women (*see box on page 21*).

Support for Indigenous Peoples, Ethnic Minorities, Bonded Laborers

ADB approved a strategy that addresses both adoption of their legal safeguards and rights as well as measures to bring about lasting changes in social values and institutions (*see box*). Concerns of indigenous peoples are mainstreamed into projects implemented in areas that have significant ethnic minorities. For example, in the Greater Mekong Subregion Northern Economic Corridor project, special efforts are under way to ensure that the benefits reach ethnic groups living there. Bonded laborers are the focus of the Sindh Rural Development Project in Pakistan. Reforms promoted by the Project include greater transparency for accounting of debts and payments as well as civic education on the rights of tenants.

Institutional Reforms for Good Governance

Governance reforms are crucial for inclusive development. While ADB provides a wide array of support for introducing good governance measures, important initiatives have involved institutional changes that improve bureaucratic responsiveness and access to justice.[11]

Improving Bureaucratic Responsiveness

This requires a combination of approaches. Internal activities focus on performance standards and incentives, rules of business, and the framework for civil administration including decentralization. Administrative grievance mechanisms are also an essential dimension. Programs in Nepal and Mongolia are examples. In Nepal, the program helps the Government develop its own internal capacity to lead and undertake governance reform. ADB has supported reform in Mongolia since 1995 and has helped with the adoption of the Governance Reform Program with a 10-year roadmap (*see box on page 20*). Likewise, the governments of the Fiji Islands and Samoa have been assisted to strengthen public financial management and their treasury and finance ministries.

Decentralization and devolution can be important. Given its scale and nature, Indonesia's program is considered as one of the most comprehensive attempts at decentralization in the region. ADB has supported it at all levels. ADB was also extensively involved in all aspects of the legal framework of Pakistan's devolution program and worked particularly closely on the access to justice dimensions of the program.

Proposed Nepal Gender Equality and Empowerment of Women Project

ADB is currently working with the Government of Nepal to formulate the first loan focusing exclusively on gender. The project envisages improving the socioeconomic conditions of poor rural women, including ethnic and low-caste women, through empowerment by (i) strengthening their capabilities to improve their access to and control over assets; (ii) building group support and solidarity to undertake collective action to engage, influence, and hold institutions accountable; and (iii) reforming government institutions to include women in development opportunities.

Indigenous Peoples and Ethnic Minorities

Indigenous peoples are regarded as those with a social or cultural identity distinct from that of the mainstream society that makes them vulnerable. Indigenous peoples include cultural minorities, ethnic minorities, indigenous cultural communities, tribals, scheduled tribes, natives, and aboriginals. Under its 1998 Policy on Indigenous Peoples, ADB pledged to work with borrowing member countries to support their capacity building and institutional development to address matters pertaining to indigenous peoples.

The First Indigenous Peoples Forum conducted in Thailand in 2001 endorsed ADB's policy and institutional guidelines. Providing basic services addresses problems of physical delivery in remote regions, of adapting services to indigenous needs, and of providing credit and financial services in the context of communal tenure.

Mongolia: Public Sector Financial Management Law

Mongolia is divided into a large number of administrative jurisdictions that are managed by over 6,000 budgetary bodies. The government sector is larger than that in other comparable transition economies with current expenditures at over 70% of total expenditures. Until the end of 2002, provincial governors negotiated their budgets directly with the Ministry of Finance and Economy, and district governors negotiated with provincial governors. This system led to significant expenditure over-runs and overall fiscal deficits in the mid-1990s. In addition, there were concerns about accountability at local levels all of which generated a sense of urgency to institute reforms to achieve fiscal responsibility, transparency, and accountability.

The enactment of the Law in June 2002 was a milestone in macroeconomic reforms. It aims to integrate strategic planning at all levels with budget formulation and execution while infusing budgetary discipline through enhanced accountability and transparency in the determination and the utilization of funds. The law defines fiscal and operational relations within the different executive branches of the government at various levels and between the executive and the elected representatives of the public. Further, it requires the Supreme Audit Agency to undertake certification audits of the financial statement audits of all budgetary bodies and state-owned enterprises.

Strengthening Enforcement Capacity for Justice and Access to Information

Considerable work has been undertaken to improve access to justice. The strongest argument in support of formal legal systems is that courts are the ultimate enforcers, and implementation of judgments spawns all sorts of less formal and informal bargaining and agreements. Alternative institutions to resolve disputes have their place but operate with weak enforcement capacities.[12] Such institutions, in fact, can only be effective in the shadow of a well-functioning formal legal order as is evident, for example, from the fact that arbitral awards ultimately rely on the enforcement power of the state through courts.

Preference and value given to formal legal systems have been confirmed by public opinion surveys like the ADB-Asia Foundation study in Pakistan. Thus, fixing the formal system is likely to be a strategic, popular intervention. ADB also funded surveys to ascertain the perspectives of litigants and would-be litigants and carried out case-file analyses. Of various access to justice projects, the one in Pakistan was the earliest and provided valuable insights for later interventions (*see box*).

Regional interventions include a study on judicial independence and assistance to the Philippine judiciary to strengthen its independence and enhance its accountability. Other studies include strengthening the commercial division of the judiciary in the Lao PDR and widespread regional interventions to combat corruption and to enhance international security through anti-money laundering legislation and training.

Credible information and easy access to it are most important for creating an environment in which citizens may act and public institutions may become more responsive to citizens' needs. Since 1997, ADB has assisted policymakers and others engaged in legal reform

in its DMCs through the Development of the Internet for Asian Law project. This Project assisted the creation and development of the World Legal Information Institute[13] and is the largest collection of freely accessible legal databases on the Internet. ADB supports the publication of annual reports, court decisions, budgetary information about the courts, and legal literacy/citizen information kiosks in Pakistan. Draft legislation for freedom of information has also been prepared. In Nepal, ADB is assisting the Government to develop a legal information center to provide access to supreme court cases and to laws, amendments, and consolidations through a publicly accessible, easy-to-navigate web site. The result will be a one-stop legal information center. Empirical data on case management and disposition times will also be available. In Tajikistan, a database of over 5,000 legal acts has been created and is expected to be on the Internet in the near future.

Promoting Inclusion at the Global Level

Inclusive development also requires that countries do not face exclusion at the global level. People everywhere must be able to participate in the general prosperity associated with globalization though there must also be protection from its external shocks and other drawbacks.

Globalization opens up opportunities for developing countries for optimal use of resources and economies of scale. Countries that facilitate the functioning of global firms and participate in a high value-added link of the global supply chain can reap its benefits (e.g., Indian and Philippine software firms which provide services for multinational software companies).

Another aspect of globalization is movement of labor. The movement of workers from job-scarce settings to those with more employment opportunities can also make significant contributions to private and national prosperity. Remittances from workers abroad constitute an important share of foreign exchange earnings for many countries; in fact, in terms of financial flows to developing countries, remittances are now more than two and a half times as much as annual official development assistance.

ADB pursues inclusive globalization. Considerable assistance has been provided to DMCs to modernize domestic institutions to participate more effectively in the global marketplace while also safeguarding and promoting the interests of smaller economies and the weaker sections of society to avoid exacerbating inequality. ADB's Social Protection Strategy specifically addresses this problem (*see http://www.adb.org/SocialProtection/strat.asp*). ADB has also attempted to influence international institutions to strengthen the region's capacity in handling globalization and to address geographical exclusions through regional cooperation. One of ADB's major efforts to promote global inclusiveness is its special attention to helping the Pacific nations to increase their links to the global economy (*see box on page 22*).

ADB has supported inclusive globalization by promoting stable macroeconomic and prudent financial policies and by supporting foreign direct investment. In this context, labor issues have been important. The proper functioning

Pakistan Access to Justice Project

The Project pursues five inter-related governance objectives: (i) providing a legal basis for judicial, policy, and administrative reforms; (ii) increasing the efficiency, timeliness, and effectiveness of judicial and police services; (iii) supporting greater equity and accessibility in justice services for the poor and the vulnerable; (iv) improving predictability and consistency between fiscal and human resource allocation and the mandates of reformed judicial and police institutions in federal, provincial, and local governments; and (v) ensuring greater transparency and accountability in the performance of the judiciary, the police, and justice institutions.

The system aims to create opportunities for a large body of stakeholders (including authorities, citizens, and civil society) to monitor and evaluate activities. Early results from the Project include a reduction in delays in courts, improvement in judicial performance monitoring and merit rewards, and a judicial grievance procedure.

Reduction in Delays. In the North West Frontier Province (NWFP) there have been striking reductions in the number of court cases pending. In the High Court based in Peshawar, the number of cases disposed of in 2002 increased by 222% over those in 2001. Across all three benches of the High Court, there was an overall reduction in total cases pending by the end of 2002 of 35% over 2001. In the high-volume district courts, the improvements were even more striking; they disposed of 77% more cases in 2002 than 2001.

Performance Monitoring and Rewarding Merit. Inspection teams in the district judiciary monitor performance and investigate complaints. For the first time, the teams inspected all courts in NWFP and assessed the performance of justices. A policy was established that provided a monetary reward to judges on the basis of their performance.

Grievance Procedures. The procedures for citizens to lodge complaints against a member of the judiciary were advertised in the newspapers. The teams received 864 complaints during July–December 2002.

Support for Inclusive Globalization in the Pacific

Remoteness and dispersion, small populations, and limited resource bases combine to limit the ability of the Pacific developing member countries (DMCs) to compete in world markets. They are also vulnerable to global shocks due to their narrow production and export bases, high import dependence, and susceptibility to natural disasters. Difficulties in developing and implementing market-friendly policies and institutions have led to high transaction costs, low efficiency of public investment, and weak private sector development. Weak governance institutions and poor social development outcomes add to their problems.

ADB support includes microcredit, legal and institutional reform, diversification in production, and macroeconomic management. Since the mid-1990s ADB has supported public sector, governance, and economic reforms in most of the Pacific DMCs. Support for economic diversification has gone to agro-industrial and small and medium enterprise development including identification of alternative livelihoods. ADB has also commenced work to increase the participation of the poor in policy and program formulation and to strengthen accountability of governments. A new study is strengthening understanding of appropriate social protection policies and programs to address the needs of the poor.

In 2003, ADB took a major step by preparing its first Regional Cooperation Strategy and Program for the Pacific. Interventions have included support for the establishment of a Pacific aviation safety office and technical advice on joint negotiating arrangements to maximize returns from deepwater fish harvesting. ADB is also exploring a regional approach to providing cost-effective information and communication technology.

of labor markets depends on labor laws that allow entrepreneurs flexibility in increasing or reducing the labor force and in setting wages, and policies that improve labor productivity and development of skills. Many DMCs need assistance in modernizing labor legislation as well as in improving skills and safeguards. ADB supports these measures in collaboration with other development partners.

The Pakistan Trade, Export Promotion, and Industry Program is a comprehensive attempt to improve institutions. Another example is the Indonesia Industrial Competitiveness and SME Development Program loan that has striven to promote foreign investments. A follow-up loan (the SME Export Development Project) has specifically attempted to bring the SME sector into the global mainstream by providing assistance for modernization and export facilitation.

ADB has also played an important role in helping governments cope with the rigors and downturns of globalization, particularly in the wake of the Asian financial crisis. The best examples are the programs in Indonesia and Thailand—two of the worst affected countries.

Regional Institutional Arrangements and Regional Cooperation

Calls for ADB to play a more proactive role in this effort have become more emphatic since the Asian financial crisis. The Association of Southeast Asian Nations (ASEAN) Free Trade Area was implemented in 2002 much ahead of the original target of 2008. The ASEAN summit in Bali in October 2003 agreed to eventual extension of the free trade area to include PRC, India, Japan, and Republic of Korea. A consensus among the Asia and Pacific countries has emerged to establish a broader institutional arrangement for cooperation, extending beyond trade to financial and monetary areas. Better utilization of the vast savings of the region as a cheaper and more stable alternative to international financial markets is one area of focus. Another is the need to strengthen monitoring systems to provide early warning of financial volatility and threats to DMCs.

ADB established a regional monitoring unit in 1999 and set up an Asia Recovery Information Center and web site (*http://www.adb.org/REMU/aric.asp*) soon after that has been providing useful information on high-frequency economic, financial, and social indicators. To preempt future financial crises, technical assistance has been provided for the establishment of national surveillance units in countries and for strengthening their capacity for detecting emerging macroeconomic, financial, and corporate vulnerabilities. A study outlined modalities of monetary and financial cooperation including multilateral ASEAN swap agreements and transitional arrangements toward a single currency in the long term. An important new step is the Asian Bond Market Initiative. ADB has helped this initiative by strengthening networking among Asian domestic credit rating agencies. The Asian Bonds Online web site is expected soon (*see http://www.adb.org/Documents/Profiles/GRNT/38080012.asp*).

Regional cooperation addresses the needs of countries that could gain substantially by facilitating movement across international boundaries.[14] These initiatives include the Greater Mekong Subregion Economic Cooperation Program as well as the Central Asia Regional Economic Cooperation, the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area, the South Asia Subregional Economic Cooperation, the Central and South Asia Transport and Trade Forum, and the Subregional Economic Cooperation in South and Central Asia.

Conclusions and Challenges for the Future

The Asia and Pacific region has developed a large skill base and the capacity to harness new technology, adapt it, and generate more. It has a growing potential to reach new markets inside and outside its boundaries. An unprecedented nearly $2 trillion in foreign exchange reserves provide new vigor to pursue development goals. Such a confluence of development factors is a unique historical opportunity. DMCs must ensure that the benefits of prosperity help improve the lives of all. Inclusive development must be pursued vigorously; legal reforms and institutions have a critical role in this pursuit.

What is clear is that there is no one path to inclusive development; each DMC needs to devise its own course and fully tailor and own its institutional reform agenda. Nevertheless, there are some general principles that experience and analysis suggest transcend the particular.

Accelerating Economic Growth in an Inclusive Environment

As the experience of the East Asian economies and the PRC demonstrates, rapid economic growth provides the essential wherewithal for reducing poverty. At the same time, the sudden escalation of poverty levels in the wake of the Asian financial crisis demonstrated that unless broad-based, the benefits of growth can be fleeting, especially for vulnerable groups. To make economic growth the most effective and enduring engine for inclusive development, excluded groups must fully participate in and meaningfully benefit from it. Legal and institutional reforms must provide new channels through which those who have been historically left behind can overcome their individual and common predicament.

In a global economy where education, particularly higher education, is increasingly becoming the arbiter of competitive success, educational opportunities must be expanded at levels not tried before. Barriers to labor mobility must be addressed to ensure best returns. Social protection such as minimum wage, old age pensions, disability insurance, and adequate health services will help make graduation from poverty a sustained achievement.

Calibrating Laws and Building Institutions

As the speed of change accelerates, the role and nature of institutions and laws must also adapt to take advantage of newly available opportunities, to withstand new threats, and to overcome persistent problems. Country after country in the region has adapted institutional and legal frameworks in the face of crises, but the cost of crisis-led reform is often high. The region's prospects will be improved if reforms anticipate demands and pave the way for changes. With greater movement of people, goods, capital, and even communicable diseases across boundaries, there is an urgent need to re-align frameworks to maximize the benefits and minimize the consequences of new opportunities.

Strengthening Governance

The challenge of creating economic prosperity in a hugely competitive and increasingly more open global system imbues governance institutions and markets with new, complex responsibilities. Their capacity and effectiveness have a direct impact on the prospects for prosperity. The failure of the state to create and sustain robust public institutions will deter economic growth and will disable attempts to achieve inclusive development. Investments in good governance need to be an integral part of poverty reduction strategies.

Regional Cooperation and Convergence

While Asia's great diversity does not easily lend itself to wholesale application of best practices, experiences in the region do suggest some common principles. Countries must learn from each other and must recognize how common principles are at work in each context. More efforts will have to go to reducing barriers to learning and sharing of experiences for ultimately, regional convergence in policies, practices, and institutional norms will spur greater economic cooperation, peace, and stability.

Pursuing Inclusive Globalization

While the merits of economic globalization continue to be debated, there is no denying the greater integration of the global economy. Asia as a whole has greatly benefited from its early engagement. As the structure of global trade changes because of technological innovation and other factors, globalization will present new challenges. Working together with development partners, the region must be prepared to seek and to realize every opportunity, to anticipate changes and to adjust national economic directions to meet them. To the extent economic globalization creates new vulnerabilities, both the countries and the region as a whole must be prepared to detect them early on and to take protective measures. The state, civil society, and markets will play a central role in these efforts.

The region faces the twin challenges of (i) strengthening state capacity for development effectiveness, and (ii) enhancing the legal and institutional framework through which state action is bounded by legitimacy, commitment to inclusive development, and fairness. Reforming laws and institutions can be a catalyst for meeting these challenges.

ENDNOTES

1 United Nations General Assembly Resolution of 8 September 2000.
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3 ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: The Long-Term Strategic Framework of the Asian Development Bank (2001-2015)*. Manila.
4 ADB. 2001. *Asian Development Outlook 2001: Special Chapter on Asia's Globalization Challenge*. Manila.
5 ADB. 2000. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines and Thailand, Volume One*. Manila.
6 Quibria, M.G. 1994. *Rural Poverty in Developing Asia, Volume 1: Bangladesh, India and Sri Lanka*. Manila: ADB. See also de Soto, Hernando 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York, NY: Basic Books.
7 ADB. 2001. *Regional Technical Assistance for Microfinance Outreach Initiatives of the Consultative Group to Assist the Poorest* (Regional Technical Assistance [RETA] 5964). Manila.
8 ADB. 1999. *Technical Assistance for Improving the Role of Labor Standards in Selected DMCs* (RETA 5887). Manila.
9 Sen, Amartya. 2000. ADB *Social Development Papers No.1: Social Exclusion, Concept, Application and Scrutiny*. Manila.
10 ADB. 2002. *Sociolegal Status of Women in Indonesia, Malaysia, Philippines, and Thailand*. Manila.
11 ADB. 1997. *Governance: Promoting Sound Development Management*. Manila.
12 Five concerns often raised about alternative dispute resolution (ADR) are (i) it may undermine judicial reform efforts; (ii) it does not set precedent, refine legal norms, or establish broader community or national standards, nor does it promote a consistent application of legal rules; (iii) it cannot correct systemic injustice, discrimination, or violations of human rights; (iv) programs do not work well in the context of extreme power imbalances between parties; and (v) ADR settlements do not have an educational, punitive, or deterrent effect. Technical Assistance 3015-PAK: Legal and Judicial Reform Overview Report. p. 122.
13 http://www.worldlii.org/.
14 Iwasaki, Y. and B. Prakash. 2002. "Asian Economic Cooperation–A Review." *Journal of Asian Economies*. 13. 309-335. North Holland.

Maximizing Institutional Effectiveness

ADB took several steps toward greater organizational effectiveness in 2003. A Board and Management retreat on the topic led ADB closer to adopting a results-based management system that will allow it to better gauge its development effectiveness.

There was a clearer focus on objectives and monitoring and on moving toward the targets of the Millennium Development Goals.

Further delegation of responsibilities to resident missions under the Resident Mission Policy and the reorganization and changes in business processes improved ADB's country focus and led to clearer lines of accountability. Progress was made on integrating performance considerations in operations and in updating country strategies and programs, including a stronger emphasis on benchmarking, measuring, monitoring, and reporting.

A new Vice-President was appointed to oversee knowledge management and sustainable development, bringing the total to four. In addition, a new position was created for a Managing Director General to coordinate the work of senior management. At the staff level, there was increased emphasis on merit, results, and productivity. Work began on a new human resource strategy to reflect these changes.

ADB also continued its partnerships for development by coordinating priorities with other multilateral development banks (MDBs) and by working more closely with civil society. The High-Level Forum on Harmonization held in Rome in 2003 set out principles to harmonize procedures and processes in environmental impact assessments, safeguards, procurement, financial and portfolio management, and public expenditure reviews. Finally, key milestones for enhancing organizational and business processes were identified: complete the independent

assessment of the reorganization; finalize the agenda for organizational improvement and stability; and continue to refine, consolidate, and stabilize the processes throughout ADB.

Streamlining Organizational and Business Processes

Within the context of the first Medium-Term Strategy 2001–2005 of the Long-Term Strategic Framework 2001–2015, ADB implemented major structural and systemic changes aimed at maximizing its effectiveness as a development partner. ADB's inherent advantage—that it is physically close to its developing member countries (DMCs)—has been enhanced through an expanded regional and resident mission network and the country-focused structure of the organization. New business processes support this structure with greater emphasis on delegating responsibilities and on strengthening team-based approaches. To maximize effectiveness, ADB aims to ensure that (i) programs and projects are of high quality from their inception, (ii) people and the environment are safe from adverse impacts of proposed operations, (iii) standards for portfolio performance are high, and (iv) results and impacts are objectively measured and lessons learned are properly gauged and fed back into the development process.

Quality assurance mechanisms must meet the highest standards. ADB continued to streamline quality review to enhance the value added by sector and thematic committee contributions to important crosscutting areas such as gender, governance, and social development. These efforts aim to improve the quality of analytical and diagnostic work, policy dialogue, and project and program design. In addition, ADB continued to emphasize and to improve economic analysis in policy formulation and in program and project design.

All programs and projects complied with the institution's rigorous environmental and social safeguards. Legal services reinforced the quality of ADB operations by focusing on due diligence, structuring, documentation, and negotiation of ADB's public and private sector lending, guarantee, and equity operations. Policy compliance requirements were scrutinized during project preparation and administration and were reflected in the transaction documents.

While DMCs are primarily responsible for implementing interventions, ADB was actively engaged as a supportive partner. During implementation, monitoring compliance with safeguards continued particularly at critical junctures. Portfolio management was increasingly shared between headquarters and the regional offices and resident missions, allowing for intensified in-country cooperation with stakeholders and improved monitoring of operations, both key elements for successful implementation.

ADB enhanced its monitoring systems to track and analyze the performance of individual loan and grant-financed projects, increasing emphasis on monitoring and measuring results and impacts. The project performance reporting system for loan-financed projects was expanded to (i) cover records of major issues, problems, actions taken, design changes, and ratings; and (ii) extend DMC access to the information in the project performance report. A technical assistance performance reporting system was pilot tested in 2003 and will be operational in early 2004.

A review in the first half of 2003 of ADB's 2002 reorganization concluded that disruption to ADB's operations and deliverables was minimal and that DMCs benefited from the single operational focal point provided by the integration of programs and projects at the department level. The review noted that while ADB's capacity to deliver its strategic agenda had improved, this could be strengthened further. It also noted that changed management initiatives may not have been as effective as expected and that institutional work arrangements and environment and incentive structures need to be resolved.

The review identified several areas that required attention—the span of control of directors in some of the larger sector divisions, the distribution of assignments among sector divisions and regional departments, and quality assurance mechanisms in the Regional and Sustainable Development Department. The issue of control in large sector divisions in the South Asia and the East and Central Asia departments was resolved. Some regional departments and the Regional and Sustainable Development Department addressed the necessary distribution and balance of work through a change in mix of skills and redeployment, and options to enhance quality assurance mechanisms were considered. An independent assessment of the effectiveness of the reorganization will be undertaken in 2004.

Mobilizing Human Resources and Budget

Human resource programs and activities continued to focus on attracting, retaining, and motivating highly qualified staff. In addition to offering competitive salaries on appointment, ADB formalized the outsourcing of background checks for senior and other sensitive positions. Vacancies were posted on web sites targeting international development specialists specifically those with skills in social protection, social development, private sector

development, derivatives, transport, renewable energy, and project/operations administration.

Based on the interventions identified by a study of human resource challenges,[1] ADB completed its self-review and identified 10 priorities (*see box*). Of these, the Gender Action Program II, staff participation in selection and promotion panels (6-month trial basis), and the revision of the Staff Service and Exemplary Performance Recognition Program were approved and implemented. A review of the current performance management system was conducted. Behavioral, cultural, and structural changes in managing and conducting the present system were recommended to senior management and to ADB's Staff Council and were the basis for workshops with staff.

Training and development activities focused on providing opportunities for staff to align their skills with the desired mix under the new organizational structure and business processes. Alternative delivery methods were used to expand audience numbers and access to training programs by a wider range of staff especially in the resident missions. An operations tool kit was launched, providing a one-stop source on policies, strategies, procedures, and business processes.

ADB continued to subsidize postgraduate studies, membership in professional associations, and the ADB-Ateneo[2] Masters in Business Administration Program and also provided capacity-building initiatives such as the Orientation Program for Developing Member Country Officials, the Secondment Program, and the Internship Program.

At the end of the year, ADB had a staff of 2,311 representing 51 of its 63 members. The total comprised 836 professional staff,[3] 356 national officers, and 1,119 administrative staff,[4] of which 362[5] or about 15.7% were located in the field offices. There were 89 appointments and 47[6] departures of professional staff members, while 110 national officers and administrative staff joined ADB and 59[7] left. The number of women professional staff increased from 217 (27.3% of the total professional staff) at the end of 2002, to 241 (28.8%) at the end of 2003.

ADB provided regular services to staff members to ensure optimum staff welfare, fundamental to developing, updating, and retaining the core competencies that are needed to deliver ADB's increasingly complex work program.

An ADB-wide survey to ascertain and better gauge staff perception of the overall working environment, as well as a review of professional staff job offer rejections[8] was completed. The survey noted that staff morale was an issue that ADB needed to address. Work on a human resource strategy was begun.

Security was a primary consideration as was the health of staff. ADB provided regular advisories on severe acute respiratory syndrome, took appropriate measures for staff members' health, and maintained close coordination with medical representatives from the World Health Organization and various embassies in Manila.

Consistent with ADB's market-driven compensation system, a 4.2% weighted average increase in professional staff salaries was approved in 2003 (effective 1 January 2004). For local staff at headquarters, the salary survey for 2003 resulted in a 10.1% weighted average salary increase effective 1 January 2003. An overall weighted average salary increase of 9.3% for local staff in 19 field offices was also implemented.

The existing compensation and benefits package for professional staff in the field offices was monitored and revised as necessary. The mandatory and optional life and disability insurance plans were rebid and renewed.

Significantly, ADB was the first MDB to get ISO 14001 and OHSAS 18001 certification.[9]

Human Resource Management Priority Interventions

- Establish a competency system to support personnel decisions including selection, performance management, and career development.
- Implement a job rotation system for national officers and administrative staff to enrich their work experiences.
- Enhance the performance management system to ensure adequate feedback and to make meaningful distinctions among individual staff performances.
- Implement the Gender Action Program as part of ADB's diversity framework.
- Implement leadership development and talent management programs to strengthen capabilities of senior staff.
- Revise the staff recognition program to promote meritocracy and to reward performance.
- Implement a one-Bank policy for resident/regional missions and representative offices to ensure consistent application of human resource management.
- Establish accountability and transparency in the recruitment and selection system.
- Initiate a balanced work-life program for an improved work environment.
- Review personnel guidelines to improve clarity and ease of access by staff.

Internal Administrative Budget

Actual internal administrative expenses for 2003 amounted to $252.6 million, a utilization rate of 98% for a savings of $6.1 million against the original budget of $258.7 million. The budget for 2004 amounts to $279.5 million, including a general contingency of

1% (*summarized in Appendix 8*). The increase over the 2003 revised estimate is 8.3%, largely due to further increases in ADB's contribution to the Staff Retirement Plan, implementation of the accountability mechanism and anti-money laundering policies, the cost of new resident missions, increased depreciation charges, and security-related costs. The overall price increase is estimated at 5.1%, while the net volume increase is about 3.2%.

Priorities to be funded by the 2004 budget include implementing new Board-approved policies and mandates, expanded work programs and portfolios of regional departments, increased activity in private sector operations, compliance-related legal services, the managing-for-results initiative, and an action plan for the knowledge management framework.

In addition to internal administrative expenses, the 2004 budget also includes an annual capital budget of $4.85 million covering, among others, security-related capital expenditures at the resident missions and technology-related infrastructure/systems consolidation and updates.

Assuring Development Impact

ADB has made significant progress in integrating performance considerations into its operations. Improved use of project evaluation results and project performance management systems is helping to create better designed and better targeted interventions.

Reorganization of OED

The Operations Evaluation Department (OED) assesses projects, policies, and procedures to account for the use of resources, to provide lessons for future operations, and to sustain activities already completed. Evaluation criteria are relevance, efficacy, efficiency, sustainability, and impact. Evidence presented in 2003 showed that since 1989 the success rate of individual operations and of most sectors and countries has been increasing (*see the Annual Review of Evaluation Activities in 2002 at http://www.adb.org/Documents/PERs/RPE_OTH_2003_12.pdf*). During 2003, OED completed 38 reports including 22 project and program performance audits, 6 technical assistance reports, 2 country assistance program evaluations, 6 special and impact evaluations, and 2 annual reports.

In December 2003, the Board approved a set of recommendations to further enhance the independence and effectiveness of OED. The following changes that came into effect on 1 January 2004 brought OED to a comparable position with evaluation units in other multilateral development finance institutions.

(i) OED will report directly to the Board through the Development Effectiveness Committee (Committee).

(ii) The Director General of OED (Director) will be appointed by the Board upon the joint recommendation via the Committee of the Board and the President.

(iii) OED will have fuller autonomy in selecting its staff; the final selection of OED personnel will be made by the Director in consultation with the Budget, Personnel and Management Systems Department in accordance with ADB human resource policies and procedures.

(iv) The annual work program of OED prepared in consultation with the Committee and the President will be approved by the Board.

(v) Within the overall ADB-wide budgetary framework, the Director in consultation with the Committee and the Budget, Personnel and Management Systems Department will prepare an annual budget proposal for OED which will be presented by the President for consideration and approval of the Board in a separate resource envelope.

(vi) Completed evaluation reports will be circulated by the Director simultaneously to Management and to the Board for their response. Disclosure of reports, which will be authorized by the Director, may include as attachments Management's response, OED's comments on it, and a summary of discussions by the Committee.

Corresponding changes in practices relating to work program and budget and to circulation and disclosure of reports will be instituted during 2004 based on continued engagement with operations and other departments. OED's role will be guided by the principles of usefulness and timeliness and of disengagement. The first principle requires OED to use lessons identified in evaluations in reviewing the design of future projects and to provide timely and useful inputs to current operations. The second principle requires that OED maintain an arm's-length relationship from day-to-day operational decisions. OED will continue to have unfettered access to all relevant ADB records and information.

The results of evaluations undertaken in 2003 and in recent years, with summaries by sector and country, and all evaluation reports can be viewed at *http://www.adb.org/Evaluation*.

Project and Program Performance Audit Reports

Most public sector projects and programs evaluated in 2003 were completed in 1999. Of the 22, 16 were rated successful or higher. None was rated unsuccessful. Seventeen confirmed the ratings given in completion reports, and five were reclassified. The economic infrastructure sectors continued to record the highest success rates. Five (62%) of eight programs were successful compared with an average of 30% over the last 5 years.

Twenty-four technical assistance projects for capacity building and advisory studies attached to these projects/programs were also evaluated. Of the 21 that were rated, 11 were successful or better, 8 were partly successful, and 2 were unsuccessful.

Five programs involved financial sector reform. Three were successful, including in particular a strong commitment by the Government of Viet Nam to sustain positive impacts of financial sector reform. The Agriculture Sector Program in Cambodia, the first for the country, removed some key constraints including the passage of a land law. The Public Sector Reform Program in the Federated States of Micronesia was successful and helped restore fiscal balance to the country.

Of the 14 projects evaluated, 2 (14%) were rated highly successful, 9 (64%) successful, and 3 (22%) partly successful. The highly successful Dalian Water Supply Project in the People's Republic of China (PRC) confirmed that commitment at the local government level is an essential factor for success.

Special and Impact Evaluation Studies

A special study was undertaken on financial cost recovery in the power sector in 14 DMCs during the 1990s. ADB's contribution was assessed in part through the record of compliance with financial covenants by 42 power utilities that received 69 loans totaling $9.2 billion during 1990–2001.

The principle of financial cost recovery in the power sector is that revenues from electricity sales should fully recover operational expenses and depreciation and should generate a reasonable return on the capital invested. The three key criteria for evaluating cost recovery were (i) cost minimization, (ii) tariff setting, and (iii) revenue collection efficiency. Performance in three countries was satisfactory; in five countries was unsatisfactory; and in six countries was tolerable. The review of compliance with covenants showed an overall average compliance rate of 61%. ADB is (i) moving away from further lending to utilities that are in chronic default of covenants; (ii) assisting DMCs to create new institutions with a more business-like approach to utility management; and (iii) shifting away from project lending to utilities to program lending to governments for improving the sector policy environment.

Many countries are moving in the direction of sector reforms involving independent regulatory bodies, unbundling the sector by function, and establishing a competitive wholesale market for electricity. ADB should assist integrated utilities to unbundle their utility tariffs and to organize their business units by function. Commercialization should ensure that unbundled tariffs are at full cost-recovery levels.

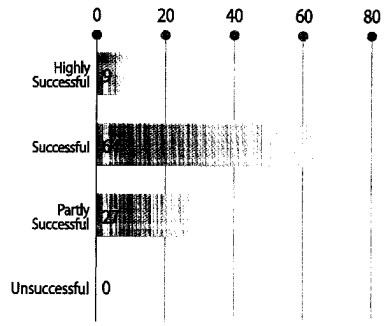
Two studies in particular yielded valuable lessons for future ADB assistance in the power sector. Assistance to Bangladesh over the last 30 years comprised 16 public sector loans and 1 private sector investment for a total of $1.1 billion as well as 19 technical assistance grants totaling $8.8 million. Lessons learned include the need to (i) minimize extensive delays in implementation; (ii) improve local capacities in project preparation, implementation, and operation and selection of appropriate technology; (iii) improve ownership of technical assistance; (iv) improve financial management capacities; and

Project Performance Management in ADB and in Projects in DMCs

The purpose of the study was to identify what if any changes should be made in the short to medium term to enhance the efficiency, quality, and use of ADB's project performance management system. The system comprises five elements: (i) the framework, which specifies performance targets and indicators; (ii) the performance report; (iii) the completion report; (iv) audit reports; and (v) executing agency monitoring and evaluation.

The study concluded that ADB had made substantial progress in developing and adopting specific processes for project performance management; however, several challenges were identified, particularly on the specification and measurement of the achievement of development objectives. The quality of project frameworks, the basis for the whole system, was identified as a key area for improvement. The quality of monitoring data in the project performance report also needed significant improvement. Standardization of terminology, updating of guidelines, mandatory preparation of a preliminary project framework early on, and strengthening of borrower monitoring and evaluation were proposed. The Working Group on Project Performance Management was recalled and a detailed action plan was devised.

Project and Program Performance Ratings,[a] 2003
(percent)



a Performance audit ratings based on five evaluation criteria: relevance, efficacy, efficiency, sustainability, and institutional/other development impacts.

(v) avoid use of project phasing to finance a change such as improving financial systems. At the strategic level, a key lesson was that ADB's approach to sector reform, which is based on piloting change and learning by doing, facilitated change where it took place through the success of individual projects and newly created entities.

A study of the impact of power assistance in Indonesia since 1980 provided further guidance for future operations. The conclusion was that conventional lending operations had significant, positive impacts on the development of power systems and on socioeconomic and institutional development but that sector reform assistance had not been as successful.

Evaluations in the water and forestry sectors proved equally valuable for guiding future operations. A special evaluation analyzed participatory processes in six projects in three DMCs. The conclusion was that participatory approaches had added value to natural resource management project design, implementation, and operation and if applied effectively could increase ownership and sustainability. Environmental outcomes were almost universally positive. Comanagement was optimal for forests to ensure benefits to local communities. Participation offered major benefits in rural income and poverty reduction through improved resource planning and management and through promoting interaction of the poor with the community, enhancing their sense of worth and self-esteem.

ADB provided $73 million of assistance in loans and grants to build capacity in several water utilities in Pacific DMCs. The projects provided valuable lessons.

(i) Setting up boards of directors with the right composition was a good first step but needed to be complemented with training.

(ii) Introducing performance-based principles did not ensure that the data were actually used in decision making and that actions were taken when performance fell short of targets.

(iii) Efforts to change operational procedures were effective only if the utility, its management, and its staff took full ownership of necessary changes.

(iv) All stakeholders had to support plans to incorporate to build politically acceptable solutions, to increase transparency, and to ensure sustained implementation of institutional changes.

In general the conclusion was that ADB's capacity-building approach needed to change. Systematic institutional diagnostics should be undertaken jointly before a decision is made on the areas and direction of change. A medium-term strategy for capacity building should be developed, providing a framework for continuous assistance with interim milestones. Terms of reference of consultants need to be changed to give greater emphasis to capacity-building roles.

Country Assistance Program Evaluations

Papua New Guinea

The evaluation focused on three central issues: reforming the machinery of government, managing the dual economy, and delivering public services. Projects, the main assistance tool, were generally successful in producing outputs but did not generate significant or sustained impacts. Sector performance did not improve and contributions to promoting economic growth, particularly in rural areas, were overshadowed by declining international commodity prices, the Asian financial crisis, economic downturns, deteriorating law and order, and periodic droughts. Improvements to service delivery were lacking largely due to weaknesses in resource transfers and the absence of qualified staff. Projects tended to work in isolation rather than form an integrated country program with a clear strategic development goal.

There is a need to focus on a development agenda that creates jobs and addresses law and order, on managing debt and changing public resource management to avoid perpetual financial crises, and on building capacity in public administration.

Cambodia

ADB resumed operations in Cambodia in 1992 and has played a leading role in its recent development. Assistance was guided by three country strategy documents that emphasized poverty reduction; however, Cambodia remains poor with only limited economic opportunities in tourism and garment exports.

The strategies were generally responsive to the needs of the country but could have placed greater emphasis on improved governance and on more diverse private sector development. The program has adapted over time to incorporate operations with a greater impact on the poor.

Portfolio performance was good (above the ADB average) though overall there were some weaknesses. The substantial resources contributed for capacity building were focused on training specific individuals rather than on the effective functioning of institutions as a whole. Coordination of external assistance proved difficult in light of the complex government structure and inadequate harmonization of programs across agencies.

Implications for the future are (i) ways need to be found to induce investment and to generate financial resources for the Government; (ii) some reduction in sector coverage would be beneficial with continued focus on governance issues; (iii) coordination of Government and external resources needs to be improved; and (iv) a broader approach to capacity building that will reduce dependence on external assistance should be adopted.

Technical Assistance Performance Audit Reports

In the 6 audit reports, 30 technical assistance activities were evaluated: 2 were rated highly successful, 17 successful, 7 partly successful, and 1 unsuccessful. Three were ongoing and therefore not rated.

Environmental Issues in the PRC

Seven technical assistance projects, both completed and ongoing, addressed needs in all key areas of environmental management and capacity building at the central, provincial, and municipal levels. Technical assistance to establish the Center for the Transfer of Environmentally Sound Technology, to improve environmental management in Shaanxi Province, to formulate provincial legislation on environmental protection and natural resources conservation, and to provide leadership training on urban environmental management in key cities achieved their objectives.

The evaluation identified some important lessons for each stage of a technical assistance cycle. Their essence is how best to meet the needs of the Government rather than perceived needs or the needs of ADB. Several projects were more supply driven than client oriented. One technical assistance project was rated highly successful, two successful, and one partly successful.

Pension Reform

Five technical assistance projects totaling $4.4 million were approved between November 1997 and December 1999 to promote pension reform in Bangladesh, India, Indonesia, Thailand, and Uzbekistan. Two—those in Bangladesh and Thailand—were attached to capital market development programs. A common feature was that pension reform was seen primarily through development of domestic capital markets rather than as a means of providing income for the vulnerable. The assumption that pension reform will promote long-term domestic capital formation sufficient for good social policies, particularly for the most vulnerable groups, should be revisited. The skills and knowledge of pension staff and coordination between finance and human development staff during pension reform should be improved. Distribution issues, particularly those involving women and disadvantaged groups, must be explicitly addressed in the design of any future pension reform.

Development Planning and Statistics in Cambodia

Technical assistance started in 1992 with the approval of a large grant to strengthen capacity in macroeconomic management. From 1992 to 1997, three other projects focusing on development planning and national statistics totaling $6.8 million were approved. The capacity built up in national statistics was impressive; from virtually zero, the National Institute of Statistics is now producing a large amount of widely used data and has sufficient staff to continue to do so. In development planning, the outcomes were somewhat less convincing owing mainly to the changed institutional role of the ministry concerned.

The main lessons learned included the following: (i) it may be appropriate to have smaller projects with fewer components; (ii) in transition economies where local capacity is limited, it may be useful to separate funds to substitute local capacity with external capacity from those for training to produce local capacity; (iii) if a ministry undergoes major organizational change, it may be useful to support a thorough institutional assessment to review the need for ongoing or new support.

Funding salaries and operational expenses through technical assistance should be replaced by regular financial support to priority mission groups. Institutional assessment of the ministry should be conducted and its role expanded through village, commune, district, and provincial databases. The public investment program should become an integral part of macrobudget planning rather than a means of mobilizing aid. Three projects were assessed successful and one partly successful.

Gender and Development in Cambodia

Three projects provided assistance over 8 years. Two emphasized data collection and policy formulation while the third was for project preparation and also provided assistance for capacity building and promoting women's employment. The main lessons learned were (i) without mainstreaming, gender issues integral to poverty reduction will continue to be marginalized; (ii) revising technical assistance design could be successful if there were early identification of key constraints, early objective analysis of achievable goals, and efficient, participatory management; and (iii) achieving objectives must be sensitive to the political and institutional environment if failure is to be averted.

The ministry should be reorganized to reinforce consideration of gender concerns. The policy on women should be reviewed, updated, and published, and there should be greater focus on gender training and mainstreaming. All technical assistance projects achieved planned output in terms of reports and had considerable success in achieving gender outcomes. One project was partly successful because it failed to take account of the capacity of the executing agency, and two were successful.

Institutional Strengthening and Policy Support to the Power Sector in Bhutan

The three projects had two design weaknesses: the time given for consulting input was inadequate and sequencing of activities was not

taken into account. Lessons from the evaluation included (i) before developing complex new accounting software, the Government should agree to replace the existing system; (ii) more attention needs to be paid to domestic characteristics and conditions when technical assistance is formulated; and (iii) the time allowed for counterpart feedback must be adequate.

The Government and ADB should agree to an acceptable level of increase in domestic prices for electricity, and indicators other than the standard financial covenants should be developed to gauge the effectiveness of sector reforms. One project was rated successful and two partly successful.

Water Supply and Sanitation

Eight projects for improvements in water supply and sanitation included three advisory technical assistance projects in the Lao People's Democratic Republic (Lao PDR) and five in Viet Nam. Lessons learned included the following: (i) effects could be cumulative and positive in institutions that receive continued advice over time even if individual projects were unsuccessful; (ii) health and hygiene programs associated with water supply and sanitation are more effective when implemented by an experienced professional organization; (iii) where an advisory technical assistance project has several interrelated components, consultants' inputs should be organized so that outputs can be properly coordinated; and (iv) coordination and timing between associated projects and advisory technical assistance is important. One project was assessed highly successful, six successful, and one partly successful.

Annual Report on Loan and Technical Assistance

The report assesses performance in the previous year. In 2002, the public sector portfolio improved markedly over 2001. The proportion of projects at risk of performing below expectations dropped from 26% in 2001 to 16% in 2002. Success in moving projects out of the "at risk" group is measured by a proactivity index; this improved from 39% in 2000, to 59% in 2001 and 67% in 2002. Though overall performance improved, problems were identified such as the time taken for loans to become effective, the high proportion of loans requiring extensions, and the proportion of loan cancellations in some DMCs. The proportion of technical assistance and project completion reports actually carried out remained disappointing. The performance of the private sector portfolio was little changed in 2002. Delegating project administration to resident missions and doing so earlier in implementation will improve performance.

Strengthening Accountability

In 2003, ADB continued to review the new business processes as a way of improving accountability and internal governance. Reviews of the 1994 Policy on Confidentiality and Disclosure of Information and the 1994 Information Policy and Strategy were also begun. In May, ADB appointed a senior-level steering committee to oversee the reviews. The committee set up a working group to study ADB's experience with the policies; to examine international trends in transparency and communications; to analyze the practices of comparable institutions; and to confer with the Board of Directors, Management, and staff.

In mid-August, ADB actively solicited public comment on the policies and asked for suggestions on how to improve them. About 70 individuals and organizations in more than 20 countries contributed feedback which was posted on ADB's web site (*http://www.adb.org*) to encourage informed public debate. The working group then began formulating an entirely new, unified Public Communications Policy that emphasizes proactive sharing of operational information, seeking feedback, and demonstrating results. All departments and offices were involved in the process to ensure that the new policy would take into account business processes and the project cycle, would protect confidential information and the deliberative process, would broaden public understanding of ADB's role, and would support effective consultation, promote public participation, and ultimately contribute to poverty reduction.

As 2003 drew to a close, ADB continued work on the Policy with the aim of circulating a public draft and holding face-to-face consultations with stakeholders in 12 countries.

At the project level, ADB approved a new accountability mechanism and appointed a Special Project Facilitator to address concerns of persons affected by ADB projects. The new mechanism consists of two complementary functions, a consultation phase and a compliance review phase. The Facilitator will be responsible for the consultation phase. The accountability mechanism will replace the inspection function approved in December 1995 (*see page 3 and http://www.adb.org/Documents/Policies/ADB_Accountability_Mechanism/*).

Audit and Anticorruption

The Office of the Auditor General (OAG) conducts periodic, independent, and objective appraisals of ADB activities to ensure adequate and effective internal controls and to improve economy and efficiency in the use of resources. OAG is also the focal point in the drive against corruption, addressing alleged incidents of corruption or fraud in ADB projects or by its staff. OAG reports directly to the President. The Audit Committee of the Board

of Directors reviews OAG's activities.

OAG completed 28 audits in 2003 that resulted in, among others, the following recommendations:

(i) enhance the monitoring of compliance with loan covenants;

(ii) establish criteria and methodology for prioritizing and allocating funds for interregional technical assistance projects;

(iii) strengthen internal controls in financial, administrative, and operational areas at the resident missions;

(iv) strengthen internal controls relating to treasury services by monitoring applicable diversification limits for corporate investments, executing proper deal tickets for interest rate and currency swaps, monitoring counterpart risk exposure for foreign exchange transactions, and maintaining segregation of duties in all treasury functions; and

(v) enhance the process of monitoring the performance of maintenance contractors and ensure the accuracy of their invoices.

Information technology audits recommended (i) improving response time to ensure prompt action in case of critical system events and (ii) taking appropriate virus control measures. Recommendations also included enhancing procedures to monitor the use of software and to ensure compliance with licensing agreements. OAG also participated in local and offshore fallback tests of the mainframe computer to ensure continuity of operations in case of a disaster and in monitoring the implementation of the Treasury Risk Management System, including reviewing the results of user acceptance tests.

The audit of six consultants' contracts by OAG resulted in the recovery of overpayments and in the sanction of one consulting firm. OAG initiated the analysis of new legislation and guidelines related to auditing and oversight to consider best practices to strengthen internal procedures.

OAG also participated in the review of several audit firms in Viet Nam along with the World Bank and the Japan Bank for International Cooperation, which resulted in shortlisting firms considered acceptable to audit externally funded projects. OAG also maintained close liaison with its counterparts working in various MDBs and United Nations agencies. OAG provided integrated assistance to ADB's external auditors in their audit of ADB's annual financial statements and their review of interim financial statements for ADB's bond offerings.

ADB's Anticorruption Unit is the contact point for reporting allegations of fraud and corruption in ADB projects or among its staff members. In 2003, the Unit opened 88 investigations for a total of 360 investigations since ADB adopted the Anticorruption Policy in 1998. ADB reprimanded 2 firms and 1 individual and declared 21 firms and 10 individuals ineligible to participate in ADB-financed activities. A cumulative total of 49 firms and 50 individuals had been declared ineligible by the end of 2003. With 8 firms and 11 individuals having regained eligibility, 41 firms and 39 individuals remained ineligible at the end of the year.

In 2003, the Anticorruption Unit performed procurement-related audit of a road development project in South Asia. It assessed the control risks of the executing agency and its compliance with ADB's procurement guidelines, its opportunities for operational improvements, and other concerns that required further investigation under ADB's Anticorruption Policy. The Unit increased awareness of the Policy and of itself through presentations, workshops, and publications. (*See http://www.adb.org/anticorruption for information on ADB's anticorruption efforts, including how to report fraud and corruption, procedures for dealing with allegations, and the sanction and appeal processes.*)

OAG further contributed to upgrading the audit capability of supreme audit institutions in DMCs. In 2003, OAG was involved in training programs for the Asian Organization of Supreme Audit Institutions and the South Pacific Association of Supreme Audit Institutions. OAG also continued to exchange information on anticorruption issues, capacity building, and auditing with supreme audit institutions and MDBs through meetings, awareness seminars, international conferences, and meetings of the heads of audit of MDBs.

Managing Knowledge

The capacity to acquire, share, and apply knowledge is crucial for institutional effectiveness, and for allowing clients to benefit more readily from the experience of others. To this end, ADB began work on the Knowledge Management Framework in 2003 and appointed a Vice-President for Knowledge Management and Sustainable Development.

ADB's sector and thematic committees are potential conduits for knowledge sharing. The committees and networks are expected to discuss emerging issues in the region; to recommend regional technical assistance; to disseminate information on publications, conferences, and training opportunities; to suggest prominent individuals within and outside the region for informal seminars; to provide professional peer support to ADB staff; and to facilitate partnerships with relevant in-country and regional networks, resource organizations, and key development stakeholders. Observations on their effectiveness were mixed. Their mandates, resources, and incentives were addressed in 2003 and in the review of new business processes to make them more functional in 2004.

ADB continued to support information and communication technology (ICT) by participating in the United Nations World Summit on the Information Society (WSIS). President Chino delivered the keynote address at the Asia-Pacific Regional WSIS where the Tokyo Declaration was prepared for submission at the WSIS in Geneva, Switzerland, in December 2003. In response to the WSIS Declaration of Principles and Plan of Action, ADB is reviewing its ICT policies.

Asian Development Bank Institute

Considerable effort was made in 2003 to respond positively to requests for assistance and cooperation. The relevance of new activities for stakeholders helped set ADB Institute (ADBI) priorities. To improve focus and impact, work was integrated into the four strategic themes chosen for the coming 3-year rolling workplan i.e. poverty reduction, regional cooperation, private sector development, and governance. Considerable emphasis was given to strengthening ICT links in line with the Knowledge Management Committee and to align ADBI's work with ADB's overall priorities.

Steps were taken to extend activities to a wider cross section of countries. New activities included the following: the preparation and publication of a country economic report on Afghanistan (launched at the Bonn Donors' Meeting); the "Making Markets Work for the Poor" project in Cambodia and the Lao PDR in collaboration with the Department for International Development, United Kingdom; a large-scale research project on poverty including studies and participants from PRC, India, Indonesia, Philippines, and Thailand; and various research projects that comprised regional teams.

Capacity building and training were expanded. Learning activities were supported in Kazakhstan and Uzbekistan and more are being developed for the five ADB regions: East and Central Asia, Mekong, the Pacific, South Asia, and Southeast Asia. ADBI is also developing new activities using ICT to provide services across the entire Asia and Pacific region. Two new products were successfully launched in 2003: a daily electronic news and analysis service (e-newsline, latest edition at *http://www.adbi.org/e-newsline/index.html*) and a CD-ROM review program accessible on ADBI's web site. In addition, work has started on a redesign of the web site to be launched in mid-2004.

In addition to its own projects, ADBI supports visiting researchers (principally from the region) whose work is generally on one of the four themes. This new program commenced in the fourth quarter of 2003. Five visiting researchers are expected in 2003–2004.

ADBI is also the implementing agency for the ADB and Inter-American Development Bank agreement on the Latin America/Caribbean and Asia/Pacific Economics and Business Association. As part of this work, in 2003 ADBI organized and hosted conferences on comparative development in Asia and Latin America and supported networking for researchers.

Information and Communication Technology

Satellite links across Asia and the Pacific continued to support ADB's Resident Mission Policy. With the newly commissioned links in the Afghanistan and Tajikistan resident missions, ADB staff can plan project and program activities via videoconferencing with 14 remote sites. Sector and thematic committees and extended networks shared and categorized relevant information with the use of knowledge management systems, and technical assistance management was improved with the use of standard performance reports generated by a new system. A new information technology governance system was institutionalized and, under the guidance of the Information Technology Committee, automation requirements were prioritized, and the ADB Information System and Technology Strategy was completed and approved by Management.

Publications

Disseminating information and sharing knowledge are two of the most effective tools ADB has for sustaining development. ADB publications inform, instruct, and inspire both members and partners in the pursuit of the Millennium Development Goals and of ADB's vision of a region free from poverty. The *Asian Development Outlook*, *Basic Statistics*, and *Key Indicators* are annual publications. In 2003, an additional 69 books, policies, research papers, and multimedia products were published on economic growth, the environment, and human development. Fifteen newsletters are also circulated regularly. A complete list of publications is on the *Annual Report 2003* CD-ROM (*see also http://www.adb.org/Publications*).

Fostering Partnerships

The diversity and scale of the development potential and challenges in the region require collaboration among all stakeholders committed to reducing poverty.

ADB's partners include national and local governments, civil society, nongovernment organizations (NGOs), and bilateral and multilateral development agencies.

To enhance partnerships, ADB focused on (i) harmonizing policies and procedures to minimize transaction costs, (ii) strategic coordination to better align country strategies and programs with the development planning cycles of individual DMCs and with those of other key development partners, (iii) working with NGOs and civil society, and (iv) enhancing communications and outreach to attain a higher public profile for and understanding of ADB. This includes a combined review of the Information Policy and Strategy of ADB and the Policy on Confidentiality and Disclosure of Information. Representative offices and regional and resident missions play a growing role in this regard. The network will be augmented by the Pacific coordination and implementation office in Sydney, approved in 2003 which will expand outreach in Australia and New Zealand.

Two factors that have catalyzed stronger partnerships are (i) expansion and devolution of responsibilities to resident missions; and (ii) establishment of grant funds from several bilateral donors, including Canada, Denmark, Japan, the Netherlands, Norway, Sweden, and United Kingdom.

Experience gained in Bangladesh and Cambodia as well as lessons learned from other institutions led ADB to view sector-wide approach programs (SWAPs) as a way to enhance project effectiveness. SWAPs presume strong local capacities and require that stringent policy and fiduciary conditions be met up front, but with attention to the best blend of instruments, SWAPs can serve the needs of poorly performing countries.

In May 2003, a participatory process involving more than 500 representatives of the public, private, and nonprofit sectors culminated in the adoption of ADB-Government-NGO Cooperation: A Framework for Action, 2003–2005. This document provides a medium-term roadmap for increasing tripartite collaboration in poverty reduction efforts and recommends specific actions to increase NGO participation in ADB activities, to enhance transparency and interaction, to develop ADB capacity for NGO cooperation, to build NGO capacity, and to strengthen government-NGO cooperation.

One immediate step of the Framework's implementation was the creation of a pilot NGO small grants window, NGO Partnerships for Poverty Reduction, made possible by a $500,000 regional technical assistance fund financed by the Poverty Reduction Cooperation Fund. Technical assistance will help NGOs design and implement innovative projects in several DMCs. Projects will emphasize poverty reduction and enhanced cooperation among ADB, governments, and NGOs.

This landmark development in ADB relations with civil society gives ADB greater flexibility and additional resources to support innovative NGO activities that complement poverty reduction efforts at the country level. NGOs may submit proposals for up to $50,000 per country or up to $20,000 per project.

Coordination with other development partners was given increased importance in 2003. Active participation in events organized by the European Union, the Organisation for Economic Co-operation and Development, the United Nations, and the World Trade Organization provided ADB with an effective platform to present regional perspectives to a global audience.

ENDNOTES

1 ADB. 2002. *Study of Human Resource Challenges at the Asian Development Bank*. Manila.
2 Ateneo de Manila University Graduate School of Business is one of the top schools in Manila offering a Masters in Business Administration Program.
3 Includes Management, i.e., the President and Vice-Presidents, Director's Advisors, 37 staff on secondment and special leave without pay, and 6 staff on loan to the ADB Institute.
4 Includes 13 staff on special leave without pay.
5 Includes 69 professional staff and 293 local staff.
6 Mainly due to normal retirement, voluntary resignations, expiration of fixed-term appointment, and separation in the interest of good administration.
7 Mainly due to separation in the interest of good administration, voluntary resignations, and normal retirement.
8 Seventeen percent of total offers for professional staff positions rejected due to salary-related and personal/family reasons.
9 ISO 14001 is an international standard that specifies requirements for environmental management systems. Certification signifies a commitment to prevent, control, and manage the impact of an organization's activities on the environment in areas it can control. OHSAS 18001 is a tool to manage the conditions and factors that affect staff's well-being in the workplace.

Moving the Poverty Reduction Agenda Forward: Priorities and Outcomes

Eight Millennium Development Goals (MDGs) were set out in the 2002 United Nations Millennium Declaration. ADB formally adopted them into its operations in April of that year. The goals are to

- eradicate extreme poverty and hunger;
- achieve universal primary education;
- promote gender equality and empower women;
- reduce child mortality;
- improve maternal health;
- combat HIV/AIDS, malaria, and other diseases;
- ensure environmental stability; and
- develop a global partnership for development.

A further 18 targets and 48 indicators were specified as guides to their achievement. The goals are clearly reflected in ADB's Long-Term Strategic Framework (LTSF) 2001–2015 (*see http://www.adb.org/Documents/Policies/LTSF*). Achieving the MDGs continued to be a framework for measuring development progress in 2003.

Rapid economic growth in many developing member countries (DMCs) has been an important contributor to the large reduction in overall poverty rates in the Asia and Pacific region. Primary drivers of growth were strong domestic demand, sustained export performance, and a supportive policy environment especially for fiscal and monetary policies.

Prospects for further economic growth are, however, increasingly affected by global economic and geopolitical factors including the pace of economic recovery in industrialized countries, trends in long-term interest rates, and progress toward multilateral trade liberalization under the World Trade Organization (WTO) Doha Development Round agenda particularly in agriculture and textiles.

While economic growth is essential for reducing poverty, much remains to be done to achieve the MDGs. In South Asia, sustained economic growth rates of 5–6% per year will be required to meet poverty reduction targets with particular attention to issues of malnutrition and access to sanitation. In East Asia and the Pacific, child mortality rates are falling too slowly, and the lack of infrastructure is contributing to poverty. Only 75% of the population receive water from an improved source, and only 47% have access to improved sanitation facilities. In Central Asia, poverty levels have risen markedly since 1990. The region is faced with a rapid increase in HIV/AIDS and other communicable diseases, with rising infant mortality, and with deteriorating access to education.

Strategic Priorities

ADB's strategic priorities are defined in the Poverty Reduction Strategy and the LTSF which sets out the agenda and the broad implementation strategy to realize its vision of an Asia and Pacific region free of poverty.[1] The key strategic priorities are (i) sustained, pro-poor economic growth; (ii) inclusive social development; and (iii) good governance. The LTSF also ensures country ownership, partnerships with key stakeholders, and use of new assistance modalities. The Framework is being implemented through three sets of 5-year medium-term strategies (*see http://www.adb.org/Documents/Policies/MTS/2001/*). The current medium-term strategy stresses the importance of attaining the MDGs, of enhancing development effectiveness, and of ensuring that ADB's interventions are focused at the country level.

ADB is committed to working in close partnership with other key development agencies, including the United Nations Development Programme (UNDP), United Nations Economic and Social Commission for Asia and the Pacific, and the World Bank, to support DMCs to achieve the MDGs. ADB's work is guided by the provision of the Millennium Development Compact that identifies a core role for the regional development banks in financing regional public goods and in encouraging regional integration and cooperation. In addition to these areas, ADB is also a major contributor to key investment areas identified by UNDP as vital for achieving the MDGs, including (i) human development, (ii) increased productivity on small farms, (iii) investment in basic infrastructure, (iv) promotion of small and medium enterprises (SMEs) and entrepreneurship, (v) good governance, and (vi) promotion of environmental sustainability and urban management. In addition, ADB continues to place high priority on capacity building in DMCs to allow for improved data collection and implementation of activities and provision of services for achieving the MDGs.

Recognizing the diversity of impediments to poverty reduction in individual countries, ADB ensures its support is fully compatible with national policies and strategies. Where such policies are inadequate, ADB supports their improvement. This includes formulating national poverty reduction strategies in close partnership with other development agencies. To date, ADB has supported poverty reduction strategies in over 20 DMCs and has identified several areas for improved impact, including (i) greater focus on the nonincome dimensions of poverty; (ii) further stress on participatory approaches; (iii) capacity building for poverty monitoring, strategy development, and implementation; and (iv) development of a comprehensive poverty monitoring framework to measure achievements in poverty reduction.

Sustained, Pro-Poor Economic Growth

Critical links exist among economic growth, employment, and poverty reduction. ADB supports sustainable, inclusive, pro-poor economic growth that fully integrates the environmental and social considerations of each country. Strategic areas of focus are the following.

Creating the Conditions for Growth

In coordination with the International Monetary Fund, the World Bank, and other development partners, ADB emphasizes achieving and maintaining macroeconomic stability, improving fiscal management, and aiding financial sector restructuring. ADB is also working with its DMCs to develop institutional and regulatory frameworks conducive to private sector development.

Investing for Economic Growth

ADB places high priority on investing in physical and technological infrastructure, especially to boost

Poverty Reduction in 2003

- Of the 62 public sector loans, 10 were for core poverty intervention projects and 29 were for poverty intervention projects. These 39 projects amounted to about $3 billion or 51% of total public sector lending.
- Grants from the Japan Fund for Poverty Reduction totaling $35.3 million were approved for nine projects. *(For details, see Table 32 in the Statistical Annex.)*
- Poverty partnership agreements were signed between ADB and People's Republic of China, Kazakhstan, Kiribati, Samoa, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu.

the effective functioning of product and labor markets essential for pro-poor economic growth. Developing human capital is also a key area of operations.

Holistic Approach to Promoting Employment

This is based on (i) macroeconomic stability and faster economic growth; (ii) assistance to employers, including SMEs; (iii) support for effective functioning of labor and other markets; and (iv) labor force development through education and training. ADB promotes the use of core labor standards, especially those that ensure the protection of poor and vulnerable groups.

Poverty Funds

In response to the Poverty Reduction Strategy of 1999, two trust funds were established. The Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies (*see http://www.adb.org/Documents/Policies/NPRS*) was established in November 2001 by the Government of the Netherlands, and the Poverty Reduction Cooperation Fund (*see http://www.adb.org/PRF*) was launched in July 2002 by the Government of the United Kingdom. In 2003, these Funds supported the implementation of 40 projects and the preparation of 35 technical assistance projects, some of which provided assistance in formulating, implementing, monitoring, and disseminating national poverty reduction strategies.

In the People's Republic of China (PRC), a technical assistance project was designed in a fully participatory manner and will develop plans for 22 minorities. In Uzbekistan, assistance was provided to build capacity in collecting data on living standards and in formulating pro-poor growth strategies and social policies.

Other projects focused on piloting new approaches to enhance the poverty reduction impact of ADB operations. For example, in the Lao People's Democratic Republic, a project is in progress to provide technical training on quality standards for silk products so producers can participate in regional economic cooperation programs. Building on its initial success, a follow-on phase is being prepared to expand training to agricultural, handicraft, and other production lines. In Yunnan Province of the PRC, a pilot road project will raise awareness of the increased risks of HIV/AIDS and will develop a service delivery system. In Sri Lanka, the Funds are being used to ensure that the poor have access to computers, radios, and other communication facilities and media provided by an ADB-financed education loan.

The Funds were also used in 2003 to analyze the potential for negative impacts of globalization on the poor. In Cambodia, a detailed analysis is under way to assess the impact of lifting the trade quota allocation in the garment industry by the end of 2004. The industry is seen as a means for poor young women to become economically empowered. If foreign investment were to withdraw as a result of lifting the quota, there would be significant socioeconomic consequences.

Inclusive Social Development

ADB is a main proponent of equitable social development and a major source of support for such critical areas as education and training, health, water and sanitation, housing, and—more recently—social protection. Inclusive development means that no one is excluded, that no group is left behind.

A core feature of ADB's social development activities is mainstreaming gender initiatives both through stand-alone interventions and through integration into lending and technical assistance operations. Emerging gender problems such as the trafficking of women and girls are especially emphasized. Where ADB lacks the experience to tackle such issues, it partners with specialized agencies. ADB is also working to eliminate barriers that women face in finding employment, including access to credit, availability of day-care services, and adherence to labor standards.

ADB supports formulating social policies that focus on pro-poor approaches, that involve the private sector and civil society, and that are fiscally viable.

With an appropriate policy environment in place, ADB focuses on developing sustainable social services for the poor by investing in physical infrastructure and equipment, institution and capacity building, and optimizing the design of social service programs.

Social Protection

ADB's Social Protection Strategy (*see http://www.adb.org/SocialProtection/strat.asp*) addresses labor markets, social insurance, social assistance schemes to protect communities, and child protection. The Social Protection Network has taken the lead in recruiting and deploying specialists, issuing guidelines, and engaging in dialogues with partners such as nongovernment organizations (NGOs), labor unions, and the International Labour Organization.

Since the approval of the Strategy in 2001, both awareness and practical application of labor standards have gradually increased among ADB staff. ADB's core labor standards initiatives are implemented within the context of the Strategy. Main areas of work include development of a handbook on core labor standards, guidelines for the design of risk and vulnerability profiles, and tools for integrating core labor standards into procurement.

Street children fall under core labor standards as child labor. In 2003, an important study on street children was finalized[2] as was a practical guide for ADB staff and others.[3] Two roundtable discussions

with NGOs working with street children were held. The Street Children's Art Competition produced the publication *If I Had the Chance...*.[4]

Regional technical assistance on disability issues was completed in 2003. Two publications—*The Disability Handbook* and *The Disability Manual*—are in process.

Indigenous Peoples

ADB continued to strengthen the implementation of its 1998 Policy on Indigenous Peoples (*see http://www.adb.org/Documents/Policies/Indigenous_Peoples/*). Twenty-one (30%) of the 68 public and private sector projects reviewed triggered policy safeguards; five public sector projects were found to have significant impact and required the preparation of an Indigenous Peoples Development Framework. In addition, 15 public sector and 1 private sector project were found to have limited impact requiring specific actions or provisions in the loan agreement.

A review mission of one project found that identifying the affected indigenous peoples and applying ADB's definition in the context of a country's indigenous peoples policy is a problem. This can be addressed if the project can identify the indigenous peoples' local context and address their specific concerns.

In 2003, ADB participated in regional and global discussions on safeguarding the interests of indigenous peoples and disseminated the results of the capacity building project (*see http://www.adb.org/Documents/Reports/Indigenous_Peoples/*). ADB conducted an NGO roundtable discussion on indigenous issues; took part in the UNDP's Regional Initiative to Strengthen Policy Dialogue on Indigenous, Highland, and Tribal Peoples' Rights and Development; and participated in the Conference on Human Rights, Ethnic Minorities, and Religions. Progress was made in harmonizing ADB's indigenous peoples policy with that of the World Bank. ADB's indigenous peoples web page was launched in November 2003 (*see http://www.adb.org/Indigenous-Peoples*). ADB also provided orientation on the indigenous peoples policy to headquarters and resident mission staff and to government officials.

Involuntary Resettlement

ADB reviewed compliance of projects approved in 2003 to its 1995 Policy on Involuntary Resettlement (*see http://www.adb.org/Documents/Policies/Involuntary_Resettlement*). The review encouraged early screening of projects to assess and manage risks and to set standards for resettlement planning and implementation. Thirty-seven (54%) of the 68 projects and equity investments approved had involuntary resettlement impacts and required resettlement plans and/or resettlement frameworks. Of those, 18 had significant impacts, and 10 had less significant impacts. Nine projects required resettlement frameworks. Revised guidelines on involuntary resettlement were included in the Operations Manual. Briefing sessions for ADB staff were initiated to familiarize them with involuntary resettlement safeguards (*see http://www.adb.org/Documents/Manuals/Operations/OMF02_29oct03.pdf*).

ADB assisted DMCs in developing and implementing national resettlement policies and helped build the capacity of executing agencies in implementing social safeguards and resettlement management. ADB held training workshops for its staff and representatives of executing agencies in Bhutan, Cambodia, People's Republic of China (PRC), and Viet Nam. ADB also implemented country-specific technical assistance to enhance national resettlement policy standards in the Lao People's Democratic Republic (Lao PDR), Sri Lanka, and Viet Nam (*see http://www.adb.org/resettlement/activities.asp*) and expanded its web site on resettlement (*see http://www.adb.org/resettlement*).

Participatory Development

Participatory development activities included production of a compendium of exemplary case studies of ADB project and programming activities that illustrates the importance of experience-based capacity building and stresses the necessary balance among a supportive institutional context, a learning environment, and participatory tools.

Training workshops were offered in participatory rural appraisal/

Second East Asia Regional Conference on National Poverty Reduction Strategies

Accelerating poverty reduction was the focus of the ADB, International Monetary Fund, United Nations Development Programme, and World Bank conference held in Phnom Penh, Cambodia, in October (*see http://www.adb.org/Documents/Events/2003 East_Asia_Poverty_Reduction_Strategies/*).

Many countries in the region had completed their first strategies and had achieved important gains in making policies more pro-poor and processes more participatory.

The themes were governance and promoting participation, transparency, and accountability; pro-poor growth; widening markets and trade and pursuing regional integration; and the challenges in meeting the Millennium Development Goals and their linkages to poverty reduction strategies. Since the majority of poor people live in rural areas, delegates stressed that investing in rural development and agricultural productivity—roads to markets, schools, health facilities, telecommunications, improved access to technology, and training—is a priority.

participatory learning and action and in participatory monitoring and evaluation.

Good Governance

ADB recognizes that good governance is an essential condition for poverty reduction. Without effective governance institutions, structures, and services, a country cannot progress and equitable development for its people cannot be achieved. The Governance Agenda and Action Plan for 2000–2004 committed ADB to the following: (i) taking a lead role in promoting good governance in the region; (ii) elevating governance issues to the top of the development agenda; (iii) building consensus on regional benchmarks, codes of conduct, and indicators of good governance; and (iv) enhancing the quality of governance in DMCs. These objectives are monitored and reported on at regular intervals. Advocacy also includes policies and strategies on procurement, participation of civil society, anticorruption, anti-money laundering, and counterterrorism. Furthermore, ADB sponsored regional seminars and training workshops to highlight governance and continued to work with the Organisation for Economic Co-operation and Development on developing an anticorruption action plan for Asia and the Pacific.

ADB's strength in promoting good governance stems from its status as a trusted partner of its DMCs and its emphasis on extensive analysis, consultation, and policy dialogue. Since the adoption of the governance policy in 1995 (*see http://www.adb.org/Documents/Policies/Governance/*), the principal focus has been on policy and institutional reform and development. ADB's support is grounded on the needs assessments conducted under country governance assessments and on other such studies. Special attention is given to incorporating governance in regional and country strategies and programs and their updates.

ADB continued to support DMC efforts to develop public services that impact positively on economic growth and social development. Key issues addressed included law and policy reform, public sector management and accountability, private sector development, legal and judicial systems, civil society participation, and corruption. Innovations in governance activities were emphasized including pilot testing new approaches under facilities such as the Governance Cooperation Fund established in 2002 with Canada and Norway providing initial contributions. As part of ADB's greater focus on measuring results, it explored the potential for results-based management in DMCs.

Public Sector Governance, Transparency, and Investment

In recent years, particularly since the Asian financial crisis in 1997, ADB has focused increasingly on the importance of good public sector governance for creating a sound investment environment to accelerate country development and to ensure good governance practices within enterprises. In the Governance Agenda and Action Plan, one of the main themes is supporting developing country governments to strengthen the enabling environment for investment.

To attract investments, ADB has helped countries improve the quality of legislation and economic regulation. The formulation of legal and regulatory frameworks encourages investor confidence through improved standards of treatment of both domestic and foreign investment interests. Judicial reform projects in the PRC and Pakistan are making these countries' judicial systems more predictable and reliable.

ADB has helped DMCs improve regulatory frameworks, particularly in energy, banking, capital markets, bankruptcy, and liquidation. For example, ADB-financed capital market program loans to Bangladesh, India, Pakistan, and Philippines resulted in legal reforms to strengthen the oversight and enforcement capabilities of securities and stock exchange regulators. In Azerbaijan and Uzbekistan, ADB provided assistance by developing an effective framework for promoting and strengthening agencies that regulate competition. ADB helped the Sri Lankan power sector to establish independent regulation and a tariff-setting mechanism, to introduce competition and commercialization by changing management practices, and to encourage private sector participation in the sector by developing a transparent business environment.

In some cases, ADB has offered limited financial and fiscal incentives to help countries induce investment in less desirable locations and to overcome transaction costs. ADB helped promote investments through fiscal incentive reforms such as the duty suspension schemes in the Fiji Islands and Samoa. In the Maldives, ADB assistance contributed to establishing a Pacific investment capital fund in collaboration with the World Bank.

The quality of customs administration is an important consideration for potential investors; poor administration is a deterrent since uncertainty and unpredictability make investment decisions difficult and increase the cost of transactions. To secure transparent, stable, simple, and predictable conditions for domestic and long-term, cross-border investment, particularly foreign direct investment, comprehensive reforms are often needed, including training, legislation, and computerization for customs administration. ADB held workshops in Central Asia to help the Kyrgyz Republic and Tajikistan attract foreign investment, improve

institutional capability, and strengthen the legal and regulatory framework in line with international standards and conventions. This region is keen on fostering economic alliances in infrastructure, trade, and investment.

In Bangladesh and the Federated States of Micronesia, ADB support helped formulate privatization strategies and initiate effective, smooth, and transparent state-owned enterprise-related reforms. In Indonesia, Pakistan, and Samoa, ADB helped facilitate corporate restructuring and privatization of state-owned enterprises. Privatization of telecommunication services was supported in Thailand.

Promoting Good Corporate Governance

ADB actively pursues and encourages good corporate governance in all aspects of its business endeavors within DMCs. ADB works in countries like Mongolia in public sector reform to upgrade the capacity of shareholders, boards of directors, and boards of supervisors in state enterprises to be privatized. At the level of creditor and investor, ADB works closely with regulators, state-owned enterprises and private businesses to emphasize and help implement good governance practices.

Assistance was provided to Mongolia in legal and procedural aspects related to restructuring and recapitalization of insolvent banks. ADB also provided technical assistance in promoting efficient insolvency regimes, particularly with respect to cross-border insolvency. Technical assistance to Indonesia, Philippines, and Thailand aimed specifically to facilitate the exchange of ideas between courts in handling cross-border insolvency cases. ADB was active in developing insolvency procedures to deal with state-owned enterprise reorganization and liquidation in the PRC, establishing a new regulatory framework for secured transactions in Indonesia, and introducing a collateral security registration system in Viet Nam. ADB was also active in improving the regulatory systems affecting the environment. *(For more on institutional reforms, see the theme chapter that starts on page 12.)*

Governance Policy on Money Laundering and Antiterrorism Financing

A policy was approved in April 2003 enabling ADB to increase its assistance to DMCs to fight the financing of terrorism and to encourage anti-money laundering initiatives (*see http://www.adb.org/Documents/Policies/ADB_Money_Laundering_Terrorism/money100.asp*). It further provided the umbrella framework for improving ADB's cooperation and coordination with other organizations engaged in these areas. The policy has also enabled ADB to strengthen its internal system to protect its own funds from misuse.

Formulating and Promoting Economic Laws

ADB has helped improve the quality of legislation directly related to investment. In the People's Republic of China, ADB has provided assistance to amend its company law and to develop various economic laws on bankruptcy, trust, social security registration of commercial and industrial organizations, and administrative licensing. These laws aim to enable a market environment and growth for investments. ADB has also supported the development in English of an information system on laws and regulations on foreigners, of an electronic database for the translated legal materials, and of an English translation of laws and regulations. This has helped increase the transparency of the legal and regulatory system and has enabled the Government to meet the legal information transparency requirements of the World Trade Organization.

In Vanuatu, technical assistance has strengthened the state law office improving laws on copyright, trademarks, e-commerce, and financial institutions to ensure that anti-money laundering conditions are met.

Crosscutting Strategic Themes

The crosscutting strategic themes of the LTSF and the Poverty Reduction Strategy are (i) environmental sustainability, (ii) gender and development, (iii) private sector development, and (iv) regional cooperation and integration.

Addressing Environmental Sustainability

Assistance focused on providing the poor access to basic water and sanitation services, on managing the natural resources on which the poor depend, and on improving the quality of the environment. Loans totaling $305 million were approved to finance clean energy development and wastewater management projects in the PRC, water supply and sanitation projects in Fiji Islands, Pakistan, Samoa, and Sri Lanka, and a project to manage floods in Azerbaijan (*see box on page 44*). ADB also approved grants to establish the feasibility of renewable energy projects for off-grid, rural, poor communities in the PRC, Philippines, and Uzbekistan. Indonesia received assistance to develop certified emission reduction ratings for greenhouse gases to promote reforestation and afforestation. In the PRC, forestry conservation programs were studied to alleviate the plight of poor communities.

To enhance environmental sustainability, ADB approved nearly $6 million in grants to strengthen institutional capacity for

environmental management in Bhutan and Cook Islands, to improve land use management in Kiribati, to promote industrial environmental management in Pakistan and strategic planning and policy formulation in Tajikistan, to design pollution taxation and mobilize resources in Thailand, and to promote waste management and recycling in Samoa and Tuvalu. A study will also address arsenic and other groundwater problems in Bangladesh. Two regional grants will assist the Central Asian republics to integrate environmental considerations into development policies, plans, programs, and capacity building in information management systems.

Regional and subregional initiatives will boost poverty reduction and address cross-border environmental issues. Better Air Quality Management in Asia will help to ensure that air pollution is considered in making and implementing environmental policies and in planning and implementing sustainable development policies. In Bangladesh, Bhutan, India, and Nepal, an air quality management program addresses the goals in the Malé Declaration. It sets standards, pilots clean technology programs, and monitors and evaluates air quality. The program will also examine how air pollution affects health. Two programs in the Central Asian republics will assess water management and improve the management of shared resources

Sector Activities

Agriculture, Natural Resources, and Rural Development. Twelve loans totaling $391.9 million were approved for projects covering policy and institutional reforms, natural resource management, infrastructure development particularly for irrigation, and productivity enhancement. They included a flood mitigation loan for Azerbaijan; an agriculture sector program loan for Cambodia to promote diversification and commercialization; two livestock development loans for Bangladesh and Nepal; a community development loan for Sri Lanka; the Phuoc Hoa Water Resources Project in Viet Nam; three irrigation loans for Cambodia, Indonesia, and Uzbekistan; and a grain productivity improvement loan for Uzbekistan. In addition, 21 technical assistance projects totaling $15.8 million were approved during the year, including four for regional technical assistance. The eighth umbrella regional technical assistance project for $3 million was approved for supporting agriculture and natural resource research in soil and water management for Central Asia and in productivity enhancement of rice and fish for the poorer regions and farmers of South and Southeast Asia. To promote regional cooperation in agriculture development and poverty alleviation, an agriculture working group was established for the Greater Mekong Subregion countries, and its first meeting was organized at ADB headquarters.

Education. Six loans totaling $269 million were approved. More than $215 million were spent on education for all (EFA) to benefit approximately 25 million primary school children over the next 4 years. In Bangladesh, the $100 million Second Primary Education Development Program is expected to help Bangladesh reach near-universal primary education as early as 2010. Attendance of girls and disadvantaged children is emphasized. The project is funded by 12 donors led by ADB, a system that allows for expanding external financing. A program loan for $220 million (half for schools) to Sindh, Pakistan, supported education, health, water and sanitation. In Tajikistan, a $7.5 million loan will improve capacity building at central and local education offices to improve access by girls and vulnerable groups. Two loans supported distance education (Sri Lanka) and skill development (Maldives). These projects will improve skill acquisition for secondary school graduates to reduce youth unemployment. Project beneficiaries include rural poor and females. Technical assistance was provided to Papua New Guinea to promote literacy for all.

Energy. Ten loans provided $756.7 million for electrical power in Bangladesh, Bhutan, Cambodia, People's Republic of China (PRC), India, Lao People's Democratic Republic (Lao PDR), and Thailand. Cambodia will have access to affordable and reliable electricity with the installation of a power transmission line from Chau Doc in southwest Viet Nam to Phnom Penh, the first component of a master plan to interconnect the power sectors of the Greater Mekong Subregion member countries. Poor rural areas in the Lao PDR will get electricity, and a power development plan supports a comprehensive program of reform in the state of Assam, India. The Rural Electrification and Network Expansion Project will deliver electricity from existing national hydropower stations to 8,000 new consumers in mostly poor, rural areas of Bhutan. Cleaner, more reliable energy for poor communities in Gansu Province, PRC, will be provided through a $35 million loan, while a private sector loan financed the Tala-Delhi Transmission Project in India.

Finance, Industry, and Trade. The Trade Finance Facilitation Program enables local banks in a number of developing member countries (DMCs) to offer importers and exporters better access to reliable and reasonable terms and conditions for trade finance, boosting liquidity and stability in the system. About 30 banks in 10 DMCs are expected to participate by the end of 2004. ADB also approved a $15 million equity participation in the ASEAN China Investment Fund LP, a new private equity fund that provides capital for small and medium enterprises (SMEs) located in Association of Southeast Asian Nations (ASEAN) members and the PRC. Loans for $170 million will boost the competitiveness and profitability of Pakistan's SMEs and promote economic growth. The Second Nonbank Financial Governance Program for the Philippines' financial sector will

especially in the Aral Sea Basin. In Cambodia, Lao PDR, and Viet Nam, a program will assess poverty reduction and the potential for community and industrial forestry to reduce the vulnerability of forest-dependent communities particularly poor ethnic minorities and women. In the South Pacific, the Renewable Energy and Energy Efficiency Program will develop a market-based rural energy sector and will mobilize external financing for funding or cofinancing.

ADB strengthened partnerships and fostered regional cooperation to mobilize resources. A $3.6 million Poverty and Environment Fund was established with the governments of Norway and Sweden to accelerate learning on how to mainstream the environment in ADB operations. The Fund will also finance the recently launched Poverty and Environment Program that will pilot environmental activities, finance research, disseminate lessons learned, and compile good practices (*see http://www.adb.org/Documents/News/2003/nr2003099.asp*). The Clean Development Mechanism Facility provides DMCs access to additional financial resources by bridging the gap between buyers and sellers of emission reductions ensuring a fair return to DMCs on their greenhouse gas reduction initiatives and assisting developed countries to meet their commitments under the Kyoto Protocol. To facilitate direct access to Global Environment Facility resources, ADB negotiated

address graft and corruption in financial markets, improve transparency, strengthen investor protection, and mobilize domestic savings.

Health, Nutrition, Population, and Early Childhood Development. Five new loans totaling $172 million were approved. Loans for Indonesia, Mongolia, and Tajikistan focused on improving the health of the poor, particularly women and children, by improving services and access to basic health care. The multisector loan for Pakistan (Sindh Devolved Social Services Program) incorporated assistance for improving health services. A loan to the Kyrgyz Republic established a national early childhood development program to improve the health, nutrition, education, and psychosocial development of preschool children. In addition to these loans, technical assistance funds supported 21 new projects ranging from the establishment of HIV/AIDS care centers in Papua New Guinea to regional support to fight severe acute respiratory syndrome and other newly emerging diseases.

Rural and Microfinance. A loan package totaling $70 million was approved to establish a more sustainable rural finance system in Sri Lanka. The Rural Finance Sector Development Program aims to revive the rural economy and promote private sector economic growth. It comprises a program loan of $50 million to support policy and institutional reforms in rural finance, and two project loans of $10 million each to promote rural enterprise development and institutional strengthening. A loan and technical assistance project totaling $8.6 million were also provided to Tajikistan to regulate and expand the microfinance market.

Transport. Eleven loans totaling $2.6 billion were approved. Loans for Bangladesh, PRC, India, Pakistan, and Tajikistan focused on promoting economic growth and reducing poverty by enhancing the access of the poor to economic opportunities and social services. The $400 million loan for the Rural Roads Sector I Project in India funded the construction of all-weather roads for unserved rural populations in Chhattisgarh and Madhya Pradesh. In addition to loans for investment, technical assistance for 27 projects was provided for project preparation as well as to support capacity and institution building. Grant funding for the Emergency Infrastructure Rehabilitation and Construction Project for Afghanistan will help to restore key infrastructure including the repair and rehabilitation of the primary national road network.

Urban Development, Municipal Services, and Housing. More than $280 million in assistance was provided. A $16 million loan reduces poverty and boosts incomes in 10 small towns in the Lao PDR. In Viet Nam, urban environmental improvement in six towns and their surrounding areas in the poor central region was financed through a $44 million loan. The Neighborhood Upgrading and Shelter Sector Project in Indonesia addressed the lack of serviced, tenured plots; appropriate shelter finance; and the need to strengthen institutions. A $90 million loan package was signed to improve living and health conditions for more than 3.6 million poor urban and slum dwellers in southern Punjab, Pakistan. Affordable housing for some 20,000 poor urban families outside the Philippines' national capital region will be provided through a $30 million loan and a $1.5 million technical assistance grant.

Water. Several initiatives launched during the Third World Water Forum are in place. Water for the Poor—Partnerships for Action improves water security for the rural poor; Water for Asian Cities addresses the need for pro-poor investments in water and sanitation; and Gender in Water Partnership promotes gender mainstreaming in water management. Loans for more than $581 million were approved for nine DMCs. The Urban Water Supply and Environmental Improvement Project in Madhya Pradesh, India, received $200 million in funding, and Nepal received a total of $39 million for water and sanitation services and a water service development program in the Kathmandu Valley. Loans for two projects in the PRC, Harbin Water Supply and Wuhan Wastewater Management, totaled $183 million. A program in Sri Lanka to supply water and sanitation to secondary towns and rural communities received $60 million.

an agreement and Memorandum of Understanding for the direct transfer of resources from the Facility. ADB also hosted a meeting of the Multilateral Financial Institutions Working Group on Environment in which a common environmental assessment framework was developed.

All ADB projects were designed to comply with environmental safeguards and included measures to address potential environmental problems during implementation.

Projects that Protect the Environment and Reduce Poverty

In the People's Republic of China (PRC), Zhangye City will have clean, efficient energy and strengthened social service delivery with the construction of a 98 megawatt run-of-river hydropower plant on the Xiaogushan River. A project in Azerbaijan (i) provides structural measures to protect the villages and agricultural land on the Araz, Ganikh, and Mazim rivers from floods; (ii) promotes pilot, community-based afforestation; and (iii) implements flood forecasting, warning, zoning, and disaster preparedness training. Improving water supply and sanitation is the goal of projects in the Fiji Islands in the Suva and Nausori urban areas, in Pakistan in low-income urban communities in southern Punjab Province, and in Sri Lanka in the rural districts of Polonnaruwa and Anuradhapura. In Apia, Samoa, a project will rehabilitate existing drains; provide a wastewater collection and treatment system; upgrade individual sanitation facilities; and strengthen institutions and legislative frameworks for wastewater management, drainage, urban management, and environmental monitoring. A project in Wuhan, PRC will increase the capacity to treat wastewater from the current 6% to about 45% by constructing three treatment plants and associated collection systems.

Out of 68 projects, a rigorous review was done on 52 (76%) that had potential risks, and the environmental implications of the remaining projects were also studied. Compliance review missions were undertaken for selected high-risk projects under implementation. The Forest Policy Working Paper that assessed the 1995 Policy and outlined investment priorities for the coming decade was reviewed, and environmental analyses were prepared for Bangladesh, Cambodia, Indonesia, Kazakhstan, Kyrgyz Republic, and Tajikistan to facilitate the integration of environmental considerations into country strategies and programs.

The use of cumulative impact and environmentally responsible procurement in environmental assessments was addressed. Orientation courses were held for project teams and resident mission staff on the principles and procedures needed to ensure compliance with environmental assessment requirements. A CD-ROM and brochure were prepared to improve ADB staff and stakeholders' awareness of the safeguards.

In recognition of its outstanding contributions to the promotion and advancement of environmental assessment in its recipient countries, ADB was given a Corporate Environment Award by the International Association for Impact Assessment. It also became the first multilateral development bank to qualify for the joint ISO 14001 and OHSAS 18001 certification which indicates its commitment to sound environmental practices at headquarters.

Gender and Development

Lending activity in 2003 confirmed that gender has broad relevance to all ADB operations. A multidonor Gender and Development Cooperation Fund was launched in 2003 to further expand ADB initiatives (*see box on page 45 and http://www.adb.org/Documents/Others/GDCF/GDCF.pdf*). The Fund's primary objective is to promote gender equality and women's empowerment in the region. The Fund will assist DMCs to close gender gaps and to progress toward achieving the MDGs and will help ADB accelerate implementation of the Policy and Action Plan on Gender and Development. Initial contributors to the Fund were the governments of Canada, Denmark, and Norway.

ADB developed a rating scheme to assess gender mainstreaming in loan projects which has enabled the systematic monitoring of loans for their gender content. In 2003, the number of loans with gender equity objectives increased from 12 (14%) in 2002 to 15 (22%). An additional 14 (21%) loans were designed with significant gender mainstreaming. In total, nearly 43% of loans in 2003 mainstreamed gender issues, compared with 31% in 2002. Loans with gender mainstreaming were represented in all three core strategic areas of ADB operations—economic growth, inclusive social development, and governance—and in virtually all sectors that ADB supports, including agriculture, natural resource management, microfinance, rural and urban infrastructure, governance, health, and education. Examples of successful mainstreaming were noted in sector and program loans and in more conventional project loans. Almost all loans classified with a gender and development theme or with gender mainstreaming features were also classified as poverty related, demonstrating that addressing gender issues promotes ADB's overall goal of poverty reduction.

ADB recognized gender impact in infrastructure and other sectors such as energy and transport. While those sectors present challenges in gender mainstreaming, increasing efforts were made. For example, three road projects addressed HIV/AIDS and trafficking of women and children. In two of these projects (Bangladesh and India), loan funds

were allocated to finance information campaigns targeting road construction workers, transport operators, sex workers, and decision makers. Recent transport loans have also required civil works contractors to use local labor for road construction and to adhere to core labor standards, including equal pay for work of equal value and a prohibition on child labor. These examples will be replicated in more physical infrastructure and road projects in future loans.

Aside from loan projects, ADB implemented advisory and regional technical assistance projects to support policy reform and capacity building to improve women's economic and social status and to pursue regional cooperation in promoting gender equality. In 2003, two new regional technical assistance projects were approved. Phase 2 of the project Enhancing Gender and Development Capacity was approved following the success of the first phase under which locally recruited gender specialists were placed in six ADB resident missions to assist with gender capacity building. Under the second phase, three additional missions—Afghanistan, Cambodia, and Sri Lanka—were allocated gender specialists. The second project, Promoting Gender Equality and the Empowerment of Women, will develop projects to address gender equity, social mobilization, training of women's groups, and gender capacity building of executing agencies and national women's ministries to complement and strengthen gender benefits of ADB-supported projects and to contribute to overall development effectiveness.

Collaboration and cooperation with other development agencies was further strengthened in 2003. A joint country gender assessment was undertaken with the World Bank in Cambodia and was initiated in Mongolia. The regional Gender and Poverty Reduction Strategy Workshop and the Gender and Millennium Development Goals Workshop were cosponsored with the World Bank and other agencies.

Multidonor Gender and Development Cooperation Fund

ADB launched its multidonor Gender and Development Cooperation Fund in 2003. The Fund will accelerate implementation of ADB's Gender and Development Policy and Action Plan by providing grants to development projects to address gender equality, social mobilization and training of women's groups, leadership training for women, and gender capacity building of executing agencies and national women's ministries to more effectively mainstream gender issues and concerns. Other potential areas of financing under the Fund may include the prevention of trafficking of women and children and of violence against women, the impact of economic restructuring on female workers, gender and trade, and gender in postconflict reconstruction. Grants designed in association with loan projects will also complement and strengthen gender benefits and will contribute to overall development effectiveness. Collaboration and partnerships with other stakeholders will constitute an important element of the operation of the Fund.

Promoting the Role of the Private Sector in Development

To achieve sustainable economic growth, ADB operations promote a conducive environment for private sector development, including supporting small and medium enterprises and microfinance. Increasingly, DMCs are using private resources to meet the considerable

Bangladesh Road Network Improvement and Maintenance II Project (RNIMP)

National highways can inadvertently contribute to the spread of HIV/AIDS and the trafficking of women and children; the RNIMP was designed to address these issues. The objectives are to combat trafficking, to reduce the spread of HIV/AIDS, and to pilot and identify effective and viable models of antitrafficking and awareness programs on HIV/AIDS that can be integrated into transport sector operations.

The scope of the component includes (i) strengthening the capacity of governments, nongovernment organizations (NGOs), and media to address issues of trafficking and HIV/AIDS; (ii) public awareness campaigns on HIV/AIDS and trafficking in the cross-border areas of Bangladesh, India, and Myanmar; and (iii) capital investment of $40,000 for physically upgrading each of three NGO centers in Bangladesh for legal literacy/awareness on HIV/AIDS and trafficking. The scope will complement ongoing and planned activities of other key stakeholders. The main activities will be training workshops at the district and national levels. Training will also be organized for grassroots partners such as law enforcement agencies, border security personnel, community-based organizations, local government staff, judicial officers, ward commissioners, and informal local leaders in three districts of the project area. This training will build on lessons learned from existing initiatives within the country. The Project will also include public awareness campaigns through radio, print, town hall meetings, and public consultations. Workshops will be held for groups such as truck and bus drivers, construction workers, and sex workers.

demand for social, financial, and physical infrastructure that cannot be met by the public sector alone. Central to DMC good governance and responsible fiscal management are measures to shift risk away from public to private parties better able to manage and deliver services (*see box*).

The public sector plays a major role in setting and enforcing rules in an unbiased manner. Private sector development is most effective in reducing poverty when it promotes efficient and equitable growth through competitive market activity that is unimpeded by special interests, either public or private. In collaboration with other donors, ADB promotes an enabling environment that provides for private property rights and sound rules adhered to by market participants and by the state. ADB also assists DMCs in establishing standards for the environment, corporate governance, and labor. In general, ADB helps DMCs design policies and reforms that support socially responsible private sector development and activities consistent with pro-poor development.

Partnerships for Development

ADB makes direct investments in private projects or intermediaries without government guarantee. (*For more on private sector operations, see tables 9–12 in the Statistical Annex.*)

These investments bring knowledge and solutions to the local market. In addition to their direct and multiplier effects, they demonstrate to a global audience the potential for prudent investment within the DMC. Direct investments further complement the public sector reform agenda of ADB's regional departments by working within DMC rules and regulations and by identifying practical changes that would improve the business climate.

ADB promotes good corporate governance with competent due diligence prior to investment and continued commitment to corporate responsibility within financial intermediaries and companies receiving investments. Private sector enterprises are discovering that traditional financial performance will be insufficient to attract investors.

ADB's major private sector investment areas are infrastructure,

Innovations in Private Sector Operations

In response to changing market conditions and to the needs of its developing member countries (DMCs), ADB introduced innovative solutions and risk-mitigating measures to promote private sector development and sustainable growth. The key initiatives introduced included trade financing, local currency financing, and use of partial credit guarantees for small and medium enterprise (SME) development.

Trade Finance Facilitation Program. A lack of trade lines with international confirming banks has restricted the ability of local banks in developing countries to provide trade finance to their clients, thus inhibiting trade and economic expansion.

ADB's Trade Finance Facilitation Program (TFFP) is designed to support intraregional and international trade by enhancing the capacity of local banks to provide trade finance services to private sector enterprises. In addition, local banks can establish strong working relationships with regional and international banks.

The TFFP also includes a component under which ADB will enter into a risk-sharing arrangement with the European Bank for Reconstruction and Development for guaranteeing letters of credit issued by participating local banks in the Central Asian republics.

Local Currency Financing. ADB can play a vital role in DMCs to ensure the sustainability of companies and/or projects by extending long-term local currency loans particularly to those that generate revenues only in local currency.

The Tala-Delhi Transmission Project in India is financed under ADB's local currency lending initiative to avoid currency mismatch between the currency of borrowing and the currency of revenue, to supplement the debt requirements of the Project, and to provide additional risk-taking capacity that commercial lenders were unable to provide.

The Project will build the first private sector power line in India from Siliguri in West Bengal to Mandaula in Uttar Pradesh near Delhi. The line will form a part of India's national transmission grid, and will transmit power from the Tala Hydro Electric Power Project in Bhutan as well as transfer surplus power from India's eastern region to the power-deficient northern region.

The Project promotes subregional cooperation through energy trades between Bhutan and India and also promotes public-private partnership efforts in India and with ADB.

Small and Medium Enterprise Development. The SME Sector Development Program in Pakistan supports the implementation of policy reforms and the building of market-based infrastructure for business development and financial services to SMEs. The Program also includes a partial credit guarantee facility to mobilize financing for SMEs from private sector banks. This is the first time that ADB anchored a partial credit guarantee for the private sector to a public sector program loan. As a result of this partnership, up to $65 million in additional credit will be provided by private sector banks to SMEs. The Program is a model for public-private partnership that can be replicated across the region.

housing, security, resolution of nonperforming loans, local currency financing, trade finance, privatization, and restructuring. The modalities used are long-term loans, guarantees, equity investment, and hybrid investment instruments such as convertible bonds. An important initiative in 2003 was the introduction of long-term domestic currency finance to local enterprises. This approach efficiently transfers risk to those who are better able to manage it. This value-added tool demonstrates ADB's commitment to improving design and implementation based on lessons of the past and on awareness of global market dynamics.

ADB's regional departments implement the private sector development strategy in DMCs in various ways including policy dialogue, interregional initiatives, technical assistance, loans, credit enhancement, complementary financing schemes, and equity. ADB's public sector focus in terms of private sector development is on policies, legal and regulatory frameworks, and public-private partnerships.

Implementing the Private Sector Development Strategy

In 2003, ADB mainstreamed private sector development into operations by producing the Private Sector Assessment Reference Guide (Guide). The Guide focuses on practical areas that use ADB's strengths in public sector programs to promote an enabling environment while identifying developmental investments that are best implemented by the Private Sector Operations Department. The key added value of private sector assessment is the close consultation between primary stakeholders in the design of strategic and operational priorities that use DMC and ADB comparative strengths; that incorporate global lessons learned; that build on complementary work of other development institutions; and that are sensitive to cultural, social, and political realities.

In 2003, assessments were completed or under preparation in 15 DMCs including Cambodia, PRC, India, Kyrgyz Republic, Lao PDR, Marshall Islands, Mongolia, Nepal, Papua New Guinea, Pakistan, Philippines, Samoa, Sri Lanka, Tajikistan, and Vanuatu; one regional assessment was completed for the Pacific. Assessments are meant to provide the basis for a country-specific, private sector development strategy for each DMC. The strategy is tailored to the particular needs of each DMC; the strategic focus and detailed plans of the assessment inform the private sector development component of the country strategy and program. In line with multilateral development bank cooperative efforts, ADB is carrying out investment climate studies with the World Bank in three pilot countries: Indonesia, Philippines, and Sri Lanka.

Supporting Regional Cooperation and Integration for Development

Regional cooperation promotes increased economic activity by creating new opportunities, generating more jobs, lowering transaction and transportation costs, improving access to existing and new markets and resources by eliminating impediments to trade and investment, accelerating joint infrastructure development, diversifying exports, and boosting trade and investment. Increased economic activity will in turn promote economic growth and reduce poverty.

Regional projects can (i) bring economic and social benefits to countries working together that otherwise may not occur through individual efforts alone; (ii) build on existing regional cooperation efforts and work within the framework of existing intergovernmental arrangements; (iii) manage and mitigate negative effects that spill over from one country to neighboring countries; and (iv) strengthen national development through complementary, regional initiatives that are beneficial, financially and administratively feasible, and sustainable. From 1997 to 2003, roughly 7% of investments either financed or planned to be financed under the Asian Development Fund have supported regional cooperation. Cross-border investments by private businesses are also increasingly important.

Four aspects of cooperation are most important to the Asia and Pacific region: addressing cross-border development challenges, enhancing regional public goods, promoting regional economic integration, and exploiting economies of scale.

Addressing Cross-Border Challenges

Infectious diseases, maritime safety, terrorism, money laundering, trafficking of women and girls and other crimes, air pollution, and financial contagion are some of the major cross-border challenges. In early 2003, for example, severe acute respiratory syndrome (SARS) spread around the world, particularly in many East Asian countries; however, the collective efforts of countries supported by regional and international organizations such as the World Health Organization and the Association of Southeast Asian Nations (ASEAN) controlled the spread by June. ADB estimated an overall loss of demand and business revenue of $60 billion, but the outcome could have been much worse. ADB quickly assessed country readiness to effectively deal with the crisis and to mobilize financial support. Countries are currently using those funds, expert assistance, and training to strengthen their surveillance and control systems. This will not only help prevent a recurrence of SARS, but will also help contain the spread of new diseases.

To improve resilience to external shocks and to prevent financial

contagion in the future, many members of ADB are enhancing regional monetary and financial cooperation. The ASEAN Surveillance Process and the ASEAN+3 Finance Ministers Process are important initiatives. ADB's Regional Economic Monitoring Unit provides technical support to these regional mechanisms. The ASEAN+3 Policy Dialogue focuses on information exchange and peer review of economic policies. The Chiang Mai Initiative, launched by ASEAN+3 countries, has resulted in 16 bilateral currency swaps totaling about $36 billion. More agreements are under negotiation. In addition, efforts are under way to provide regional support to the development of Asian bond markets under the ASEAN+3 Bond Market Initiative. To support the ASEAN+3 Initiative, ADB approved and/or processed regional technical assistance for supporting guarantee operations, improving settlement and clearing systems, supporting regional credit rating agencies, and developing the Asian Bonds On-line web site.

Enhancing Regional Public Goods

Addressing cross-border challenges helps protect regional public goods, including shared air space, watersheds, fisheries, financial standards, and security. For example, ADB is helping Cambodia improve the management of the Tonle Sap—an important, vulnerable wetland area in Southeast Asia, a seasonal breeding and nursery ground for migratory fish, and one of the most productive freshwater fisheries in the world. Sound management of Tonle Sap is vital to the health of the river system of six Mekong countries. Partners are working together with ADB support to improve planning and coordination, to enhance the communities' roles, and to conserve biodiversity. Although the costs of this project are largely borne by Cambodia, other countries in the Greater Mekong Subregion are contributing to complementary efforts by the Mekong River Commission and other bodies in managing the overall river system to maximize benefits for all.

Regional bodies are moving to agree on international standards for financial transactions and to make suggestions for improving regulatory environments to prevent money laundering and related crimes. ADB has supported this work in many ways including publishing a detailed manual of conventions, principles, recommendations, guidelines, model laws, and other reference materials.

In another example, nearly all Pacific members of ADB have signed a convention ensuring the conservation of straddling and highly migratory fish stocks including the introduction of total allowable catches for various species.

Promoting Economic Integration

Regional economic integration promotes economic growth and strengthens competitiveness. The Greater Mekong Subregion program has improved transport connectivity through strategic economic corridors and has promoted and coordinated investments in telecommunications and power. These investments are supported by negotiated agreements and by institutional mechanisms that will facilitate cross-border transport, power interconnection, and trade.

Economic cooperation is largely driven by private businesses that have linked up across borders to integrate production networks that supply raw materials, manufacture components, assemble finished goods, and move them through regional and global distribution chains to consumers. Assisted by ADB, many DMCs are supporting this process by improving their regulatory environments and by freeing up trade.

Most DMCs are already participating in various trade and integration schemes such as the ASEAN Free Trade Area and the ASEAN-China Free Trade Agreement. These developments increasingly point to an outward-looking region, an essential building block to closer integration with the global economy. ADB promotes accession to the WTO and compliance with the General Agreement on Tariffs and Trade and the numerous multilateral agreements that facilitate DMC growth through exports. Technical assistance was provided to strengthen the capacity of DMCs to more effectively integrate into the WTO

Initiatives to Boost Regional Cooperation

Despite difficulties, the Central Asian republics have made some headway with cooperative investments in transport, energy, and trade facilitation; and improved conditions in Afghanistan are opening up the possibility for transport and energy links between Central and South Asia. To support such initiatives, ADB organized a ministerial conference in 2003 for Afghanistan, Iran, Pakistan, Tajikistan, and Uzbekistan. The ministers agreed to work toward a trade agreement that would bring the five countries into conformity with international transport and trade conventions, which would modernize border crossings, and which would establish a transport and trade forum where issues can be discussed and resolved. In a separate initiative earlier in the year, heads of state of Afghanistan, Pakistan, and Turkmenistan met to discuss a major cross-border gas pipeline. If studies presently under way are favorable and financing and implementation are successful, the pipeline will transport up to 30 billion cubic meters of gas per year from Turkmenistan to consumers in South Asian economies.

multilateral trading system, which included increased awareness of issues that will be covered by the new WTO round (Doha Development Agenda) for policy formulation.

The Central Asian republics are landlocked and remote from major world markets, so ADB supported capacity building for trade facilitation to improve economic integration. A combined regional seminar and training session attended by the Customs Coordination Committee, a group of heads of customs administrations of the East and Central Asian countries, was organized to strengthen capacities for facilitating intraregional trade through joint-border processing, transit, and information and communication technology for information sharing and customs modernization.

In South Asia, technical assistance supported the integration of national economies of the South Asia Subregional Economic Cooperation group for efficient use of manpower, infrastructure, trade opportunities, and economic resources. A comprehensive study explored the role of private sectors and governments and further assistance and investment projects at country and interregional levels by ADB and other development partners to promote private sector cooperation. In addition, increased trade was promoted through an investment project in Bangladesh which includes improving the border access road in Panchagahr-Banglabandh to facilitate cross-border traffic from Nepal.

In the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area, business cooperation and networking among SMEs included more private sector support. Under this initiative, national and subregional competitiveness is enhanced through the (i) removal of barriers to the efficient flow of goods and investments; (ii) creation of inter-regional industry and SME associations as mechanisms for promoting cooperation among the private sectors; and (iii) dissemination of information on trade and investment opportunities.

Exploiting Economies of Scale

The final aspect of regional cooperation takes advantage of economies of scale in providing specialized and/or high-cost public goods and services. For example, ADB and its partners supported a regional center in the Fiji Islands, which provides specialized training in public financial management and in economic and monetary statistics so small island countries have access to world-class expertise. In another example, ADB's partnership with the Consultative Group on International Agricultural Research helped ensure that research activities of its members link complex projects to advance regional knowledge on the genetic resources of the coconut palm and on sustainable rice-based cropping systems in rainfed lowlands among other topics.

Lessons from ADB Experience

Opportunities for regional cooperation are wide-ranging, and several broad principles apply. First, preliminary findings suggest that one can measure the value regional cooperation adds to economic growth, one of the three pillars of ADB's Poverty Reduction Strategy. Although the incomes of the poor and vulnerable may not rise initially, they will improve over time.

Second, successful regional cooperation includes participation of central and local governments, the private sector, and civil society. ADB's role as an "honest broker" can facilitate trust, provide knowledge, support capacity-building needs to manage regional cooperation, or help mobilize public and private financing. ADB has found that the most successful projects use appropriate institutional mechanisms and have sufficient flexibility built into them to handle problems arising from the diverse interests of cooperating partners. An appropriate mechanism needs to be judged based on its context. In the Greater Mekong Subregion, for example, operational review and coordination are carried out by regular meetings of senior officials and ministers supported by a small secretariat at ADB. In the Pacific, cooperation tends to be anchored in established regional institutions such as the Pacific Forum.

Finally, successful cooperation takes time, patience, political commitment, and willingness to compromise. One mechanism found useful in Asia and the Pacific and other regions is to ensure that countries are engaged in many different types of cooperation, thereby ensuring that a broad range of stakeholders in each country is benefiting. In such situations, the particular stakeholders involved have the incentive to cooperate as lack of cooperation might threaten progress on other efforts. Different stakeholders in the full range of cooperative efforts help ensure that their counterparts will all live up to their respective agreements.

ADB's regional cooperation strategies and programs improve cooperation. Based on an analysis of contextual issues and the impact of past assistance, focal areas for assistance are set out for the next 3 years. They include an investment program, monitorable performance benchmarks, collaborative approaches, risk-minimizing mechanisms, and arrangements for performance monitoring and evaluation. The first one approved in 2003 was for the Pacific in July.

Regional Perspectives

ADB's regional departments replaced the program and project departments as a result of the reorganization of 2002. This move strengthened ADB's country focus, unified accountability for operations in a developing member country (DMC), and facilitated regional and interregional cooperation, a crosscutting theme of the Long-Term Strategic Framework 2001–2015 (LTSF). The departments are East and Central Asia, Mekong, Pacific, South Asia, and Southeast Asia. Each covers a group of geographically contiguous countries with similar cultures, economies, and societies. The tasks of the departments include implementing the strategic agenda and developing and updating the country strategy and program (CSP). Each DMC has a team of staff from headquarters and resident missions if applicable.

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EAST AND CENTRAL ASIA

The region extends from the Republic of Korea[5] in the east to Azerbaijan in the Southern Caucasus in the west and is comprised of the People's Republic of China (PRC), Mongolia, and the six Central Asian republics (CARs). It covers a vast land mass and a wide range of economic, political, social, and natural conditions. The population is nearly 1.4 billion and combined gross domestic product (GDP) is $1.8 trillion. The CARs, Azerbaijan, and Mongolia are still largely dependent on the production and export of natural resources, so their performance is heavily dependent on international commodity prices. Because of the strong growth of the PRC economy and the continued upswing in commodity prices, the region again performed well economically in 2003 and also enjoyed both social and political stability, including Azerbaijan's successful political transition.

ADB's regional efforts were implemented under its Central Asia Regional Economic Cooperation program. Almost all DMCs in the region are members though Turkmenistan has not yet joined. Since March 2002, activities have been guided and supervised by an official institutional mechanism headed by a ministerial committee. At its second meeting in Tashkent in November 2003, the committee reiterated its commitment to promote regional cooperation and urged promotion of investment projects in the transport, trade, and energy sectors. The committee endorsed the agreement the development partners reached during the European Bank for Reconstruction and Development's 2003 annual meeting for ADB to be the secretariat for the mechanism. ADB is currently preparing a regional cooperation strategy to ensure effective cooperation.

Some regional initiatives taken up outside the Central Asia Regional Economic Cooperation framework saw further progress during the year. A ministerial steering committee

EAST AND CENTRAL ASIA: Major Economic Indicators, 2003

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade ($ million)	International Reserves ($ million)
Azerbaijan	11.2	2.2	(98)	1,620
China, People's Republic of	9.1	1.2	41,432	403,250
Kazakhstan	9.2	6.6	3,447	4,959
Kyrgyz Republic	6.7	3.0	(83)	389
Mongolia	5.5	4.7	(187)	180
Tajikistan	10.2	16.4	(215)	135
Turkmenistan	10.0	5.5	1,270	...
Uzbekistan	4.0	10.0	706	...

... Data not available.
( ) Negative.

reviewed the initial draft of the feasibility study for the Turkmenistan-Afghanistan-Pakistan natural gas pipeline and laid down a time line for the further development of the project. Some CARs also participated in the ADB-sponsored Central and South Asia Transport and Trade Forum that is considering proposals for north-south transport corridors that would connect CARs to ports on the Persian Gulf and/or the Arabian Sea.

ADB strengthened its presence in the region with the opening of a resident mission in Dushanbe, Tajikistan, and the appointment of a country director for Azerbaijan to head the resident mission in Baku. Coordination of ADB's activities and operations with other development partners was strengthened through active collaboration in the Commonwealth of Independent States-7 initiative; a visit to European Union headquarters for program coordination; senior, official consultations with the World Bank; participation in International Monetary Fund and Poverty Reduction and Growth Facility missions; and formal consultations with the European Bank for Reconstruction and Development. These efforts were supplemented by field collaboration and coordination by ADB's resident missions.

In 2003, the region received $1.7 billion in ADB loans (compared with $1.2 billion in 2002) and $32.2 million for technical assistance.

Operations are poised for a new phase of development in close coordination with partners and with full ownership by the DMCs concerned. These will be based on the CSPs approved by the Board in 2003 for the PRC, Kazakhstan, Kyrgyz Republic, and Tajikistan. These medium-term strategies, in conjunction with the regional cooperation strategy, will further enhance ADB's role as principal regional development partner.

Azerbaijan

Strategy and Policy Dialogue. The interim operational strategy (IOS) approved in 2000 continued to direct ADB activities. The Country Strategy and Program Update (CSPU) (2004–2006) was based on the IOS and provided justification for ADB assistance in four strategically selected areas and sectors: internally displaced persons, agriculture and rural development, water supply and sanitation, and roads. These sectors will continue to be the focus of ADB operations for 2004–2005, after which a new CSP will be formulated to cover 2006–2010.

Poverty reduction continued to be the main challenge for the Government. In February, the State Programme on Poverty Reduction and Economic Development 2003–2005 was approved by a presidential decree. ADB's policy dialogue has focused on helping to implement the Program. In particular, advice helped to improve the quality of the outputs of sector working groups on refugees and internally displaced persons, rural development, and fiscal policy. Discussions were also held with the Government, nongovernment organizations (NGOs), and other funding agencies to find ways to assist refugees and internally displaced persons in Azerbaijan.

In March, the establishment of a resident mission was approved by the Board.

Loans and Technical Assistance. One loan for $22 million for flood mitigation and five technical assistance projects totaling $2.4 million were approved.

People's Republic of China

Strategy and Policy Dialogue. In November, ADB's Board of Directors endorsed the CSP for 2004–2006. Four pillars underlie the new strategy: (i) promoting equitable

AZERBAIJAN
Project Implementation

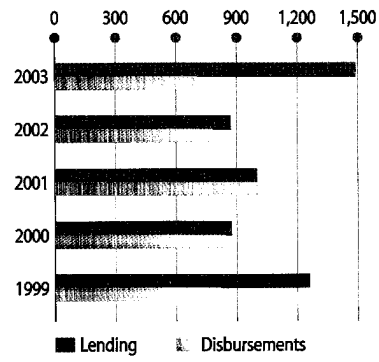
Lending	
Cumulative ($ million)	22.0
2003 ($ million)	22.0
Active loans (no.)	1
Contract Awards	
Cumulative ($ million)	-
2003 ($ million)	-
Ratio (%)	0.0
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	-
2003 ($ million)	-
Ratio (%)	-
ADB-wide average (%)	20.2

PEOPLE'S REPUBLIC OF CHINA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Transport and Communications	44	7,262.0	53.3
Energy	20	2,145.3	15.8
Social Infrastructure[a]	10	1,111.9	8.2
Multisector	6	730.0	5.4
Industry and Nonfuel Minerals	5	686.8	5.0
Others	4	603.0	4.4
Agriculture and Natural Resources	9	547.0	4.0
Finance	6	530.0	3.9
TOTAL	**104**	**13,616.0**	**100.0**

a Adjusted to exclude terminated $35 million loan for the Water Infrastructure Development Facility.

PEOPLE'S REPUBLIC OF CHINA
Lending and Disbursements, 1999–2003 *($ million)*



and inclusive growth, (ii) making markets work better, (iii) fostering regional cooperation, and (iv) promoting environmental sustainability. Over 80% of lending is expected to be for projects located in the central and western regions where most of the poor live.

ADB and the PRC signed a poverty partnership agreement (PPA) in September 2003 that set out a development agenda based on pro-poor investments in infrastructure, private sector development, environment, and regional cooperation. It is closely allied to the PRC's national development plan and poverty reduction strategy and is aligned with its medium-term planning and public investment cycle. The PPA was reflected in the new CSP.

The PRC Resident Mission has increased ADB's dialogue with the private sector and civil society and has expanded ADB's partnership arrangements with other development partners through regular donor coordination meetings. Accomplishments in 2003 included applying the country programming framework for the PRC-Global Environment Facility partnership on Operational Program 12, implementing the Poverty Reduction Cooperation Fund, preparing a provincial partnership agreement with the Department for International Development (DFID) of the United Kingdom, and cofinancing Greater Mekong Subregion projects in Yunnan Province with the Agence Française Développement.

Several important policy studies were completed or nearly completed in 2003 including an assessment of governance, a poverty profile, a private sector assessment, and an agriculture and rural development strategy. Several policy notes covering trends in external trade showing the PRC's positive impact on the region, the economic impact of severe acute respiratory syndrome (SARS), preventing investment overheating, and establishing a minimum living standard system in rural areas to address absolute rural poverty were submitted to appropriate government offices.

Weaknesses in the financial sector represent one of the strategic risks facing the PRC. ADB is helping strengthen the legal/regulatory framework for banks under technical assistance on PRC banking laws and regulations. Advice was provided on anti-money laundering, including comments on the three rules for banking-type financial institutions adopted by the People's Bank of China.

Technical assistance further supported work that culminated in the amendment of the Central Banking and Commercial Banking laws, and the formulation of the Bank Supervision Law, all of which were adopted in December. These laws addressed issues raised by technical assistance. Recommendations were also made for laws and regulations regarding credit information bureaus, financial conglomerates, and bank insolvency.

Other milestones in ADB's support for strengthening the rule of law in 2003 included the passage of the Administrative Licensing Law and making effective the ADB-supported Regulations on the Legal Aid System, the Law on Promoting Small and Medium Enterprises, the Government Procurement Law, and the Clean Production Law.

At the sector level, the study completed in 2003 on Project Cost Estimates and Loan Savings provided recommendations to improve estimates and monitoring of costs during project implementation.

PEOPLE'S REPUBLIC OF CHINA
Project Implementation

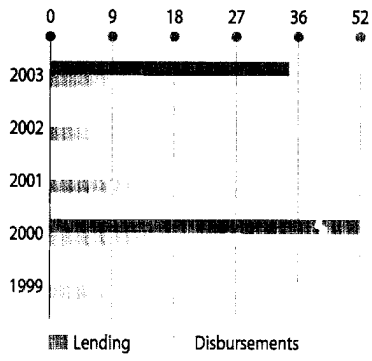
Lending	
Cumulative ($ million)	13,616.0
2003 ($ million)	1,488.0
Active loans (no.)	42
Contract Awards	
Cumulative ($ million)	8,074.9
2003 ($ million)	457.4
Ratio (%)	14.9
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	8,392.4
2003 ($ million)	705.1
Ratio (%)	25.8
ADB-wide average (%)	20.2

KAZAKHSTAN
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	3	140.0	27.9
Transport and Communications	2	102.0	20.3
Finance	1	100.0	19.9
Social Infrastructure	4	99.6	19.9
Multisector	2	60.0	12.0
TOTAL[a]	**12**	**501.6**	**100.0**

a Includes Kazakhstan loan component of a regional project.

KAZAKHSTAN
Lending and Disbursements, 1999–2003 *($ million)*



KAZAKHSTAN
Project Implementation

Lending	
Cumulative ($ million)	501.6
2003 ($ million)	34.6
Active loans (no.)	6
Contract Awards	
Cumulative ($ million)	425.6
2003 ($ million)	48.3
Ratio (%)	52.9
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	376.5
2003 ($ million)	13.5
Ratio (%)	17.1
ADB-wide average (%)	20.2

Loans and Technical Assistance. Seven loans totaling $1,488 million were approved to improve water supply capacity in Harbin, to improve wastewater management in Wuhan, to construct roads in Ningxia and western Yunnan, to improve urban transport capacity in Xi'an, to build a railway connecting Yichang and Wanzhou, and to promote clean energy development in Gansu. In addition, 26 technical assistance projects totaling $14.3 million were approved.

Kazakhstan

Strategy and Policy Dialogue. ADB developed the CSP for 2004–2006 to support the Government in meeting the Millennium Development Goals (MDGs) through policy dialogue in the following areas: inclusive growth through private sector development, human development, sustainable environment development, and regional cooperation. With the rapid economic growth and improved fiscal position of Kazakhstan, ADB's policy dialogue in 2003 focused on support to the Government's priority programs for poverty reduction, especially in rural areas, and on diversification of the resource-based economy.

ADB signed a PPA in July 2003 which helped prepare the Sector Poverty Reduction Program. The dialogue on participatory rural development and regional development helped develop the State Rural Development Program. The Country Environment Assessment supported government efforts to mainstream environment and facilitated Kazakhstan's involvement in regional technical assistance on an environment information management system. The governance study helped further dialogue with the Government on local government capacity building. The ongoing education development strategy set grounds for comprehensive education reform. Support for industrial development helped identify a conducive business environment while dialogue on rural water supply and water resource management focused on sustainability. Collaboration on road transport contributed to facilitating transit and strengthening institutions.

Loans and Technical Assistance. ADB approved a $34.6 million loan for the Rural Area Water Supply and Sanitation Project and six technical assistance projects totaling $1.8 million.

Kyrgyz Republic

Strategy and Policy Dialogue. The CSP 2004–2006 was approved with the overall objective of reducing poverty by promoting private sector-led growth and selected areas of human development. The major areas of support to reduce poverty are (i) agriculture and rural development to induce further productivity and to expand exports; (ii) financial sector development to strengthen the banking sector, improve depositor confidence, and deepen bank intermediation; (iii) regional cooperation to reduce cross-border transport and trade bottlenecks; and (iv) investments in basic education and early childhood development. The geographic focus will be on the poorer areas of the country. The CSP was based on the Government's development objectives and the Comprehensive Development Framework to 2010, on the National Poverty Reduction Strategy 2003–2005, on the Millennium Development Goals (MDGs), on the strategic focus, ongoing and planned programs and projects of other external agencies, and on ADB's past knowledge and experience in the country.

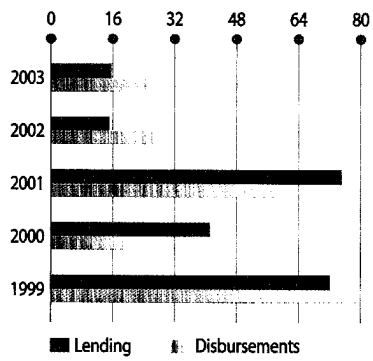
ADB is a major source of development assistance. Several completed and ongoing projects supported by ADB contributed to achieving economic growth, reducing poverty, and meeting the MDGs. Such interventions include those in agriculture, roads, education, water supply, and finance including rural finance. The Kyrgyz Republic has achieved significant progress in reducing poverty levels

KYRGYZ REPUBLIC
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Transport and Communications	4	145.0	27.2
Finance	5	115.0	21.6
Agriculture and Natural Resources	3	88.5	16.6
Multisector	5	70.5	13.2
Social Infrastructure	3	68.7	12.9
Energy	1	30.0	5.6
Others	1	15.0	2.8
TOTAL[a]	**22**	**532.7**	**100.0**

a Includes Kyrgyz loan components of regional projects.

KYRGYZ REPUBLIC
Lending and Disbursements, 1999–2003 *($ million)*



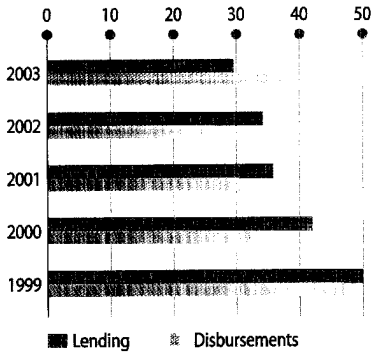
KYRGYZ REPUBLIC
Project Implementation

Lending	
Cumulative ($ million)	532.7
2003 ($ million)	15.5
Active loans (no.)	13
Contract Awards	
Cumulative ($ million)	400.7
2003 ($ million)	51.0
Ratio (%)	31.4
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	367.6
2003 ($ million)	25.7
Ratio (%)	15.7
ADB-wide average (%)	20.2

MONGOLIA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Transport and Communications	5	134.5	23.7
Social Infrastructure	9	101.3	17.8
Energy	4	93.8	16.5
Agriculture and Natural Resources	6	73.6	12.9
Industry and Nonfuel Minerals	2	60.0	10.6
Finance	3	53.0	9.3
Others	3	40.5	7.1
Multisector	2	12.0	2.1
TOTAL	**34**	**568.7**	**100.0**

MONGOLIA
Lending and Disbursements, 1999–2003 *($ million)*



MONGOLIA
Project Implementation

Lending	
Cumulative ($ million)	568.7
2003 ($ million)	29.5
Active loans (no.)	16
Contract Awards	
Cumulative ($ million)	440.8
2003 ($ million)	41.4
Ratio (%)	29.1
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	418.2
2003 ($ million)	39.3
Ratio (%)	24.0
ADB-wide average (%)	20.2

which fell from 52% in 2000 to 44.4% in 2002. Progress toward meeting other MDGs has been satisfactory, particularly in universal primary education. Consultations and cooperation with civil society, particularly with NGOs, increased in 2003. ADB, through its Kyrgyz Resident Mission, participated in improving aid coordination and in harmonizing operational policies and procedures.

Policy dialogue with the Government focused on legal reforms in the financial sector, strengthening the rural financial sector, and prioritizing the public investment program. Under the ADB-funded Corporate Governance and Enterprise Reforms Program II, the Government initiated steps to and progressed in identifying weaknesses in the judicial system thus improving the legislative framework for third-party arbitration, bringing finality to court judgments, setting up a corporate governance rating system, improving the legal framework for accounting and auditing, and strengthening corporate governance in commercial banks. ADB has been advising the Government on the Public Investment Program since June 2000, and in November 2003, the Government endorsed the recommendations of an ADB-supported technical assistance study on the principles for prioritizing it. ADB is also working closely with the Government, particularly with the national bank, to strengthen the institutional and regulatory structure for rural and microfinance, including the development of credit unions.

Loans and Technical Assistance. Two loans for $15.5 million were approved: one for $10.5 million for community-based early childhood development and one for $5 million for emergency rehabilitation. Two technical assistance projects totaling $1.1 million were approved.

Mongolia

Strategy and Policy Dialogue. The PPA served as the strategic framework guiding ADB operations that continued to focus on developing the financial, agriculture, road, public, social, and urban sectors. ADB also encouraged Mongolia's involvement in subregional cooperation.

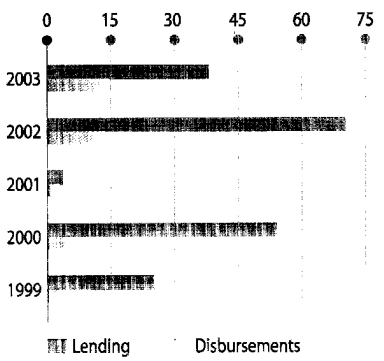
With assistance from external funding agencies including ADB, Mongolia moved toward attaining the MDGs. Progress was made in addressing nonincome poverty and in improving health and education indicators. Greater emphasis is needed on accelerating economic growth to create sufficient jobs and on improving social services for the poor. In this regard, finalizing the Poverty Reduction Strategy Program of the Mongolian Government has

TAJIKISTAN
Cumulative ADB Lending[a]
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Energy	2	54.0	25.6
Multisector	4	50.3	23.9
Agriculture and Natural Resources	2	38.6	18.3
Transport and Communications	2	35.0	16.6
Social Infrastructure	2	15.0	7.1
Others	1	10.0	4.7
Finance	2	8.0	3.8
TOTAL	**15**	**210.9**	**100.0**

a Includes loan components of regional projects in Tajikistan.

TAJIKISTAN
Lending and Disbursements, 1999–2003 *($ million)*



set the stage for major external funding agencies to align their respective strategies with the new one.

Loans and Technical Assistance. ADB approved three loans totaling $29.5 million. One was for a health sector development program and two, including one for technical assistance, were for governance reforms. Three technical assistance projects were approved totaling $1.3 million.

Tajikistan

Strategy and Policy Dialogue. The CSP for 2004–2008 was approved in 2003 and will replace the interim strategy prepared in 1998. It focuses on supporting Tajikistan's transition to a market economy, economic growth for reducing poverty, and natural disaster rehabilitation.

Dialogue with the Government focused on governance, rural development, private sector development, and regional cooperation. Policy dialogue was held on the transportation, power, and social sectors. ADB also helped the Government enhance the formulation of the public investment program which was presented and discussed at the Consultative Group Meeting in May and at follow-up meetings. In support of the growing ADB operations in Tajikistan, a resident mission was set up in April 2003 and was inaugurated in November.

Loans and Technical Assistance. Five loans totaling $38 million were approved to develop investment and policy in microfinance, for reforms in the health and education sectors, and for the rehabilitation of the Dushanbe-Kyrgyz Road. Nine technical assistance projects totaling about $3.4 million were approved.

Turkmenistan

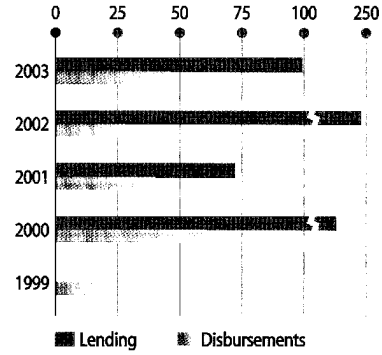
Strategy and Policy Dialogue. An economic report and ADB's IOS were approved in June 2002. The three strategic objectives of the IOS were enhancing human and social development, supporting sustainable and stable economic growth, and promoting regional economic cooperation. Lending operations will commence if preconditions are met for each investment project, including government commitment to undertake reforms to realize the full benefits of the investment. No policy dialogue has taken place since finalization of the economic report and the IOS in 2002. More than 20 government officials attended seminars and workshops organized by ADB, including the Central Asian regional partnership building forum on confronting land degradation and the regional capacity building seminar on customs cooperation. High-ranking government officials

UZBEKISTAN
Cumulative ADB Lending[a]
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Social Infrastructure	7	279.5	35.2
Transport and Communications	3	190.0	23.9
Agriculture and Natural Resources	4	185.2	23.3
Energy	1	70.0	8.8
Finance	2	70.0	8.8
TOTAL	**17**	**794.7**	**100.0**

a Includes a loan component of a regional project in Uzbekistan.

UZBEKISTAN
Lending[a] and Disbursements, 1999–2003 *($ million)*



a Includes a component of Regional Power Transmission Modernization in 2002.

TAJIKISTAN
Project Implementation

Lending	
Cumulative ($ million)	210.9
2003 ($ million)	38.0
Active loans (no.)	13
Contract Awards	
Cumulative ($ million)	70.2
2003 ($ million)	15.5
Ratio (%)	10.4
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	53.9
2003 ($ million)	14.7
Ratio (%)	12.6
ADB-wide average (%)	20.2

TURKMENISTAN
Project Implementation

Lending	
Cumulative ($ million)	-
2003 ($ million)	-
Active loans (no.)	-
Contract Awards	
Cumulative ($ million)	-
2003 ($ million)	-
Ratio (%)	-
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	-
2003 ($ million)	-
Ratio (%)	-
ADB-wide average (%)	20.2

UZBEKISTAN
Project Implementation

Lending	
Cumulative ($ million)	794.7
2003 ($ million)	99.2
Active loans (no.)	14
Contract Awards	
Cumulative ($ million)	230.3
2003 ($ million)	69.4
Ratio (%)	13.5
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	193.3
2003 ($ million)	46.3
Ratio (%)	11.5
ADB-wide average (%)	20.2

from Turkmenistan participated in meetings of the Steering Committee on the Turkmenistan-Afghanistan-Pakistan natural gas pipeline project, for which ADB financed a feasibility study.

Loans and Technical Assistance. No loans or technical assistance projects were approved in 2003.

Uzbekistan

Strategy and Policy Dialogue. Based on the country operational strategy prepared in 2000 and updated annually through the CSPU, ADB's operations focused on managing the transition from a centrally planned system to a market-based economy. Dialogue with the Government centered on improving living standards, on regional cooperation and trade, on agriculture sector reforms, on water resource management, on woman and child health, and on the environment for foreign direct investment. The primary objective of projects approved in 2003 was unlocking the potential for future growth and improving living standards. Support was provided for the Government's formulation of a comprehensive medium-term strategy for poverty reduction and for private sector development, particularly developing capital markets and improving the policy environment for foreign direct investment. The resident mission played a prominent role in portfolio management and in facilitating coordination with development partners, particularly in the areas of living standards, regional cooperation, health, and the establishment and monitoring of MDG indicators.

Loans and Technical Assistance. Two loans amounting to $99.2 million were approved to improve grain productivity and to rehabilitate the Amu Zang irrigation system. Nine technical assistance projects totaling about $3.2 million were also approved.

MEKONG

The countries in the Mekong region generally have made steady progress in poverty reduction and hunger alleviation over the past decade. Sound macroeconomic policies and growth have reduced poverty, especially in Viet Nam where the poverty rate decreased to 28.9% in 2002. Poverty, however, is still prevalent with the poorest segment representing only 6.9% of regional wealth.

The percentage below the minimum level of dietary energy consumption declined overall in the past decade, but performance varied across the region and averaged 19% in 1998–2000.

Primary school enrollment reached 89% in 1999–2000, though more efforts must be made to ensure that students complete the full course. The gains in enrollment are reflected in increased literacy rates.

The under-five and infant mortality rates declined to 56 and 43 per 1,000 live births, respectively, in 2001, compared with 67 and 50 in 1990, but greater gains must be made if the region is to achieve the MDGs. Maternal mortality rates have improved, especially in Cambodia where the rate dropped from 900 per 100,000 live births in 1990 to 437 in 2000. In the same period, Viet Nam's maternal mortality rate dropped from 160 to 100. The fight against HIV/AIDS and other diseases is important in maximizing human resources and in containing escalating costs of health care. The estimated prevalence of HIV/AIDS among 15–25-year-old women ranged from virtually nil to 3%.

The region has a rich and diverse natural resource base which has historically supported economic development and has sustained rural livelihoods. In recent years, these resources have come under increasing stress due to rapid demographic changes and unsustainable exploitation among other reasons. Forests accounted for about 41% of the land area in 2000. In 2002, 69% of the rural population and 91% of the urban population enjoyed clean water, and 82% of urban residents had access to improved sanitation.

In September 2003, Cambodia acceded to the World Trade Organization (WTO). Upon ratification, Cambodia will become one of the first least-developed countries to join the WTO through the full working party negotiation process. Accession is also envisaged for Viet Nam in the near future. Regionally, substantial progress has been made in improving the debt situation. Debt service as a percentage of exports was roughly halved (from 10.2% to 5.5%) from 1990 to 2001.

Cambodia

Strategy and Policy Dialogue. The country operational strategy focused on economic growth and poverty reduction in line with the Government's strategy. It identified three

MEKONG: Major Economic Indicators, 2003

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade ($ million)	International Reserves ($ million)
Cambodia	5.0	1.2	(599)	737
Lao PDR	5.9	15.5	(136)	216
Myanmar	10.6	...	...	...
Thailand	6.7	1.8	4,202	42,148
Viet Nam	7.1	4.0	(3,380)	4,661

... Data not available.
( ) Negative.

priorities. First, to support broad-based development of rural areas, ADB assisted with water resource management while supporting decentralization, rural development, natural resource management, and agriculture reforms. Second, to assist human and social development, ADB facilitated sector-wide approaches in education and health and provided support to improve water supply. Third, to promote private sector development, ADB contributed to the development of the nation's road network while taking a key role in governance and financial reforms and a supportive role in energy. In addition, ADB provided strategic support to governance in economic planning, public finance, and legal reform while ensuring that an appropriate gender focus existed in all interventions.

Work was completed on the Integrated Fiduciary Assessment and Public Expenditure Review that was implemented with the World Bank and DFID. The Review involved intensive discussions with the Government on streamlining management of public expenditures. ADB has been preparing the new CSP in collaboration with DFID and the World Bank to support implementation of the Government's National Poverty Reduction Strategy completed in 2003.

Loans and Technical Assistance. ADB approved five loans totaling $98.3 million for projects to enhance policy and institutional capacities in the agriculture sector, to rehabilitate small- and medium-sized irrigation schemes, to rehabilitate water treatment and sewerage facilities in Sihanoukville, and to construct a power line from the Viet Nam border to Phnom Penh, including the electrification of poor villages along the route. Thirteen technical assistance projects totaling $6.3 million were approved.

Lao People's Democratic Republic

Strategy and Policy Dialogue. The main thrust of ADB's current CSP for the Lao PDR is poverty reduction by broadening community participation and opportunities. The strategy focused on five operational priorities: rural development and market linkages, human resource development, sustainable environmental management, private sector development, and regional integration. Since the country is geographically located at the center of the region, ADB's strategy aimed to explore options to maximize the benefits of cooperation. Interventions focused primarily on the poor northern provinces and along the east-west corridor in Savannahkhet Province. ADB further helped the Government prepare a development strategy for the northern region.

Policy dialogue focused on financial sector reform, private sector development, environmental management, and poverty monitoring. ADB assisted the Government to implement a policy framework for banking sector reform in close coordination with the International Monetary Fund and the World Bank. ADB encouraged the Government to enhance the business environment through regulatory and administrative reform, improvement of product quality standards, and facilitation of cross-border movement and trade. ADB also assisted with improvements in the regulatory framework and the institutional capacity in environment and social management. ADB supported the Government in the preparation of the National Poverty Reduction Program which was discussed at the Donor Roundtable Meeting in September 2003.

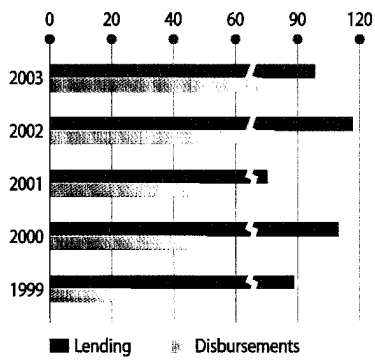
Loans and Technical Assistance. Two loans totaling $46 million were approved to improve urban governance and infrastructure in small towns and to expand the electricity distribution network in the poor northern areas. Seven technical assistance projects totaling $3.3 million were also approved.

CAMBODIA
Cumulative ADB Lending[a]
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	9	176.9	22.8
Transport and Communications	4	173.0	22.3
Social Infrastructure	9	164.3	21.2
Multisector	2	122.7	15.8
Energy	4	92.8	12.0
Others	2	25.6	3.3
Finance	2	20.0	2.6
TOTAL	**32**	**775.2**	**100.0**

a Includes loan components of regional projects in Cambodia.

CAMBODIA
Lending and Disbursements, 1999–2003 *($ million)*



CAMBODIA
Project Implementation

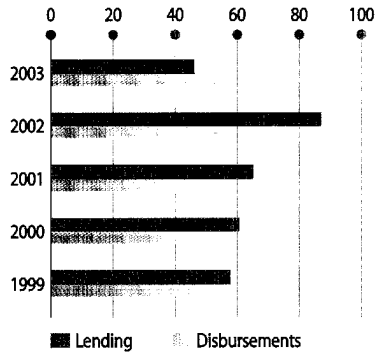
Lending	
Cumulative ($ million)	775.2
2003 ($ million)	98.3
Active loans (no.)	22
Contract Awards	
Cumulative ($ million)	462.5
2003 ($ million)	65.8
Ratio (%)	19.8
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	403.5
2003 ($ million)	73.1
Ratio (%)	23.1
ADB-wide average (%)	20.2

LAO PEOPLE'S DEMOCRATIC REPUBLIC
Cumulative ADB Lending[a]
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Transport and Communications	12	334.0	30.8
Energy	14	253.3	23.3
Social Infrastructure	15	244.4	22.5
Agriculture and Natural Resources	13	153.8	14.2
Finance	4	69.0	6.4
Multisector	1	20.0	1.8
Others	1	10.9	1.0
TOTAL	**60**	**1,085.4**	**100.0**

a Includes loan components of regional projects in the Lao PDR.

LAO PEOPLE'S DEMOCRATIC REPUBLIC
Lending and Disbursements, 1999–2003 *($ million)*



LAO PEOPLE'S DEMOCRATIC REPUBLIC
Project Implementation

Lending	
Cumulative ($ million)	1,085.4
2003 ($ million)	46.0
Active loans (no.)	23
Contract Awards	
Cumulative ($ million)	805.5
2003 ($ million)	34.9
Ratio (%)	13.0
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	763.5
2003 ($ million)	54.7
Ratio (%)	19.9
ADB-wide average (%)	20.2

Myanmar

Strategy and Policy Dialogue. ADB continued to monitor economic developments in Myanmar. An operational strategy will be formulated when appropriate.

Loans and Technical Assistance. No loans have been provided to Myanmar since 1986 and no technical assistance projects have been approved since 1987.

Thailand

Strategy and Policy Dialogue. With economic recovery under way, Thailand has emerged as a supporter of regional economic development and has been providing financial and technical resources to its neighboring countries and to other DMCs such as Afghanistan, Sri Lanka, and Timor-Leste through several bilateral and subregional initiatives. Thailand and ADB have strengthened their relationship in technical cooperation, knowledge sharing and dissemination, and cofinancing of regional integration projects.

While Thailand did not avail of ADB's public sector loans, the lending window remained open. At the same time, private sector operations remained active, particularly in energy, and other private sector initiatives were at various stages of development. A proposal for a local currency bond issue was under government consideration. ADB provided advice for developing regional bond markets and continued to provide technical assistance to several sectors, including governance reform covering such institutions as the National Counter Corruption Commission, the Office of Administrative Courts, and the Anti-Money Laundering Office.

ADB prepared for the establishment of a resident mission in Thailand to forge closer cooperation with the country and to help serve the region better.

Loans and Technical Assistance. One private sector loan of $40 million was approved for the construction, ownership, and operation of a 1,434-megawatt coal-fired power plant in Map Ta Phut in Rayong Province. Two technical assistance projects totaling $210,000 were approved.

Viet Nam

Strategy and Policy Dialogue. ADB operations focused on the following: (i) sustainable growth through agriculture diversification and private sector development; (ii) inclusive social development with emphasis on health and education; (iii) good governance, especially public administration reform; and (iv) economic growth in the central region.

MYANMAR
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	15	316.1	59.5
Social Infrastructure	6	99.1	18.7
Transport and Communications	2	42.5	8.0
Energy	5	31.8	6.0
Industry and Nonfuel Minerals	2	21.4	4.0
Finance	2	20.0	3.8
TOTAL	**32**	**530.9**	**100.0**

THAILAND
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Energy	28	1,672.3	31.0
Transport and Communications	17	1,214.5	22.5
Social Infrastructure	15	758.7	14.1
Agriculture and Natural Resources	13	709.1	13.2
Multisector	1	500.0	9.3
Finance	9	494.5	9.2
Industry and Nonfuel Minerals	1	39.0	0.7
TOTAL	**84**	**5,388.1**	**100.0**

Policy-based operations focused on improving agriculture technology and promoting commercialization of agriculture sector outputs, on raising the efficiency of the financial sector and public administration, and on promoting the domestic private sector with a focus on small and medium enterprises (SMEs). National projects aimed to strengthen preventive health care and secondary education and to ensure rapid economic growth through investment in economic infrastructure to help reduce poverty. In the central region where poverty is prevalent, operations focused on combining livelihood improvement in upland and coastal communities with improvements in road, water, and urban infrastructure; on capacity building; and on provincial planning. ADB also helped the Government address the multiple dimensions of poverty in the region.

ADB assisted the Government in implementing its Public Administration Reform Master Program to build a professional, modern, effective, efficient public administration. ADB also supported preventive measures to avoid a recurrence of SARS. Technical assistance supported the Government in policy coordination, legal system development, nonbank financial sector improvement, secured transaction registration, and provincial implementation of the Comprehensive Poverty Reduction and Growth Strategy.

In 2003, ADB celebrated the tenth anniversary of its resumption of operations in Viet Nam by holding an art competition and exhibition for children with the theme "Viet Nam in 10 Years: My Vision."

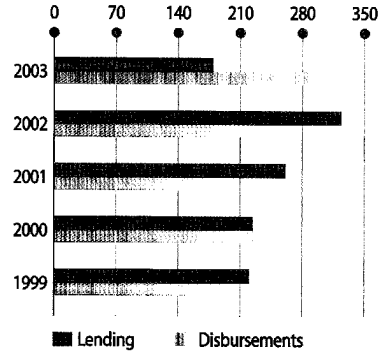
Loans and Technical Assistance. Three loans totaling $179 million were approved. The first supports the implementation of the Reform Master Program with emphasis on modernization, e-government, and training of public officials. The other two focus on (i) developing water infrastructure comprising the Phuoc Hoa barrage and transfer canal to serve both irrigation and urban water supply requirements, and (ii) improving drainage, sanitation, and solid waste systems in five provincial towns and one district town in the central region. The loans also aim to strengthen local management capacities and the institutional framework for providing sustainable urban environmental services. ADB also approved 15 technical assistance projects and other grants totaling $8.6 million.

VIET NAM
Cumulative ADB Lending[a]
(as of 31 December 2003)

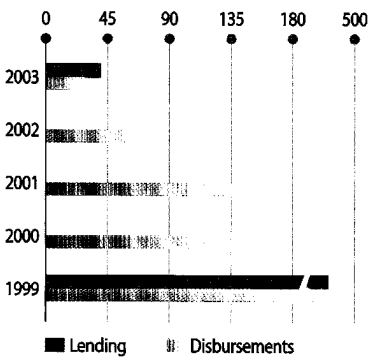
Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	20	897.9	31.4
Social Infrastructure	19	752.4	26.3
Transport and Communications	9	601.2	21.0
Energy	5	276.3	9.7
Finance	3	147.0	5.1
Industry and Nonfuel Minerals	3	130.0	4.5
Others	2	53.5	1.9
TOTAL	**61**	**2,858.3**	**100.0**

a Includes loan components of regional projects in Viet Nam.

VIET NAM
Lending and Disbursements, 1999–2003 *($ million)*



THAILAND
Lending and Disbursements, 1999–2003 *($ million)*



THAILAND
Project Implementation

Lending	
Cumulative ($ million)	5,388.1
2003 ($ million)	40.0
Active loans (no.)	7
Contract Awards	
Cumulative ($ million)	4,132.1
2003 ($ million)	23.5
Ratio (%)	38.3
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	4,125.2
2003 ($ million)	28.7
Ratio (%)	25.5
ADB-wide average (%)	20.2

VIET NAM
Project Implementation

Lending	
Cumulative ($ million)	2,858.3
2003 ($ million)	179.0
Active loans (no.)	39
Contract Awards	
Cumulative ($ million)	1,522.8
2003 ($ million)	136.2
Ratio (%)	14.3
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	1,530.4
2003 ($ million)	302.0
Ratio (%)	21.3
ADB-wide average (%)	20.2

THE PACIFIC

The aggregate GDP of the Pacific DMCs—Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu—increased by 2.7%, as all economies except Nauru and Timor-Leste expanded. Global economic growth accelerated and underpinned generally higher international prices for Pacific DMC primary exports. Higher oil, gold, and copper prices in particular benefited the largest economy—Papua New Guinea. Solomon Islands emerged from 3 years of recession as primary production grew rapidly and law and order were restored under a multicountry rehabilitation assistance mission. Tourism rebounded despite the conflict in Iraq and the outbreak of SARS, stimulating service sector activity and encouraging investment in infrastructure, especially in the Fiji Islands.

Weak international financial markets kept returns on trust funds held by Kiribati and Tuvalu low, but these markets strengthened toward the end of the year. Timor-Leste's contraction mainly resulted from drought and from the scaling down of United Nations activities, while Nauru remained afflicted by economic and financial mismanagement.

Political uncertainty and poor governance continued to be concerns in several Pacific DMCs. Renewed attention was given to pooling resources in governance, air transport, security, and international crime. The Pacific Island Countries Trade Agreement, which provides for a move toward free trade among 14 Pacific countries over a 10-year period, came into force in April, and at the subsequent forum for economic ministers, delegates agreed that a core of economic policies should address poverty. ADB's effort to assess the extent of poverty in the Pacific and to contribute to its reduction continued in 2003 through a regional technical assistance project that included interviews of the poorest segments of the population in several Pacific countries. Provision of basic social services, job creation, and access to markets were identified as the highest priorities of the poor in the region.

At the national level, the main policy focus in the majority of Pacific DMCs was on maintaining macroeconomic stability through sound fiscal management as a key condition for encouraging private investment and economic growth. Government efforts to consolidate gains from economic and public sector reform programs varied. The governments of the Marshall Islands and the Federated States of Micronesia finalized negotiations for a new 20-year phase of the economic and financial conditions under the Compact of Free Association with the United States (US). The donor community continued providing significant assistance to Timor-Leste, the newest country in the region, which is making slow but steady progress in building new institutions and capacity and in establishing a national legal and regulatory framework.

Cook Islands

Strategy and Policy Dialogue. The strategy focused on building sustainable capacity for sound economic and public sector management and improving public infrastructure to support private sector growth. The program emphasized building public sector management capacity by improving planning capability and cost control.

Tourism has underpinned the country's economic growth in recent years. The Government encouraged diversification into fisheries in 2003 while also helping local black pearl production to be more competitive. ADB's medium-term strategy also sought to improve public services by

PACIFIC: Major Economic Indicators, 2003

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade ($ million)	International Reserves ($ million)
Cook Islands	3.1	2.4	(45)	11
Fiji Islands	5.0	4.1	(340)	357
Kiribati	2.5	2.0	(59)	351
Marshall Islands	3.0	2.5	...	...
Micronesia, Fed. States of	0.1	(0.2)	(89)	...
Nauru	...	...	...	...
Papua New Guinea	2.0	11.8	1,065	484
Samoa	5.0	0.1	(122)	78
Solomon Islands	3.8	8.3	(6)	30
Timor-Leste	(3.0)	4.2	(161)	...
Tonga	1.9	11.1	(57)	17
Tuvalu	3.0	2.6	...	...
Vanuatu	1.6	3.0	(61)	37

... Data not available.
( ) Negative.

COOK ISLANDS
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Finance	3	6.0	22.5
Transport and Communications	2	5.4	20.3
Others	1	5.0	18.7
Social Infrastructure	2	4.9	18.4
Multisector	3	4.6	17.1
Agriculture and Natural Resources	1	0.8	3.1
TOTAL	**12**	**26.7**	**100.0**

streamlining government planning and execution and by aligning resources with performance objectives.

Policy dialogue focused on continued growth through economic diversification and promoting good governance in the public sector. ADB also supported better environmental management through capacity building for monitoring and regulating the environment especially in the outer islands.

Loans and Technical Assistance. No loans were approved. Two advisory technical assistance projects totaling $650,000 were approved.

Fiji Islands

Strategy and Policy Dialogue. In the medium term, ADB will help the Government promote economic growth and improve the quality of life of the population, particularly those vulnerable to external shocks and natural disasters. The operational strategy was aligned with the MDGs.

In 2003, policy dialogue was on good governance, institutional reforms in the sugar industry, water supply and sewerage services, and roads.

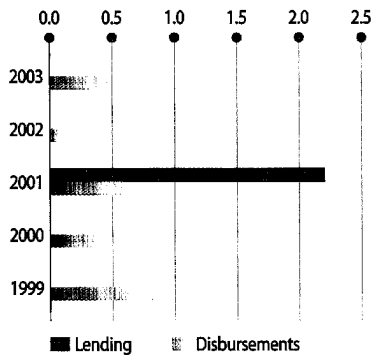
ADB approved the establishment of its Pacific Subregional Office in the capital Suva to meet the needs of its Pacific DMCs effectively and efficiently. This will complement the Pacific Liaison and Coordination Office in Sydney, Australia, that was also approved in 2003 to serve as an operational center and travel and communication hub for ADB's work in the Pacific.

Loans and Technical Assistance. One loan of $47 million was approved for the Suva-Nausori Water Supply and Sewerage Development Project. Four technical assistance projects totaling $2.1 million were also approved.

Kiribati

Strategy and Policy Dialogue. The strategy focused primarily on enhancing social development, promoting good governance, and creating conditions for pro-poor economic growth. It included ways to (i) strengthen the Government's strategic planning for sustainable poverty reduction; (ii) improve standards of governance, particularly by strengthening the efficiency and effectiveness of public services and public enterprises; and (iii) enhance the scope and opportunities for private sector development. A more efficient use of resources is expected to improve competitiveness and to attract private investment. The strategy also (i) ensured access to safe water and proper sanitation in South Tarawa; (ii) improved living conditions and access to basic social services on the outer islands; (iii) promoted greater domestic use

COOK ISLANDS
Lending and Disbursements, 1999–2003 *($ million)*



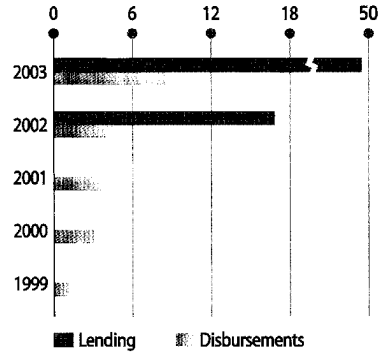
COOK ISLANDS
Project Implementation

Lending	
Cumulative ($ million)	26.7
2003 ($ million)	-
Active loans (no.)	1
Contract Awards	
Cumulative ($ million)	26.8
2003 ($ million)	1.2
Ratio (%)	68.0
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	23.3
2003 ($ million)	0.5
Ratio (%)	22.0
ADB-wide average (%)	20.2

FIJI ISLANDS
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Transport and Communications	5	94.8	42.2
Social Infrastructure	2	56.6	25.2
Energy	3	36.9	16.4
Agriculture and Natural Resources	3	27.6	12.3
Finance	2	9.0	4.0
TOTAL	**15**	**224.9**	**100.0**

FIJI ISLANDS
Lending and Disbursements, 1999–2003 *($ million)*



FIJI ISLANDS
Project Implementation

Lending	
Cumulative ($ million)	224.9
2003 ($ million)	47.0
Active loans (no.)	3
Contract Awards	
Cumulative ($ million)	153.0
2003 ($ million)	7.3
Ratio (%)	13.8
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	136.9
2003 ($ million)	8.8
Ratio (%)	20.9
ADB-wide average (%)	20.2

KIRIBATI
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Social Infrastructure	1	10.2	67.6
Transport and Communications	2	2.3	15.2
Energy	2	1.6	10.6
Finance	1	1.0	6.6
TOTAL	**6**	**15.1**	**100.0**

of the Revenue Equalization Reserve Fund resources for priority sectors; (iv) and created an enabling environment for private sector development.

Policy dialogue focused on good governance, delivery of services, sound economic policy and management, and implementation of the new national development strategy. Discussions continued on establishing a community-based outer islands trust fund, a strategic plan for natural resource development and other private sector activities particularly on the outer islands, and on preparing for the 2004 Consultative Group Meeting.

In September 2003, ADB signed a PPA with the Government.

Loans and Technical Assistance. No loans were approved. One technical assistance project amounting to $300,000 was approved.

KIRIBATI
Project Implementation

Lending	
Cumulative ($ million)	15.1
2003 ($ million)	-
Active loans (no.)	1
Contract Awards	
Cumulative ($ million)	11.7
2003 ($ million)	0.6
Ratio (%)	18.9
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	9.5
2003 ($ million)	2.4
Ratio (%)	37.9
ADB-wide average (%)	20.2

Marshall Islands

Strategy and Policy Dialogue. Poverty was associated with decreasing access to essential social services such as primary education, health, and potable water and also with a lack of jobs and markets. Poverty increased as a result of weak economic performance, poor public services, growing inequalities, and a decline in traditional support systems. Policy dialogue focused on improving public sector productivity; developing the private sector; and strengthening central governance to improve social services, create an environment conducive for private sector development, and strengthen central economic policy formulation and planning.

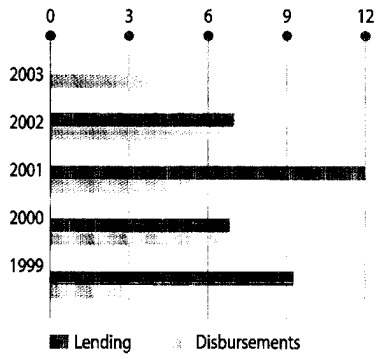
ADB's assistance was designed to complement and augment all other external assistance. Traditional social order and dependence on relatively large levels of US funding may have deterred improvement in public and private sector productivity, including reforming traditional land tenure, private competition, and public sector management. This was addressed by fully incorporating participation at all levels of decision making for ADB activities.

Loans and Technical Assistance. No loans were approved, but two technical assistance projects totaling $1 million were.

MARSHALL ISLANDS
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Social Infrastructure	5	30.4	38.9
Finance	3	24.0	30.7
Multisector	2	9.8	12.5
Transport and Communications	1	7.0	9.0
Agriculture and Natural Resources	1	7.0	8.9
TOTAL	**12**	**78.1**	**100.0**

MARSHALL ISLANDS
Lending and Disbursements, 1999–2003 *($ million)*



MARSHALL ISLANDS
Project Implementation

Lending	
Cumulative ($ million)	78.1
2003 ($ million)	-
Active loans (no.)	2
Contract Awards	
Cumulative ($ million)	62.5
2003 ($ million)	5.9
Ratio (%)	38.5
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	61.6
2003 ($ million)	5.0
Ratio (%)	30.8
ADB-wide average (%)	20.2

Federated States of Micronesia

Strategy and Policy Dialogue. Operations focused on three broad objectives: good governance, social service development, and pro-poor economic growth. To promote good governance, ADB provided technical assistance to improve public sector efficiency and effectiveness in both national and state governments particularly in economic policy formulation and implementation and in public financial management.

FEDERATED STATES OF MICRONESIA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Finance	3	31.0	55.3
Social Infrastructure	1	10.6	18.9
Multisector	1	8.0	14.3
Agriculture and Natural Resources	1	6.5	11.6
TOTAL	**6**	**56.1**	**100.0**

ADB's priority in social services was to promote equity, access, and quality; to strengthen management; and to mobilize resources for sustainable delivery. To attain pro-poor economic growth, ADB focused assistance on the private sector and on essential infrastructure.

Policy dialogue focused on capacity building in the public sector and on promoting private sector development. ADB helped the Government plan a country-wide economic summit to be held in 2004 and to prepare a national strategic and infrastructure development plan.

Loans and Technical Assistance. No loans were approved. Three advisory technical assistance projects were approved totaling $1.2 million.

Nauru

Since joining ADB, Nauru has received one program loan, the Fiscal and Financial Reform Program amounting to $5 million, and five technical assistance grants totaling $1.2 million. The loan was closed, and the balance was canceled on 2 October 2002 due to the Government's noncompliance with tranche conditions. Furthermore, the reform measures agreed under the first tranche with the previous Government were reversed by the current Government making it difficult for ADB to proceed with the release of subsequent tranches. ADB does not currently have an active program with the Government. No loans or technical assistance grants were approved in 2003.

Papua New Guinea

Strategy and Policy Dialogue. The strategy focused on strengthening governance, supporting private sector development, improving social conditions, and strengthening public sector personnel and financial management. For private sector development, ADB helped to upgrade policy and institutional frameworks (agriculture and fisheries), to enhance productivity (skills development and microfinance services), and to improve market access by investing in transport infrastructure particularly in rural areas. In the social sectors, ADB continued to assist in health policy development and to support service delivery. It agreed to help establish HIV/AIDS outpatient support centers and to prepare a literacy project.

Policy dialogue with the Government focused on improving governance and service delivery. ADB took a leading role in working with the Government on broad public service management reform. At the sector level, dialogue emphasized health and improved road maintenance. In late 2003, ADB deployed staff to a new

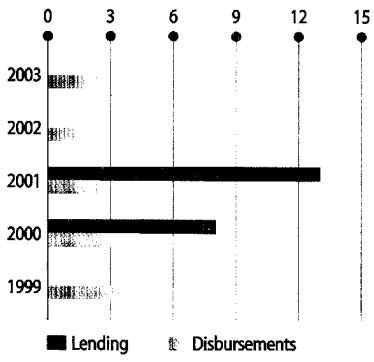
NAURU
Project Implementation

Lending	
Cumulative ($ million)	5.0
2003 ($ million)	-
Active loans (no.)	0
Contract Awards	
Cumulative ($ million)	2.3
2003 ($ million)	-
Ratio (%)	-
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	2.3
2003 ($ million)	-
Ratio (%)	-
ADB-wide average (%)	20.2

PAPUA NEW GUINEA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Transport and Communications	12	253.9	29.7
Social Infrastructure	16	215.5	25.2
Agriculture and Natural Resources	13	190.4	22.3
Others	2	95.8	11.2
Energy	5	43.0	5.0
Finance	4	32.1	3.8
Multisector	3	16.0	1.9
Industry and Nonfuel Minerals	1	8.4	1.0
TOTAL	**56**	**855.0**	**100.0**

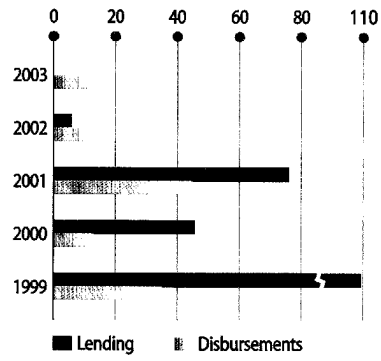
FEDERATED STATES OF MICRONESIA
Lending and Disbursements, 1999–2003 *($ million)*



FEDERATED STATES OF MICRONESIA
Project Implementation

Lending	
Cumulative ($ million)	56.1
2003 ($ million)	-
Active loans (no.)	4
Contract Awards	
Cumulative ($ million)	34.7
2003 ($ million)	2.3
Ratio (%)	11.7
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	33.9
2003 ($ million)	2.7
Ratio (%)	11.7
ADB-wide average (%)	20.2

PAPUA NEW GUINEA
Lending and Disbursements, 1999–2003 *($ million)*



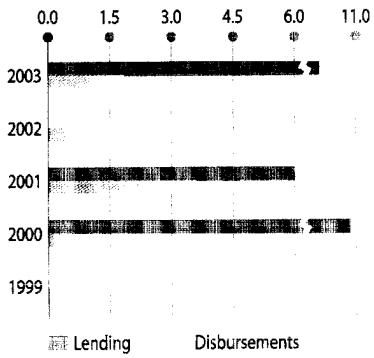
PAPUA NEW GUINEA
Project Implementation

Lending	
Cumulative ($ million)	855.0
2003 ($ million)	–
Active loans (no.)	11
Contract Awards	
Cumulative ($ million)	598.1
2003 ($ million)	15.0
Ratio (%)	9.9
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	593.3
2003 ($ million)	13.8
Ratio (%)	7.0
ADB-wide average (%)	20.2

SAMOA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	9	41.5	34.0
Finance	7	27.0	22.1
Energy	7	21.1	17.3
Social Infrastructure	2	15.0	12.3
Transport and Communications	4	13.0	10.6
Multisector	1	4.4	3.6
TOTAL	**30**	**121.9**	**100.0**

SAMOA
Lending and Disbursements, 1999–2003 *($ million)*



resident mission in Port Moresby, enhancing collaboration with the Government and civil society and improving dialogue with other donors active in the country.

Loans and Technical Assistance. No loans were approved in 2003. ADB approved two technical assistance projects totaling $1.1 million.

Samoa

Strategy and Policy Dialogue. The strategy aimed to improve (i) the enabling environment for private sector growth and job creation, (ii) access to and delivery of basic social services by providing infrastructure and enhancing management and performance of relevant public sector institutions, and (iii) equity of and access to quality education.

The strategy reflected the most common aspirations of vulnerable and disadvantaged communities based on ADB's participatory poverty surveys—employment, quality of and access to basic social services and education, and access to finance and land.

Policy dialogue focused on private sector participation in public service delivery and the implementation of the new legislative framework for state-owned enterprises. It also included dialogue on the policy and legislative environment for business development, specifically on legal impediments to the economic use of customary land, improving debt recovery mechanisms, and facilitating secured transactions.

In September 2003, ADB signed a PPA with the Government.

Loans and Technical Assistance. ADB approved one loan amounting to $8.0 million to improve the sanitation and drainage systems of the capital, Apia. Four technical assistance projects totaling $1.7 million were also approved.

SAMOA
Project Implementation

Lending	
Cumulative ($ million)	121.9
2003 ($ million)	8.0
Active loans (no.)	4
Contract Awards	
Cumulative ($ million)	102.6
2003 ($ million)	3.2
Ratio (%)	15.2
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	97.2
2003 ($ million)	1.9
Ratio (%)	11.8
ADB-wide average (%)	20.2

Solomon Islands

Strategy and Policy Dialogue. The Regional Assistance Mission to Solomon Islands in the field since July 2003 helped restore law and order and fiscal discipline. The key challenge facing the Government and its development partners is how best to use this opportunity to tackle the underlying causes of conflict; to address fundamental structural constraints in the economy; and to build credible, capable national and provincial public institutions. Major challenges included shifting the overall focus from short-term stabilization toward a medium- and long-term roadmap; building capacity; strengthening donor coordination between the Government and donors and among donors; and ensuring pro-poor, private sector-led economic growth.

SOLOMON ISLANDS
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Finance	4	30.0	37.8
Agriculture and Natural Resources	4	20.2	25.5
Multisector	2	10.5	13.2
Energy	2	8.9	11.2
Transport and Communications	3	8.0	10.1
Social Infrastructure	1	1.7	2.1
TOTAL	**16**	**79.3**	**100.0**

Because of overdue and outstanding arrears and in compliance with financial policies, ADB suspended operations in Solomon Islands in February 2002. However, the Government of Australia settled the arrears in September 2003, and ADB responded by fielding a mission the following month with the World Bank to assess the situation and to propose ways to resume assistance. ADB supported the Government's decision not to borrow further until finances stabilized. As confirmed at the international donor meeting in Honiara in November 2003, ADB reactivated its Post-Conflict Emergency Rehabilitation Project to restore damaged infrastructure. A new CSPU that supports the Government's implementation of its National Economic Recovery, Reform and Development Plan 2003–2006 will be developed during country programming in early 2004.

In December 2003, ADB signed a PPA with the Government.

Loans and Technical Assistance. No loans or technical assistance projects were approved in 2003.

Timor-Leste

Strategy and Policy Dialogue. Since Timor-Leste's independence in May 2002, assistance to the country has shifted from relief and rehabilitation to longer-term development programs. ADB's strategy continued to support the improvement of public infrastructure, largely through investment projects funded by the multidonor Trust Fund for East Timor. ADB technical assistance in 2003 supported these projects with capacity building. It also focused on strengthening the microfinance institution—enhancing its sustainability and enabling it to expand to rural areas and improve the microcredit access of the rural poor, particularly women. The Government's public financial management capacity was strengthened by continuing advisory support on the issue of Timor Sea oil and gas and by assisting in the development of trade statistics.

Several technical assistance grants helped the Government develop a policy framework for poverty analysis including the establishment of baseline data on its extent, nature, and dimensions. They also helped the Government to decide on its poverty reduction strategy. Assistance was provided to develop infrastructure expenditure programs to enhance the Government's ability to develop a financially viable and fiscally responsible budget. This work enhanced the linkages between the national development plan and the combined budget sources and supported government decision making and priority setting within and across sectors.

In October 2003, ADB signed a PPA with the Government.

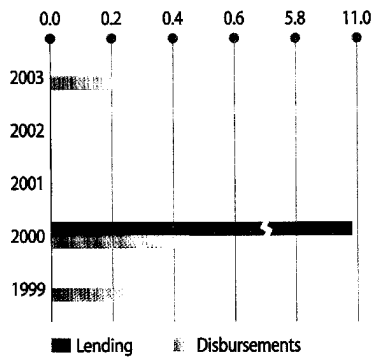
Loans and Technical Assistance. No loans were approved. One advisory technical assistance grant for $550,000 was approved.

Tonga

Strategy and Policy Dialogue. ADB's strategy focused on improving the efficiency of public services and on support for economic and public sector reforms, particularly of public enterprises. To encourage private sector development, the Government initiated a program to retain ownership of only those public enterprises that provide basic services.

Legislation endorsed economic and public sector reforms aimed at improving the efficiency of public services and creating an enabling

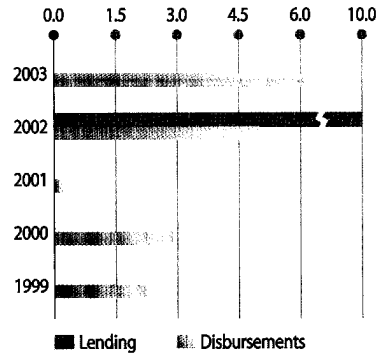
SOLOMON ISLANDS
Lending and Disbursements, 1999–2003 *($ million)*



SOLOMON ISLANDS
Project Implementation

Lending	
Cumulative ($ million)	79.3
2003 ($ million)	-
Active loans (no.)	2
Contract Awards	
Cumulative ($ million)	54.8
2003 ($ million)	-
Ratio (%)	0.0
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	54.3
2003 ($ million)	0.2
Ratio (%)	2.1
ADB-wide average (%)	20.2

TONGA
Lending and Disbursements, 1999–2003 *($ million)*



TONGA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Energy	2	12.2	21.1
Multisector	5	11.4	19.7
Transport and Communications	2	11.3	19.6
Others	1	10.0	17.3
Finance	2	6.5	11.2
Agriculture and Natural Resources	2	6.0	10.4
Industry and Nonfuel Minerals	1	0.4	0.6
TOTAL	**15**	**57.8**	**100.0**

TONGA
Project Implementation

Lending	
Cumulative ($ million)	57.8
2003 ($ million)	-
Active loans (no.)	1
Contract Awards	
Cumulative ($ million)	58.2
2003 ($ million)	6.1
Ratio (%)	100.0
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	52.3
2003 ($ million)	6.1
Ratio (%)	108.2
ADB-wide average (%)	20.2

TUVALU
Project Implementation

Lending	
Cumulative ($ million)	5.9
2003 ($ million)	-
Active loans (no.)	1
Contract Awards	
Cumulative ($ million)	4.2
2003 ($ million)	0.2
Ratio (%)	9.8
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	4.1
2003 ($ million)	0.1
Ratio (%)	6.7
ADB-wide average (%)	20.2

VANUATU
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Finance	3	26.0	50.7
Social Infrastructure	1	10.0	19.5
Transport and Communications	2	9.2	17.9
Multisector	2	5.0	9.8
Agriculture and Natural Resources	1	1.1	2.1
TOTAL	**9**	**51.3**	**100.0**

environment to encourage private sector growth. Dialogue focused on extending reforms to public enterprises and government commercial activities to create an appropriate regulatory regime for public utilities (energy, water, telecommunications, and transport) and on considering a timetable for privatizing certain government-owned businesses. The need for sustained political commitment and direction in ensuring reforms was stressed.

Loans and Technical Assistance. No loans were approved in 2003. Three technical assistance projects totaling $915,000 were approved.

Tuvalu

Strategy and Policy Dialogue. The strategy aimed at promoting good governance and improving economic and financial management in the public sector by building capacity in public financial management and enhancing transparency and accountability within ministries and state-owned enterprises. It also sought to enhance employment opportunities and to promote human and social development by building skills and by improving essential services, particularly for education, health, water supply, and waste management. The strategy was in line with findings of ADB's participatory poverty surveys: a lack of employment and other income-generating opportunities, poor quality of basic social services, and deteriorating quality of education.

Policy dialogue focused on good governance, service delivery, sound economic policy and management, and the preparation of the national sustainable development strategy. It also included dialogue on environmental concerns such as waste management and pollution control and on education reform.

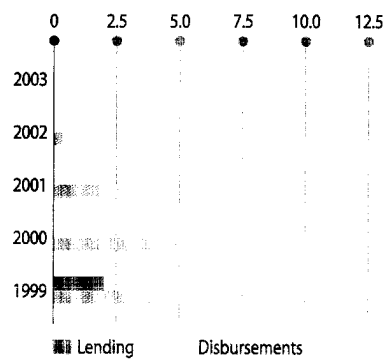
In May 2003, ADB signed a PPA with the Government.

Loans and Technical Assistance. No loans were approved. Three technical assistance projects totaling $560,000 were approved.

Vanuatu

Strategy and Policy Dialogue. Although Vanuatu has good growth prospects due to abundant natural resources and increased tourism potential, its growth was hampered by frequent shifts in policies, the high cost of doing business, and difficulties in enforcing contractual agreements. The country suffers from low adult literacy and primary and secondary school enrollment rates and from poor access to health and social services. ADB's strategy was three-pronged: improving economic management and governance; reducing poverty; and creating an enabling environment for private sector development. In September, ADB assisted the Government in conducting a donor

VANUATU
Lending and Disbursements, 1999–2003 *($ million)*



VANUATU
Project Implementation

Lending	
Cumulative ($ million)	51.3
2003 ($ million)	-
Active loans (no.)	-
Contract Awards	
Cumulative ($ million)	47.9
2003 ($ million)	-
Ratio (%)	0.0
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	49.0
2003 ($ million)	0.0
Ratio (%)	100.0
ADB-wide average (%)	20.2

consultative group meeting where the priority and action agenda was presented. ADB also helped identify actions to improve the country's weak fiscal position and will assist the Government in preparing Vanuatu's medium-term strategic framework to improve fiscal management and capital investment programming during 2004.

In September 2003, ADB signed a PPA with the Government.

Loans and Technical Assistance. No loans were approved. Two technical assistance projects totaling $400,000 were approved.

SOUTH ASIA

Economic growth in South Asian DMCs—Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka—rebounded to 6.9% in 2003. Inflation remained at 5%, and the current account balance showed a surplus of 0.6% of GDP. Increased remittances from abroad and strong export growth allowed the rapid buildup of foreign exchange reserves; India's alone reached $106 billion. This led to monetary expansion in some countries and its attendant pressure to appreciate exchange rates, especially against the US dollar.

A key factor in the improved economic performance was above-average agriculture sector production due to exceptionally good rainfall. This led to a recovery in agriculture incomes that in turn boosted consumption and investment. Another factor was improvements in the global economy that increased exports. This, added to remittances and expansion in the service sector, especially in information technology, boosted domestic demand.

Fiscal consolidation frees up resources and encourages private investment. Several countries in the region made progress in this area by collecting more revenue and controlling expenditures. More needs to be done, however, particularly in India where the fiscal situation could deteriorate because of upcoming elections. Structural constraints will also inhibit sustainable growth. These include weak institutions and regulatory and legal frameworks and inadequate competition in the manufacturing sector due to policy restrictions, labor market inflexibility, corruption, and poor governance. In the medium term, the South Asian countries must address their fiscal problems or rising imbalances could hamper future growth.

Most loan projects in the region are designed to contribute to the MDG of eradicating extreme poverty and hunger.

Afghanistan

Strategy and Policy Dialogue. The objective in Afghanistan is to ensure a smooth transition from humani-

SOUTH ASIA: Major Economic Indicators, 2003

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade ($ million)	International Reserves ($ million)
Afghanistan	...	...	...	...
Bangladesh	5.3	4.4	(2,207)	2,470
Bhutan	6.5	1.8	(76)	374
India	7.3	5.3	(27,192)	105,806
Maldives	8.4	(4.0)	(258)	161
Nepal	2.6	4.8	(926)	1,116
Pakistan	5.1	3.1	(359)	9,525
Sri Lanka	5.5	2.6	(1,706)	2,329

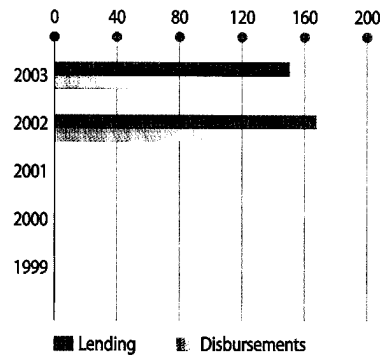
... Data not available.
( ) Negative.

AFGHANISTAN
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Multisector	2	317.2[a]	76.9
Agriculture and Natural Resources	7	71.2	17.3
Transport and Communications	1	14.9	3.6
Energy	1	9.0	2.2
TOTAL	**11**	**412.3**	**100.0**

a Adjusted to reflect revised loan amount approved in 2002.

AFGHANISTAN
Lending and Disbursements, 1999–2003 *($ million)*



AFGHANISTAN
Project Implementation

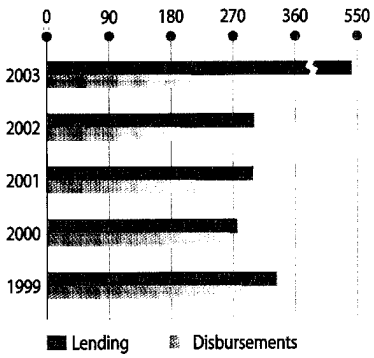
Lending	
Cumulative ($ million)	412.3
2003 ($ million)	150.0
Active loans (no.)	2
Contract Awards	
Cumulative ($ million)	138.1[a]
2003 ($ million)	3.0[a]
Ratio (%)	27.9
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	184.6
2003 ($ million)	56.4
Ratio (%)	28.0
ADB-wide average (%)	20.2

a Excludes contract amount of $55.4 million under a program loan released in 2003, which was posted in the system in 2004.

BANGLADESH
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	66	2,284.0	31.2
Energy	27	1,834.3	25.1
Transport and Communications	21	1,381.8	18.9
Social Infrastructure	26	1,181.5	16.1
Industry and Nonfuel Minerals	8	262.5	3.6
Finance	8	217.6	3.0
Multisector	2	158.8	2.2
TOTAL	**158**	**7,320.4**	**100.0**

BANGLADESH
Lending and Disbursements, 1999–2003 *($ million)*



BANGLADESH
Project Implementation

Lending	
Cumulative ($ million)	7,320.4
2003 ($ million)	532.0
Active loans (no.)	35
Contract Awards	
Cumulative ($ million)	4,976.0
2003 ($ million)	133.3
Ratio (%)	9.6
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	5,078.2
2003 ($ million)	209.5
Ratio (%)	15.8
ADB-wide average (%)	20.2

tarian assistance to reconstruction and development assistance. The accent is on broad-based, pro-poor growth which is also key to securing peace and stability. In the transport and energy sectors, ADB supported the rehabilitation of national roads, power transmission facilities, and the gas subsector to help revive the national economy. ADB operations in the agriculture and natural resource sector rehabilitated production and irrigation systems and worked toward eliminating poppy cultivation. ADB also provided technical assistance for public administration reform, budgetary management, poverty assessment, and statistical capacity building.

Since September 2001, ADB has assumed a key role in the international community's efforts to plan for and assist in Afghanistan's reconstruction, drawing on its experience in providing postconflict assistance in Cambodia, Sri Lanka, Tajikistan, and Timor-Leste. At the Tokyo Conference, ADB pledged $500 million in concessional loans and grants by June 2004. ADB assigned this assistance the highest priority. By December 2003, ADB had approved the delivery of $325 million in Asian Development Fund loans and technical assistance, thus fulfilling two thirds of its pledge. In addition, ADB administered $65.6 million in cofinanced grant projects.

BHUTAN
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Social Infrastructure	5	33.1	29.8
Energy	3	26.9	24.2
Transport and Communications	3	19.3	17.4
Multisector	2	12.4	11.2
Finance	3	10.5	9.4
Agriculture and Natural Resources	2	7.8	7.0
Industry and Nonfuel Minerals	1	1.2	1.0
TOTAL	**19**	**111.2**	**100.0**

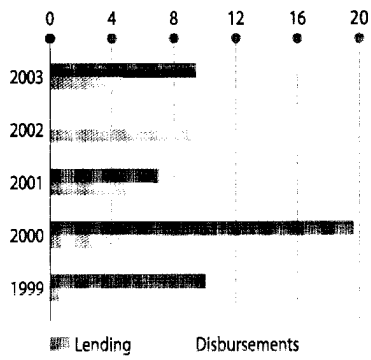
Loans and Technical Assistance. ADB approved one loan for the Emergency Infrastructure Rehabilitation and Reconstruction Project totaling $150 million. Nine technical assistance projects totaling $10.5 million and grant cofinancing totaling $43 million were also approved.

Bangladesh

Strategy and Policy Dialogue. ADB operations continued to reduce poverty and to address key governance concerns. The main focus was on basic infrastructure and human development with greater attention to governance. Policy dialogue with the Government helped spearhead reforms particularly in power, education, and roads. The dialogue also focused on increasing transparency and efficiency in public procurement, improving portfolio performance, and streamlining project documentation and approval procedures.

The key features in participatory livestock development were improving the livelihood of poor rural women by making them more self-reliant and strengthening the capacity of public sector and implementing agencies. In the roads sector, the emphasis was on (i) improving efficiency and strengthening networks to promote economic growth and smoother cross-border flow and (ii) addressing problems of poor governance and corruption. In

BHUTAN
Lending and Disbursements, 1999–2003 *($ million)*



the energy sector, reforms were aimed at further assisting the Government in restructuring the power sector to ensure adequate and reliable supplies at competitive prices through increased private sector participation, improved financial management, and more efficient operations. In primary education, ADB pioneered a development approach by bringing the Government and 11 partners together under one program to increase access and quality, and to address governance-related issues in the sector.

Loans and Technical Assistance. ADB approved five loans totaling $532 million for livestock, power sector development, primary education, and road network improvement and maintenance. Ten technical assistance grants totaling $5.1 million were also approved.

Bhutan

Strategy and Policy Dialogue. The strategic thrust of ADB operations was fully consistent with the Government's Ninth Five-Year Plan (2002–2007), which emphasizes strengthening infrastructure, improving governance, generating employment, and promoting private sector development. As detailed in the CSPU, ADB country operations are aimed at assisting the Government in meeting its priorities by developing road infrastructure and rural electrification and by promoting the private sector. To stimulate private sector investment and facilitate employment generation, a new program for SME development was included in the CSPU.

ADB operations supported rural electrification network expansion. Support was also provided for capacity building of the Bhutan Energy Authority, establishing the Druk Hydropower Corporation, strengthening environmental sector capacity, and preparing road network expansion.

Loans and Technical Assistance. ADB approved one loan for $9.4 million for expanding rural electrification and four technical assistance projects totaling $1.6 million.

India

Strategy and Policy Dialogue. India significantly reduced income poverty and is also likely to achieve its target for primary school enrollment. Access to drinking water was improved in both rural and urban areas; however, the maternal mortality rate remained stagnant, gender parity in secondary education was still well below target, and under-five and infant mortality rates continued to be high.

ADB operations in India were aimed at poverty reduction. Projects focused on reforms, public resource management, better governance, building rural and urban infrastructure, and improving the environment. Public resource management programs were combined with capacity-building components to improve the delivery of pro-poor services at the state and local levels. Assistance was also extended to some poorer states to help contain growing interregional disparities, especially in the remote northeastern areas.

In fiscal consolidation, ADB moved beyond state operations to support improved tax administration at the central level. In infrastructure, the focus was on removing bottlenecks and on promoting private investment in public infrastructure such as road systems, inland water transport, railways, gas-based energy, and power. Physical investments were combined with policy reforms and

INDIA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Transport and Communications	22	4,399.2	33.0
Energy	25	4,350.8	32.7
Social Infrastructure	15	1,620.0	12.2
Finance	13	1,370.0	10.3
Multisector	6	1,200.0	9.0
Others	1	200.0	1.5
Industry and Nonfuel Minerals	4	175.9	1.3
TOTAL	**86**	**13,315.9**	**100.0**

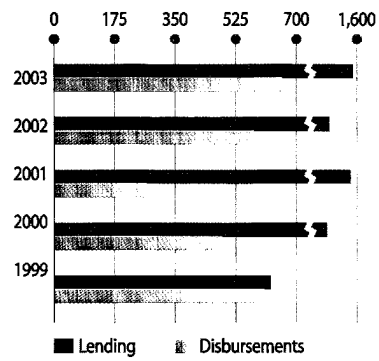
BHUTAN
Project Implementation

Lending	
Cumulative ($ million)	111.2
2003 ($ million)	9.4
Active loans (no.)	5
Contract Awards	
Cumulative ($ million)	88.5
2003 ($ million)	7.3
Ratio (%)	36.4
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	79.4
2003 ($ million)	4.7
Ratio (%)	23.3
ADB-wide average (%)	20.2

INDIA
Project Implementation

Lending	
Cumulative ($ million)	13,315.9
2003 ($ million)	1,532.0
Active loans (no.)	34
Contract Awards	
Cumulative ($ million)	7,602.6
2003 ($ million)	746.5
Ratio (%)	18.5
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	7,044.8
2003 ($ million)	658.2
Ratio (%)	20.0
ADB-wide average (%)	20.2

INDIA
Lending and Disbursements, 1999–2003 *($ million)*



capacity building which are just as important for delivery of services. In the power sector, ADB aimed to assist the Government's reform program especially in focal states. Energy projects concentrated on environmentally friendly sources of power such as renewable energy and hydropower and promoted the use of cleaner fuels to protect urban environments.

An important facet of ADB's assistance for 2003 was entry into the agriculture sector. Expansion of operations in agriculture and rural development helped mainstream poverty reduction. ADB moved toward new approaches to integrated urban development that combine reform and capacity building with investment in urban infrastructure. Governance was the most important strategic priority and leveraging instrument, cutting across all sectors for enhancing the impact of ADB assistance.

Loans and Technical Assistance. Nine loans totaling $1.5 billion were approved. They were for development of rural roads, state roads, and national highways; urban water supply and environment improvement; and power development. Twenty-two technical assistance projects totaling $14.7 million were also approved.

Maldives

Strategy and Policy Dialogue. The strategy continued to support poverty reduction by combining pro-poor economic growth, social development, and good governance initiatives. To foster pro-poor growth, ADB promoted regional development by providing basic infrastructure and capacity building; by creating an enabling environment for private sector development, including reform of the financial sector and the legal system; and by developing an information and communications network in the atolls. To raise the level of social development, assistance was provided for improving postsecondary education and for training and developing employment skills. To support good governance, access to information and public sector connectivity were improved and the capacity of key public institutions to increase public sector management efficiency was enhanced. ADB also assisted the Government in promoting private sector activities and preparing for possible exigencies posed by the eventual graduation from least-developed country status.

Loans and Technical Assistance. One loan totaling $6 million for training in employment skills was approved. Three technical assistance projects totaling about $1.1 million were approved.

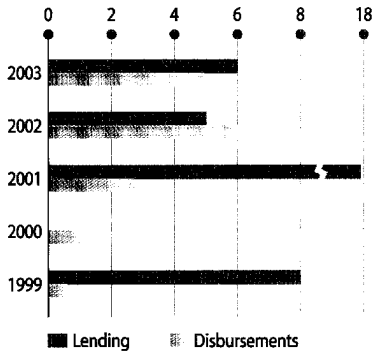
Nepal

Strategy and Policy Dialogue. The strategic thrust of ADB operations was to assist the Government in

MALDIVES
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Energy	4	30.3	36.2
Transport and Communications	4	25.7	30.7
Social Infrastructure	2	12.3	14.7
Multisector	2	10.4	12.4
Others	1	5.0	6.0
TOTAL	**13**	**83.7**	**100.0**

MALDIVES
Lending and Disbursements, 1999–2003 *($ million)*



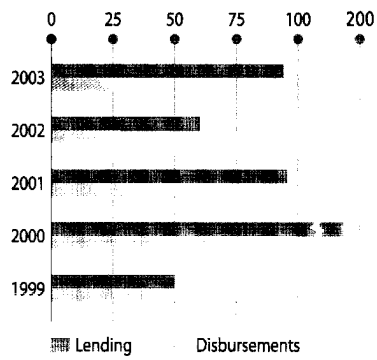
MALDIVES
Project Implementation

Lending	
Cumulative ($ million)	83.7
2003 ($ million)	6.0
Active loans (no.)	7
Contract Awards	
Cumulative ($ million)	52.2
2003 ($ million)	1.8
Ratio (%)	5.7
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	50.1
2003 ($ million)	5.0
Ratio (%)	17.5
ADB-wide average (%)	20.2

NEPAL
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	52	808.5	38.4
Energy	14	432.4	20.5
Social Infrastructure	19	410.4	19.5
Transport and Communications	13	270.7	12.9
Others	5	100.6	4.8
Industry and Nonfuel Minerals	5	75.1	3.6
Finance	1	7.3	0.3
TOTAL	**109**	**2,105.0**	**100.0**

NEPAL
Lending and Disbursements, 1999–2003 *($ million)*



achieving its objective of a sustainable reduction in poverty through increasing rural incomes, equitable improvements in basic social services, and good governance—all key to addressing the root causes of the ongoing conflict. ADB operations focused on supporting the Government in formulating and implementing its Tenth Five-Year Plan (2003–2007) which embodies its poverty reduction strategy. The Plan's goal is to reduce poverty through broad-based economic growth, social sector development programs to promote social inclusion, and good governance. ADB also initiated preparation of the CSP 2005–2009 to support implementation of the strategy in the Tenth Plan and to assist the Government in addressing root causes of the conflict, reflecting lessons learned from the implementation of the 1999 country operational strategy and subsequent CSPUs.

A key feature of ADB's operations was its assistance to the Government with the implementation of its poverty reduction strategy in an environment marked with conflict and fiscal crisis. ADB provided program support for undertaking critical reforms for effective management of public expenditures, for strengthening revenue administration, for privatizing and liquidating nonperforming public enterprises, for improving public sector governance, and for institutional restructuring for efficient management of water supply in the Kathmandu Valley.

ADB's project assistance focused on developing innovative, community-based approaches to project implementation in small towns and rural areas, particularly in the rural water supply and sanitation and agriculture sectors. Policy discussions and wide stakeholder consultations were also undertaken to support reforms and to introduce private sector participation for more efficient operation and management of the water supply and wastewater services in the Kathmandu Valley. Continued emphasis was placed on reforms to improve corporate and financial governance and rural finance delivery and to promote efficiency in key sectors such as irrigation, education, and energy.

Loans and Technical Assistance. Five loans totaling $94 million for public sector management, community-based water supply and sanitation, water service development in the Kathmandu Valley, and community livestock development were approved. Nine technical assistance projects totaling $4.2 million were approved.

NEPAL
Project Implementation

Lending	
Cumulative ($ million)	2,105.0
2003 ($ million)	94.0
Active loans (no.)	27
Contract Awards	
Cumulative ($ million)	1,346.5
2003 ($ million)	38.9
Ratio (%)	8.2
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	1,371.6
2003 ($ million)	33.6
Ratio (%)	7.1
ADB-wide average (%)	20.2

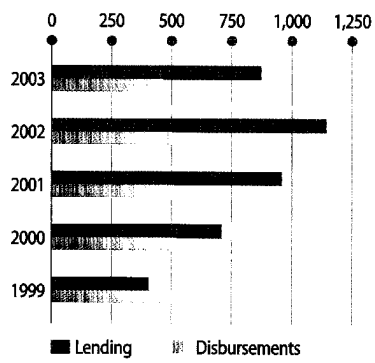
Pakistan

Strategy and Policy Dialogue. ADB supported ongoing governance and macroeconomic reforms by providing assistance for second-generation reforms at the provincial and sector levels. The emphasis was on supporting provincial reforms in fiscal and financial management and developing an SME sector. Continued assistance was also provided in the social sectors which have devolved to the local level under the local government ordinances promulgated in August 2001. ADB lending in these sectors aimed at strengthening devolution and increasing access of the poor to quality social services by providing support to local governments for improved education, health, rural water supply, and urban environments. To support improvements in growth and reductions in poverty,

PAKISTAN
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	62	3,434.6	25.3
Energy	46	3,062.0	22.6
Finance	40	2,113.0	15.6
Social Infrastructure	31	1,420.0	10.5
Transport and Communications	17	1,303.7	9.6
Others	9	854.0	6.3
Industry and Nonfuel Minerals	17	798.4	5.9
Multisector	6	564.0	4.2
TOTAL	**228**	**13,549.7**	**100.0**

PAKISTAN
Lending and Disbursements, 1999–2003 *($ million)*



PAKISTAN
Project Implementation

Lending	
Cumulative ($ million)	13,549.7
2003 ($ million)	870.7
Active loans (no.)	61
Contract Awards	
Cumulative ($ million)	8,874.1
2003 ($ million)	491.1
Ratio (%)	13.9
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	9,328.4
2003 ($ million)	465.8
Ratio (%)	16.5
ADB-wide average (%)	20.2

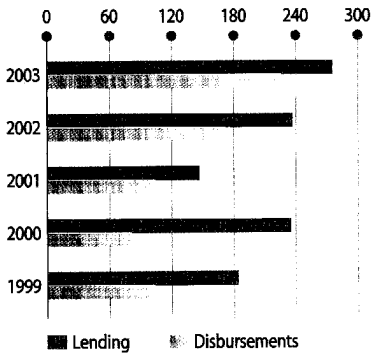
assistance enhanced access of rural populations to economic opportunities and social services by improving the provincial road network, which facilitated trade in the transport corridor linking Afghanistan, Pakistan, and Central Asia.

Loans and Technical Assistance. Eleven loans totaling $870.7 million were approved to (i) implement a public sector reform program in the province of Punjab, (ii) develop the road sector network in Balochistan, (iii) enhance social service provision in Sindh, (iv) reform the regulatory structure for SMEs, and (v) develop basic urban services in Southern Punjab. Twenty technical assistance projects totaling $10 million, including cofinanced grants, were also approved.

SRI LANKA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Agriculture and Natural Resources	47	990.6	30.4
Social Infrastructure	19	622.3	19.1
Finance	18	516.0	15.9
Transport and Communications	15	493.8	15.2
Energy	12	421.8	13.0
Multisector	4	119.7	3.7
Industry and Nonfuel Minerals	5	91.2	2.8
TOTAL	**120**	**3,255.2**	**100.0**

SRI LANKA
Lending and Disbursements, 1999–2003 *($ million)*



SRI LANKA
Project Implementation

Lending	
Cumulative ($ million)	3,255.2
2003 ($ million)	275.3
Active loans (no.)	45
Contract Awards	
Cumulative ($ million)	2,305.6
2003 ($ million)	299.0
Ratio (%)	31.5
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	2,182.2
2003 ($ million)	225.5
Ratio (%)	22.3
ADB-wide average (%)	20.2

Sri Lanka

Strategy and Policy Dialogue. Sri Lanka's CSP 2004–2008 was endorsed in September 2003. The strategy proposes a higher level of lending than in the past to support peace and rehabilitation, economic growth, and the economic reform agenda of the Government. In May 2003, the donors' meeting in Tokyo pledged $4.5 billion in support of the country's economic recovery and the ongoing peace process. The strategy, in line with the PPA signed by the Government and ADB in March 2002, aimed to reduce the wide income disparity within the region due to civil conflict and also to improve governance and support for private sector growth.

A broad range of economic, thematic, and sector work began, specifically assessments on the country's borrowing capacity and ability to absorb ordinary capital resources, and also on gender, governance, and the private sector. These will strengthen the formulation of new projects, improve sector strategies, and promote informed policy debate. Ongoing technical assistance supported streamlining budgeting, setting up a multisector utility, and restructuring public enterprises.

Loans and Technical Assistance. Eight loans totaling $275.3 million were approved. These included support for distance education, water supply and sanitation, conflict area rehabilitation, and rural finance. Eleven technical assistance projects amounting to $5.4 million were also approved.

SOUTHEAST ASIA

GDP growth in the region which includes Indonesia, Malaysia, and Philippines, was robust despite earlier concerns that the SARS outbreak and international security would undermine the economy. The rebound in economic growth in key export markets in the US and Japan and continued strong growth in the PRC had a positive impact on regional performance. At the same time, while Malaysia's growth rate moved to levels before the Asian financial crisis in 1997, Indonesia's and the Philippines' remained at the moderate levels of the previous 2 years.

SOUTHEAST ASIA: Major Economic Indicators, 2003

	GDP Growth Rate (%)	Change in Consumer Prices (%)	Balance of Trade ($ million)	International Reserves ($ million)
Indonesia	4.1	6.6	24,439	36,246
Malaysia	5.2	1.2	25,711	44,862
Philippines	4.5	3.1	(1,253)	16,866

Indonesia

Strategy and Policy Dialogue. The 2002 CSP addressed the medium-term needs of the economy and called for reducing poverty and regional inequality by improving governance, meeting local needs through decentralization, promoting human development, mainstreaming environmental management, promoting sustainable use of natural resources, and raising long-term growth prospects. That focus continued in 2003 and will remain in the 2004–2006 pipeline. Coordination with multilateral agencies was critical to meeting ADB's strategic objectives.

As a key development partner, ADB worked with the Government on several crosscutting issues and various sector priorities. Governance, aid effectiveness, and decentralization received ADB support. Support for governance was wide-ranging, from public accountability and transparency to various aspects of corporate and financial governance. ADB chaired the donor working group on aid effectiveness where the focus was on basic issues such as needs assessments for external loans and also complex issues covering the effectiveness of project design and implementation. Indonesia's decentralization program had implications for the delivery of public services. ADB was actively involved in policy dialogue to ensure adequate capacity in service delivery. Sector-specific policy dialogue focused on meeting the MDGs in health and education and on promoting structural reforms in the corporate and financial sectors. In particular, emphasis was on the need for a conducive policy and investment environment for private sector development.

Loans and Technical Assistance. Six loans totaling $261.6 million were approved for the irrigation sector, for decentralized health services, and for neighborhood upgrading and shelter. Twenty technical assistance projects totaling $12.5 million were approved.

Malaysia

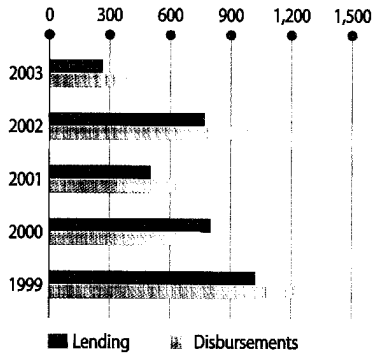
Strategy and policy dialogue. Malaysia has not availed of new loans from any multilateral financial institution to finance public sector investments in recent years. The implementation of two ADB loans provided before 1997 continues. Malaysia remains an active partner in subregional activities.

ADB discussed Malaysia's experiences in financial sector development, capital markets, private sector operations, and SME development.

INDONESIA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Social Infrastructure	69	4,687.7	24.2
Agriculture and Natural Resources	100	4,018.7	20.8
Energy	30	3,431.1	17.7
Finance	12	3,087.0	15.9
Transport and Communications	31	2,544.9	13.1
Industry and Nonfuel Minerals	15	716.7	3.7
Multisector	7	689.0	3.6
Others	5	182.8	0.9
TOTAL	**269**	**19,357.8**	**100.0**

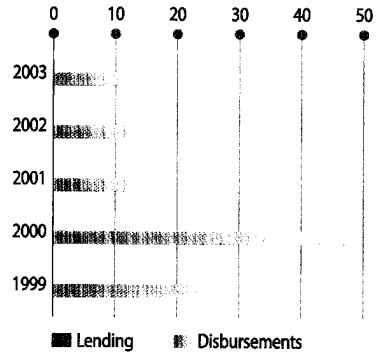
INDONESIA
Lending and Disbursements, 1999–2003 *($ million)*



MALAYSIA
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Social Infrastructure	21	750.6	37.8
Agriculture and Natural Resources	26	566.0	28.5
Energy	11	321.5	16.2
Transport and Communications	15	255.1	12.8
Industry and Nonfuel Minerals	1	53.0	2.7
Others	1	26.3	1.3
Finance	1	15.0	0.8
TOTAL	**76**	**1,987.5**	**100.0**

MALAYSIA
Lending and Disbursements, 1999–2003 *($ million)*



INDONESIA
Project Implementation

Lending	
Cumulative ($ million)	19,357.8
2003 ($ million)	261.6
Active loans (no.)	58
Contract Awards	
Cumulative ($ million)	12,710.4
2003 ($ million)	327.4
Ratio (%)	15.6
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	13,504.4
2003 ($ million)	442.9
Ratio (%)	18.5
ADB-wide average (%)	20.2

Loans and technical assistance. No loans or technical assistance projects were approved in 2003. One loan was closed.

Philippines

Strategy and Policy Dialogue. ADB's operational strategy supported the Government's development priorities in the Medium-Term Philippine Development Plan and aimed to reduce poverty, promote market development, improve social service delivery, protect the environment, and promote good governance. ADB assistance included activities for improving financial markets especially in support of SME and rural microcredit services, urban development, power and health sector reforms, rural roads, protecting the environment, and strengthening the judiciary system.

Policy dialogue focused on supporting ongoing program loans (including strengthening financial markets, improving Metro Manila air quality, and rehabilitating the Pasig River), judiciary reform, anti-money laundering, water source development, and health sector reforms. ADB continued dialogue with the Government on reforms in the power sector, including the privatization of the National Power Corporation. Significant efforts were made to resolve governance issues related to land acquisition and resettlement under ongoing projects. Important nonlending activities included (i) improving the quality of the active loan portfolio; (ii) joint publication with the Government and the World Bank of the Public Expenditure, Procurement and Financial Management Review; and (iii) preparation of the Decentralization and Service Delivery Study Phase I. In addition, ADB joined other development partners in the Development Innovative Market Place program which supports pilot poverty reduction projects prepared by civil society groups. To support preparation of the CSP in 2004, assessments were undertaken on governance, gender, environment, private sector, and poverty.

Loans and Technical Assistance. ADB approved three loans totaling $183.8 million for a nonbank financial governance program, new water source development, and development of poor urban communities. Seven technical assistance grants totaling $4.4 million were approved.

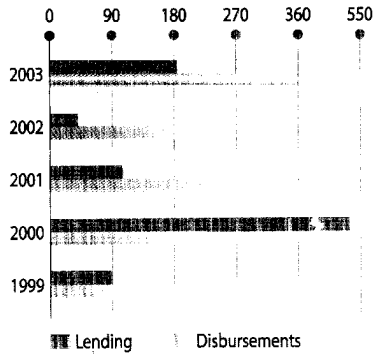
MALAYSIA
Project Implementation

Lending	
Cumulative ($ million)	1,987.5
2003 ($ million)	–
Active loans (no.)	2
Contract Awards	
Cumulative ($ million)	1,414.9
2003 ($ million)	3.1
Ratio (%)	9.7
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	1,391.8
2003 ($ million)	10.9
Ratio (%)	22.7
ADB-wide average (%)	20.2

PHILIPPINES
Cumulative ADB Lending
(as of 31 December 2003)

Sector	No. of Loans	$ Million	%
Energy	28	2,297.6	28.0
Agriculture and Natural Resources	63	1,920.3	23.4
Social Infrastructure	40	1,444.3	17.6
Transport and Communications	26	1,105.9	13.5
Finance	17	823.0	10.0
Others	3	296.0	3.6
Multisector	6	283.7	3.5
Industry and Nonfuel Minerals	6	47.2	0.6
TOTAL	**189**	**8,218.0**	**100.0**

PHILIPPINES
Lending and Disbursements, 1999–2003 *($ million)*

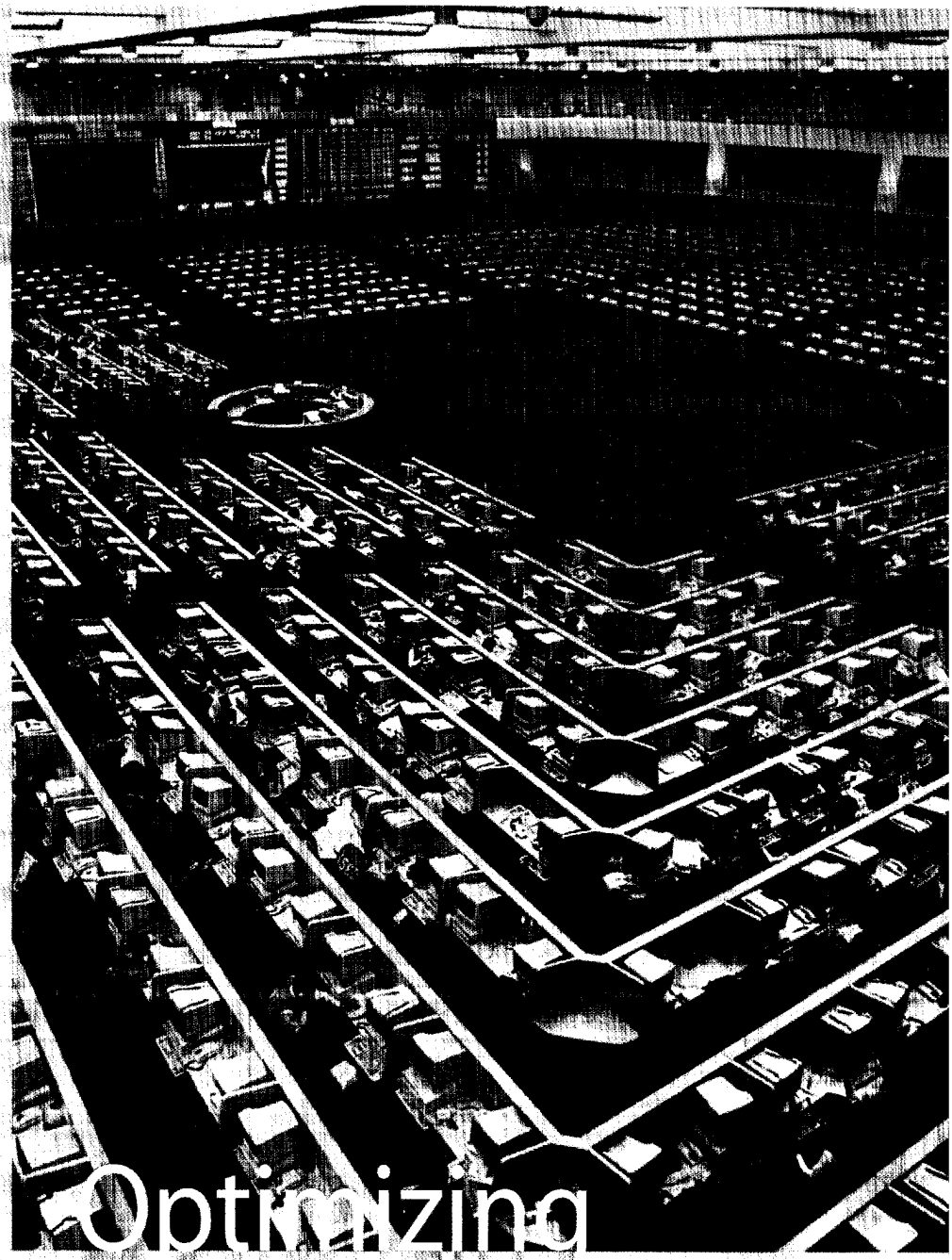


PHILIPPINES
Project Implementation

Lending	
Cumulative ($ million)	8,218.0
2003 ($ million)	183.8
Active loans (no.)	39
Contract Awards	
Cumulative ($ million)	5,451.5
2003 ($ million)	308.5
Ratio (%)	36.3
ADB-wide average (%)	17.3
Disbursements	
Cumulative ($ million)	5,827.6
2003 ($ million)	359.0
Ratio (%)	32.4
ADB-wide average (%)	20.2

ENDNOTES

1 ADB. 2000. *Poverty Reduction Strategy*. Manila.
2 ADB. 2003. *At the Margins—Street Children in Asia and the Pacific*. Poverty and Social Development Papers No. 8. Manila.
3 ADB. 2003. *Working with Street Children—Exploring Ways ADB Can Assist*. Manila.
4 ADB. 2003. *If I Had the Chance... Artwork from the Streets of Asia and the Pacific*. Manila.
5 The Republic of Korea is not discussed in this section as it is no longer an active borrower.



Optimizing Management of ADB's Financial Resources

- Management's Discussion and Analysis
- Financial Statements

Management's Discussion and Analysis

Overview

ADB is an international development finance institution whose vision is to make the Asia and Pacific region free of poverty. ADB was established in 1966 through the "Agreement Establishing the Asian Development Bank" (the Charter), ratified by 31 members to promote the social and economic development of the region and to reduce poverty. ADB currently has 63 members, of which 45 are in the region.

ADB provides various forms of financial assistance to its developing member countries (DMCs). The main instruments are loans, technical assistance, grants, guarantees, and equity investments. These instruments are financed through ordinary capital resources (OCR), Special Funds, and various trust funds. OCR and Special Funds are used to finance operations that are solely under ADB administration. Trust funds are externally funded and are administered by ADB on behalf of donors. The Charter requires that funds from each resource be kept separate from the others.

ADB also provides policy dialogues and advisory services, and mobilizes financial resources through its cofinancing operations tapping official, commercial, and export credit sources to maximize the development impact of its assistance. Cofinancing for ADB projects can be in the form of loans, technical assistance, grant components of loan projects, or credit enhancement products such as guarantees. *(For more details, see http://www.adb.org/.)*

Ordinary Capital Resources

Funding for OCR comes from three distinct sources: funds borrowed from private placements and capital markets, paid-in capital provided by shareholders, and accumulated retained income (reserves). The financial strength of OCR is largely based on the support of shareholders and on financial policies and practices. Shareholder support is reflected in the form of capital backing from members and in the record of borrowing members in meeting their debt-service obligations.

Borrowed funds, together with equity, are used to fund OCR lending and investment activities as well as general operations. Loans are generally made to private borrowers and to DMCs that have attained a higher level of economic development. Public sector loans are priced on a cost pass-through basis in which the cost of funding the loans plus a lending spread is passed through to the borrowers. Private sector loans are priced based on market practice.

With the introduction of London interbank offered rate (LIBOR)-based loans (LBL) and the retirement of other loan products, ADB has evolved into a full-fledged LIBOR-based lender. In view of the more stable nature of the pool-based loan compared with that of the LIBOR-based loan and the general trend in the interest rate environment, loan prepayments of $5.9 billion by some member country borrowers were made.

In addition to direct lending, ADB also provides guarantees to assist DMC governments and private borrowers in securing commercial funds for ADB-assisted projects. ADB has experienced strong and growing demand for guarantees as credit enhancement products.

Financial Policies

ADB adheres to prudent financial policies and practices that have allowed it to build reserves, to diversify its funding resources, and to manage a portfolio of liquid investments and a variety of risks. ADB also requires thorough technical, financial, and economic justifications for all loans.

A review of ADB's income and reserves policy in 1997 indicated that the earning base, i.e., useable paid-in capital, reserves, and surplus, ultimately determined ADB's risk-bearing capacity. The review concluded that its risk-bearing capacity should therefore focus on the adequacy of reserves and surplus. Thus, ADB continued to use the reserve-to-loan ratio (RLR) and interest coverage ratio (ICR) as decisive financial indicators. As the ratio of equity to loans is also part of the earning base, it was used in conjunction with the RLR and the ICR.

The ICR is the ratio of net income to financial expenses plus a factor of one. It indicates the extent to which net income can fall without jeopardizing ADB's ability to service expenses from current income. The RLR, on the other hand, is the ratio of total reserves to the sum of outstanding loans including the present value of guarantees and equity investments less the cumulative provision against possible losses. The RLR measures the adequacy of ADB's earning base relative to its loan assets. The minimum levels for these financial indicators are 1.31 for the ICR and 25% for the RLR. At the end of 2003, ADB's ICR was 1.62 and the RLR was 36.72%.

To ensure it has adequate risk-bearing capacity, ADB reviews its income outlook annually. Based on that review, the Board of Directors allocates a portion of the previous year's actual net income to reserves to ensure that the level is commensurate with the level set in the 1997 Review. In addition, to the extent feasible, it allocates part of the net income to support development activities in its DMCs. In May 2003, the Board of Governors approved allocations of 2002 net income of $473 million to ordinary reserves, $224.8 million to the cumulative revaluation adjustments account, $200 million to the Asian Development Fund (ADF), and $80 million to the Technical Assistance Special Fund (TASF). For 2003, the Board of Directors approved a waiver of 50% of the front-end fee for loans approved in 2003 to benefit public sector borrowers.

In February 2003, the Board of Directors reviewed ADB's lending and borrowing limitations and approved the following policies to take effect immediately: (i) gross outstanding borrowing is limited to no more than the sum of callable capital from nonborrowing members, paid-in capital, and reserves (including surplus), subject to the Charter limit of 100% of callable capital; and (ii) outstanding loan commitments, i.e., the sum of outstanding disbursed and undisbursed loans, equity investments, and guarantees, is limited to no more than the sum of the total callable paid-in capital and reserves (including surplus but excluding special reserves).

In March 2003, the Board of Directors reviewed the position of OCR. The review followed a medium-term capital management approach within the approved financial framework for assessing the adequacy of current and prospective lending and borrowing headroom. The review concluded that ADB's capital position is comfortable enough to support the projected lending operations through 2005 and to maintain a prudent buffer against exchange rate fluctuations and a margin for unutilized lending capacity. As of 31 December 2003, headroom for lending and borrowing was $19.9 billion and $16.4 billion, respectively (compared with $12.2 billion and $14.5 billion, respectively in 2002).

Basis of Financial Reporting

Statutory Reporting. The following table presents financial data for

Selected Financial Data
(31 December, amounts in $ million)

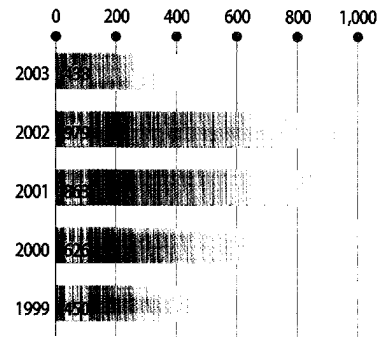
	Statutory Reported Basis[a]				
	2003	**2002**	**2001**	**2000**	**1999**
Income and Expenses					
From Loans	1,383.0	1,710.0	1,813.7	1,861.3	1,674.6
From Investments	308.7	330.4	403.4	399.9	344.0
From Other Sources	48.5	19.7	21.6	39.7	9.2
Total Income	1,740.2	2,060.1	2,238.7	2,300.9	2,027.8
Interest and Other Financial Expenses	987.5	1,155.1	1,434.1	1,576.7	1,447.2
Administrative Expenses[b]	118.5	90.6	59.0	92.6	105.9
Technical Assistance to Members	(.4)	56.0	20.0	–	–
Provision for Losses	18.0	4.5	9.8	5.9	24.8
Total Expenses	1,123.6	1,306.2	1,522.9	1,675.2	1,577.9
Operating Income Before FAS 133	616.6	753.9	715.8	625.7	449.9
FAS 133 Adjustments	(178.4)	224.8	147.5	–	–
Net Income	438.2	978.7	863.3	625.7	449.9
Average Earning Assets	37,540	38,244	36,272	36,693	34,788
Annual Return on Average Earning Assets	1.17%	2.56%	2.28%[c]	1.71%	1.29%
Return on Loans	4.56%	5.93%	6.42%	6.59%	6.41%
Return on Investments	3.74%	4.26%	5.91%	5.09%	3.96%
Cost of Borrowings	4.65%	4.10%	5.54%	5.90%	5.66%
Reserve-to-Loan Ratio	37.59%	32.04%	28.47%	27.26%	25.97%
Interest Coverage Ratio	1.44	1.85	1.58[d]	1.40	1.31

	Pre-FAS 133 Basis		Current Value Basis	
	2003	**2002**	**2003**	**2002**
Net Income	617	754	1,363	1,183
Average Earning Assets	37,524	38,244	40,244	40,680
Annual Return on Average Earning Assets	1.64%	1.97%	3.39%	2.91%
Return on Loans	4.56%	5.93%	4.97%	10.53%
Return on Investments	3.13%	4.26%	5.88%	9.80%
Cost of Borrowings	3.70%	4.32%	2.55%	9.85%
Reserve-to-Loan Ratio	36.72%	30.83%	36.88%	28.99%
Interest Coverage Ratio	1.62	1.65	2.38	2.02

– Nil.
a Financial Accounting Standards (FAS) 133 was implemented in 2001. Accordingly, statutory reported basis is the same as pre-FAS 133 basis prior to 2001.
b Net of administration charge allocated to the Asian Development Fund and 2003 loan origination costs that are deferred.
c Excludes the cumulative effect of the adoption of current value basis accounting.
d Excludes the one-time cumulative effect of recording the adoption of FAS 133 on 1 January 2001.

2003. ADB prepares its financial statements in accordance with accounting principles generally accepted in the United States (US). Effective 1 January 2001, ADB adopted Financial Accounting Standards (FAS) 133, "Accounting for Derivative Instruments and Hedging Activities," and its related amendments (collectively referred to as FAS 133). FAS 133 allows hedge accounting only if qualifying criteria are met. An assessment of those criteria indicated that most of ADB's derivative transactions are highly effective in hedging the underlying transactions and are appropriate for reducing funding costs. However, applying FAS 133 hedge criteria does not entirely reflect ADB's risk management and hedging strategies. Compliance with hedge accounting would impose undue constraints on future borrowing, loan, and hedge programs and would likely detract from minimizing the cost of borrowing, which ADB believes is more important. Accordingly, ADB elected to adopt non-hedge

Net Income, 1999–2003
($ million)



Condensed Current Value Balance Sheets on 31 December 2003 and 2002
($ thousand)

	31 December 2003					31 December 2002
	FAS 133 Reported Basis	Reversal of FAS 133 Effects[a]	Pre-FAS 133 Basis	Current Value Adjustments	Current Value Basis	Current Value Basis
Due from Banks	1,397,948	–	1,397,948	–	1,397,948	503,954
Investments and Accrued Income	11,517,178	–	11,517,178	–	11,517,178	7,973,645
Securities Transferred Under Securities Lending Arrangement	2,317,819	–	2,317,819	–	2,317,819	1,129,208
Loans Outstanding and Accrued Average	25,769,853	(985)	25,768,868	1,936,423	27,705,291	32,011,270
Less: Allowance for Loan Losses and Unamortized Front-End Fee	(107,776)	–	(107,776)	–	(107,776)	(89,167)
Equity Investment	228,956	–	228,956	–	228,956	211,267
Receivable from Members	237,142	–	237,142	(81,180)	155,962	181,492
Receivable from Swaps						
Investments	1,087,833	(12,571)	1,075,262	12,571	1,087,833	511,937
Borrowings	9,776,335	(142)	9,776,193	142	9,776,335	9,231,868
Other Assets	479,350	–	479,350	–	479,350	417,794
TOTAL	**52,704,638**	**(13,698)**	**52,690,940**	**1,867,956**	**54,558,896**	**52,083,268**
Borrowings and Accrued Interest	26,571,211	146,645	26,717,856	1,091,043	27,808,899	28,645,177
Payable for Swaps						
Investments	1,226,701	42,616	1,269,317	(42,616)	1,226,701	548,218
Borrowings	8,988,579	24,174	9,012,753	(24,174)	8,988,579	9,027,166
Payable under Securities Lending Arrangements	2,520,991	–	2,520,991	–	2,520,991	1,132,623
Accounts Payable and Other Liabilities	544,716	–	544,716	–	544,716	485,188
Total Liabilities	**39,852,198**	**213,435**	**40,065,633**	**1,024,253**	**41,089,886**	**39,838,372**
Paid-In Capital	3,570,562	–	3,570,562	–	3,570,562	3,246,837
Net Notional Maintenance of Value Receivable/Payable	(620,805)	–	(620,805)	–	(620,805)	(488,456)
Ordinary Reserve	8,892,584	–	8,892,584	(37,045)	8,855,539	8,004,037
Special Reserve	186,066	–	186,066	–	186,066	183,764
Surplus	116,645	–	116,645	–	116,645	116,645
Cumulative Revaluation Adjustments Account	372,257	(372,257)	–	–	–	–
Net Income after Appropriation	435,886	178,387	614,273	746,730	1,361,003	1,182,069
Accumulated Other Comprehensive Income	(100,755)	(33,263)	(134,018)	134,018	–	–
Total Equity	**12,852,440**	**(227,133)**	**12,625,307**	**843,703**	**13,469,010**	**12,244,896**
TOTAL	**52,704,638**	**(13,698)**	**52,690,940**	**1,867,956**	**54,558,896**	**52,083,268**

– Nil.
( ) Negative.
a Translated using exchange rates at transaction date.

accounting and recognizes changes in the fair value of derivative instruments in the period as part of net income.

Supplemental Reporting. ADB manages its balance sheet by selectively using derivatives to minimize the interest rate and currency risks associated with its financial assets and liabilities. Derivative instruments are used to enhance asset/liability management of individual positions and portfolios and to reduce borrowing costs. As certain financial instruments (including all derivatives and certain investments) are recorded at their fair value while loans, borrowings, and certain investments are recorded at carry value, applying FAS 133 does not fully reflect the overall economic value of ADB's financial instruments. Two supplemental financial statements are therefore included: current value and pre-FAS 133. Applications of consistent

Condensed Current Value Income Statements for the Years Ended 31 December 2003 and 2002
($ thousand)

	31 December 2003			31 December 2002
	Year-to-Date Reported Basis	Adjustments to Current Value	Year-to-Date Current Value Basis	Year-to-Date Current Value Basis
Income				
From Loans	1,382,949	–	1,382,949	1,709,943
From Investments	308,697	–	308,697	330,448
From Other Sources-Net	48,527	–	48,527	19,723
Total Income	**1,740,173**	**–**	**1,740,173**	**2,060,114**
Expenses				
Interest and Other Financial Expenses	987,509	–	987,509	1,155,167
Administrative Expenses	118,440	–	118,440	90,553
Technical Assistance to Member Countries	(358)	–	(358)	55,998
Provision for Losses	18,007	(18,007)	–	–
Total Expenses	**1,123,598**	**(18,007)**	**1,105,591**	**1,301,718**
Operating Income Before FAS 133 Adjustment	616,575	18,007	634,582	758,396
FAS 133 Adjustment	(178,387)	178,387	–	–
Current Value Adjustments	–	746,730	746,730	429,010
Provision for Losses	–	(18,007)	(18,007)	(4,476)
Net Income	**438,188**	**925,117**	**1,363,305**	**1,182,930**
Appropriation of Guarantee Fees to Special Reserve	2,302	–	2,302	861
Net Income After Appropriation	**435,886**	**925,117**	**1,361,003**	**1,182,069**

Summary of Current Value Adjustments
($ thousand)

	Balance Sheet Effects (as of 31 December 2003)					Income Statement Effects (Year-to-Date)	
	Loans	Investments	Borrowings after Swaps	Other Assets	Less Prior Year Effects	31 December 2003	31 December 2002
Total Current Value Adjustments on Balance Sheet	1,936,423	55,187	(1,066,727)	(81,180)	(254,805)	588,898	130,875
Unrealized (Losses) Gains on Investments						(137,523)[a]	89,702
Accumulated Translation Adjustments						304,657 [b]	208,433
Minimum Pension Liability Adjustment						(9,302)[b]	–
Total Current Value Adjustments						**746,730**	**429,010**

a Unrealized (losses) gains on the investment portfolio have been moved from the Equity portion under the reported basis and included as part of current value adjustments for current value reporting.

b The accumulated translation adjustments for the period, net of current translation effects from FAS 133 reversals, together with the minimum pension liability adjustment have been moved from Other Comprehensive Income under the reported basis and included in comprehensive current value net income for the purposes of current value reporting.

approaches on these statements allow for better analysis for management information and decision making.

Discussion and Analysis of Current Value

The table on page 78 presents estimates of the economic value of ADB's financial assets and liabilities taking into consideration changes in interest rates, exchange rates, and credit risks. Current value reflects the exit price for financial instruments with liquid markets and is the estimated fair value. For financial instruments with no market quotations, current value is estimated using the expected cash flow streams discounted with the appropriate interest and exchange rates. The reversal of FAS 133 effects removes their impact as these effects are a part of the current value adjustment. (*For details, see tables above.*)

Current Value Balance Sheets

Loan Portfolio. Most loans are made to or guaranteed by ADB members. ADB does not sell its loans believing that there is no comparable market for them. The current value of loans incorporates Management's best estimate of expected cash flows, including interest. Estimated cash flows from principal repayments, interest, and other loan charges are discounted by the applicable market

yield curves for ADB's funding cost plus ADB's lending spread.

The current value also includes an appropriate credit risk assessment. To recognize the risk inherent in these and other potential overdue payments, the value of the loans for private sector operations is adjusted through loan loss provisioning. ADB has never suffered a loss on public sector loans except opportunity losses resulting from the difference between the present value of payments for interest and charges, according to the loan's contractual terms, and the actual timing of cash flow. In 2003, ADB recognized loan loss provisions against one public sector loan totaling $240,000. The positive adjustment of $1.9 billion (7.5% of loan balance)—from the FAS 133 basis of $25.8 billion to the current value basis of $27.7 billion—indicates that the loans in the portfolio, on average, carry a higher interest rate than ADB would currently originate.

Investments. Under both the reported and current value basis, investment securities and related derivatives are carried and reported at fair values based on market quotations. In the case of instruments for which market quotations are not readily available, the current value is calculated using market-based valuation models incorporating observable market data. The net positive adjustment of $55 million resulted from unrealized gains on asset swaps due to increasing interest rates.

Equity Investments. Equity investments with readily determinable fair values are reported at fair value. Equity investments without market value are reported at cost less allowance for losses, which represents a fair approximation of the current value.

Receivables from Members. These consist of unrestricted and maybe restricted promissory notes. The current value is based on the cash flow of the projected encashment of the promissory notes discounted using appropriate interest rates.

Borrowings after Swaps. The current value of these liabilities includes the fair value of the amounts borrowed and the associated financial derivative instruments. The current value of these liabilities is calculated using market-based valuation models incorporating observable market data.

The $1.2 billion increase in the valuation of these liabilities—equivalent to 4.8% of the value of the borrowing portfolio after swaps, from the FAS 133 reported basis of $25.8 billion to the current value basis of $27.0 billion—is due to the fact that the average cost of the portfolio is higher than the market rate at which ADB can currently obtain new funding.

Current Value Income Statements

The total current value adjustment of $746.7 million ($429 million in 2002) in the table on the preceding page represents the change in the current value of all of ADB's financial instruments during the year. The adjustment reflects changes in both interest rates and in currency exchange rates in 2003.

Current Value Adjustments. All unrealized gains and losses are presented as current value adjustments. Thus, the change in mark-to-market unrealized losses on investments of $137.5 million as well as the $18 million provision for loan losses are presented as part of the adjustment.

For 2003, current value net income was $1.4 billion compared with pre-FAS 133 net income of $616.6 million and statutory reported net income of $438.2 million (*see table on page 79*). The $746.7 million increase from the pre-FAS 133 basis to current value basis (i.e., current value adjustment) comprises a net effect of $588.9 million from the valuation of all outstanding financial instruments and $304.6 million of favorable translation adjustments net of $137.5 million of unrealized investment losses and minimum pension liability adjustments of $9.3 million (*see table on page 79*).

Impact of Changes in Interest Rates. The net increase in the current value adjustments on the balance sheet during 2003 was $588.9 million. It was a result of a $972.3 million decrease in unrealized losses in the borrowing portfolio, a $64.3 million increase in unrealized gains in the net investment swap portfolio, and a $53.9 million decrease in unrealized losses in other assets offset by a decrease in unrealized gains in the loan portfolio of $501.6 million. The current value changes reflect several increases in interest rates for the year, which translated to a decrease in the current value adjustments for some of the portfolios (loans and financial derivative instruments associated with the borrowing portfolio).

Impact of Changes in Exchange Rates. The increase in the current value adjustment from 2002 to 2003 was partly attributed to changes in exchange rates. Translation adjustments, reflected as part of "Accumulated Other Comprehensive Income" under the reported basis, are presented as current value adjustments (*see table on page 78*). A significant portion of ADB's loans, investments, and borrowings was denominated in non-US dollar currencies. The general weakening of the US dollar against other major currencies in 2003 resulted in a significant positive translation adjustment of $304.6 million.

Operating Activities

In pursuing its objectives, ADB provides financial assistance through loans, technical assistance, guarantees, and equity investments to its DMCs to help them meet their development needs.

Loans. Until 30 June 2001, ADB's three windows for loans from OCR were the pool-based multicurrency loan (PMCL), the pool-based single-currency loan (PSCL) in US dollars, and the market-based loan (MBL). With the introduction of

LBL products on 1 July 2001, PMCLs and MBLs were no longer offered and on 1 July 2002, the PSCL in US dollars was retired. The LBL is a timely response to borrower demand for loan products that suit project needs and external debt risk-management strategies. LBL products give borrowers a high degree of flexibility in managing interest rate and exchange rate risks and at the same time provide low intermediation risk to ADB.

OCR Loan Approvals, Disbursements, Repayments, and Prepayments. In 2003, 38 OCR loans totaling $4.7 billion were approved compared with 36 OCR public and private sector loans totaling $4 billion in 2002. Disbursements in 2003 totaled $2.7 billion which represented a decrease of 12.3% from the $3.1 billion disbursed in 2002. Principal repayments for the year were $7.1 billion, $5.9 billion of which were prepayments on loans. In 2003, 45 loans were fully prepaid and 5 loans were partially prepaid. On 31 December, cumulative loans outstanding after allowance for losses and unamortized front-end fees amounted to $25.4 billion.

Status of Loans. One public sector OCR loan to Nauru and 12 private sector loans were in non-accrual status at the end of 2003; the total outstanding balance was $2.3 million ($3.2 million in 2002) and $77.1 million ($83.9 million in 2002), respectively. The two public sector loans to Myanmar came out of nonaccrual status after the settlement of all overdue accounts in December 2003. The decrease in private sector loans in nonaccrual status was due to loan restructuring. Three loans came out of nonaccrual status during 2003. The total of $79.4 million represented 0.3% of the total of outstanding OCR loans.

Lending Rates. The lending rates for PMCLs and PSCLs are based on the previous semester's average cost of borrowings. Interest rates for MBLs are either fixed or floating. The lending rates for MBLs are determined on the basis of 6-month LIBOR with reset dates of either 15 March and 15 September or 15 June and 15 December. ADB's pool-based variable lending rates for multicurrency loans and for US dollar loans are shown below. For the second half of 2003, the lending rate for multicurrency loans decreased to 2.46% per annum, and the rate for US dollar loans remained at 6.31% per annum.

In addition to lending rates, lending spread is charged to all borrowers. Starting from 1 January 2000, this has been between 40 and 60 basis points. For private enterprises, the lending spread is determined on a case-by-case basis to cover ADB's risk exposure to particular borrowers and projects.

Rebates and surcharges are standard features of public sector LBLs. They can have two components: adjustment of the basic lending spread and adjustment of the cost base. To maintain the principle of cost pass-through pricing, ADB returns the actual sub-LIBOR funding cost margin to its LBL public sector borrowers through rebates. A surcharge could arise if ADB's funding cost exceeds the 6-month LIBOR, but that is a remote possibility unless ADB experiences serious credit deterioration. Rebate/surcharge rates are set on 1 January and 1 July every year and are based on the actual average funding cost margin for the preceding 6-month period. Based on rebate rates, ADB returned an actual sub-LIBOR funding cost margin of $5.6 million to its LBL public sector borrowers.

Technical Assistance. From 1967 to 1991, technical assistance expenses were charged to OCR and to other technical assistance funding resources—the TASF, the Japan Special Fund (JSF), and trust/grant funds. From 1992 to 2000, no technical assistance expenses were charged to OCR. In 2001, the Board of Directors approved the financing of high-priority technical assistance programs out of OCR current income within a rolling 4-year financing framework. The amount of financing required varies between years and is subject to the approval of the Board. In 2003, the Board reverted to the practice of allocating OCR net income to the TASF and of financing technical assistance activities through it and various other funding resources.

Guarantees. ADB provides guarantees as credit enhancements for eligible projects to cover risks that the private sector cannot easily absorb or manage on its own. Reducing these risks can make a significant difference in mobilizing debt funding for projects. ADB has used its guarantee instruments successfully for infrastructure projects, financial institutions, capital markets, and trade finance. The instruments are recognized as off-balance-sheet in the financial statements. For guarantees issued and modified after 31 December 2002 in accordance with Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," ADB recognized at the inception of a guarantee the noncontingent aspect of its obligations. ADB's total exposure on signed and effective loan guarantees is disclosed in Note E of the OCR Financial Statements.

Lending Rates[a]
(% per annum)

	2003	2002	
1 January	2.74	5.08	Multicurrency
	6.31	6.69	US Dollar
1 July	2.46	3.91	Multicurrency
	6.31	6.34	US Dollar

a Lending rates are set on 1 January and 1 July every year and are valid for 6-month periods.

Rebate Rates
(% per annum)

	US Dollar	Japanese Yen
1 January 2003	0.39	0.39
1 July 2003	0.36	0.39

ADB offers two guarantee products—political risk and partial credit—designed to mitigate risk exposure of commercial lenders and capital market investors. These guarantees are not issued on a stand-alone basis but are provided for projects in which ADB has direct participation. ADB can cooperate with other multilateral, official, and private sector lenders and insurers to provide guarantee products.

Political Risk Guarantees. A PRG is designed to facilitate cofinancing by providing lenders/capital market investors of ADB-assisted projects with cover against specifically defined political risks. Coverage is available against any combination of the risks of expropriation, currency inconvertibility or nontransferability, political violence, and breach of contract and is available for loans and other forms of debt instruments. Equity instruments are ineligible for PRG coverage. Tenors are based on the merits of the underlying project. All or part of outstanding debt service obligations to a lender may be covered. The cover may be for principal and/or interest payment obligations. For private sector projects, ADB can issue a PRG without a counterguarantee from the host government; however, PRG exposure to such a project is subject to a maximum of $150 million or 50% of the project cost, whichever is lower. Fees are market-based and comprise guarantee fees, front-end fees, and standby fees. A PRG is callable when a guaranteed event has occurred and such an event has resulted in debt service default to the lender. In 2003, ADB approved a $70 million PRG supporting commercial lending for a private sector power project in Thailand. As of 31 December 2003, the project was not yet effective.

Partial Credit Guarantees. A PCG provides comprehensive cover (of commercial and political risks) for a specific portion of the debt service provided by cofinanciers. PCG cover is particularly useful for projects in DMCs with restricted access to financial markets but which ADB considers creditworthy and financially sound. Since the 1997 Asian financial crisis, borrowers, project sponsors, cofinanciers, and host governments have increasingly sought to hedge currency mismatch risks by borrowing in the same currency as the revenues generated by the project. A PCG can cover local currency debt including domestic bond issues or long-term loans from local financial institutions. For private sector transactions not supported by a counterguarantee from the host government, the exposure limit stands at $75 million or 25% of the project cost, whichever is less. Guarantee fees for private sector transactions are market-based. Fees for transactions backed by the host government guarantee comprise a standard guarantee fee of 40 basis points (0.4%) per annum on the present value of the outstanding guarantee obligation plus a front-end fee to cover processing costs. Fees can be charged to the borrower or to the lender. In 2003, ADB approved a private sector PCG for $65 million to support small and medium enterprise (SME) development in Pakistan, and a regional trade finance facilitation program to provide up to $105 million of guarantee cover. Neither project was effective as of 31 December 2003.

Cofinancing. To optimize the development impact of its assistance programs to all DMCs, ADB has maintained close coordination with other development partners, incorporating cofinancing and coordination opportunities with them. ADB has increasingly and systematically intensified coordination with official loan and grant cofinanciers to identify cofinancing opportunities that directly complement ADB projects and to mobilize grants for addressing the important thematic priorities for all DMCs. Official cofinancing arrangements with bilateral partners and multilateral financial institutions totaled $775.3 million for 18 projects comprising $433.2 million in grant funds and $342.1 million in loans, compared with $738.4 million for 29 projects in 2002. Commercial cofinancing totaled $1.6 billion for 12 projects of which guarantee operations amounted to $240 million.

Private Sector Equity Investments and Loans. The Charter allows the use of OCR for equity investments in private enterprises of up to 10% of its unimpaired paid-in capital together with reserves and surplus, exclusive of special reserves. As of 31 December 2003, there were 50 companies in which ADB held equity only, 26 to which it had loans only, and 12 in which it had both equity and loans. The total equity portfolio for the OCR for both outstanding and undisbursed approved facilities net of allowance for probable losses amounted to $413.9 million at year's end. This represented about 32% of the ceiling defined by the Charter.

As of 31 December 2003, the overall private sector portfolio (equity investments, loans, and guarantees) was about $1.4 billion. As an interim arrangement, pending the implementation of a more objective capital allocation methodology, approvals of private sector operations in excess of the operational limit of $1.5 billion established by the Board have been allowed since September 2001.

Equity and Capital

Total shareholders' equity on a reported basis grew from $12.4 billion as of 31 December 2002 to $12.9 billion as of 31 December 2003. This was primarily due to (i) net income of $435.9 million; (ii) favorable translation adjustments of $339.2 million; (iii) the net effect of change in special drawing rights value on capital and reserves of $262.8 million; (iv) capital subscriptions of $10.3 million net of transfers to the ADF and the TASF of $200 million and $80 million,

respectively; (v) unrealized investment losses of $137.5 million; and (vi) increase in maintenance of value receivable of $132.3 million.

On 31 December 2003, authorized and subscribed capital was $51,997 million. ADB's authorized capital was increased by 8,177 shares to 3,499,171 shares to accommodate Luxembourg and Palau becoming members. Of the subscribed capital, $3,657 million was paid-in and $48,340 million was callable. Capital backing in the form of callable capital can be called only if required to meet ADB's obligations incurred on borrowings or guarantees under OCR.

Borrowings
($ million)

	2003	2002	2001	2000
Long Term				
Total Principal Amount	4,141.0	5,944.9	1,207.1	1,692.6
Average Maturity to First Call (years)	7.6	7.2	6.2	5.6
Average Final Maturity (years)	13.7	9.9	8.7	7.3
Number of Transactions				
Public Offerings	2	3	2	3
Private Placements	62	77	15	1
Number of Currencies (before swaps)				
Public Offerings	2	1	2	1
Private Placements	4	5	3	1
Short Term[a]				
Total Principal Amount[b]	28.0	2,830.0	1,249.7	250.0
Number of Transactions	1	36	9	2
Number of Currencies	1	2	2	1

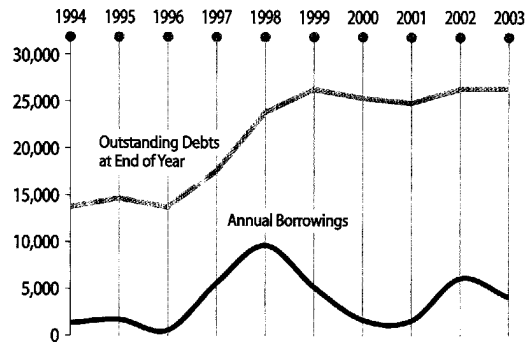
a All euro-commercial paper.
b At year-end, the outstanding principal amount was nil in 2003, $200 million in 2002, $400 million in 2001, and nil in 2000.

Borrowings

As in previous years, the 2003 borrowing program focused on ensuring the availability of long-term funds at the lowest cost possible for lending operations. To achieve that objective, ADB pursued a strategy of (i) issuing liquid benchmark bonds to maintain ADB's strong presence in key currency bond markets, (ii) raising funds through cost-efficient opportunistic and private placement transactions to minimize borrowing costs, and (iii) emphasizing borrowings in the longer maturity range to smooth ADB's debt redemption profile. In 2003, ADB also pursued its objective of contributing to the development of regional bond markets and providing local currency financing for ADB's private sector operations by undertaking preparations for possible local currency bond issuance.

In 2003, ADB raised about $4.1 billion in long-term funds through one benchmark bond issue and 63 opportunistic transactions in US dollars, Japanese yen, Canadian dollars, Australian dollars, and New Taiwan dollars. After swaps, $3.9 billion or 95% of 2003 borrowings were in US dollars and the remaining 5% was in Japanese yen. The average maturity was 7.6 years compared with 7.2 years in 2002. With favorable market conditions in January 2003, ADB launched a 3-year $1 billion benchmark global bond issue. This was in line with the strategy of maintaining a strong presence in the US dollar bond market and further smoothing the debt redemption profile. As the first top-quality benchmark issue of 2003, the transaction achieved broad market distribution and became a liquid benchmark in the US global bond market.

Borrowings, 1994–2003
($ million)



In keeping with the overriding objective of minimizing costs, ADB further enhanced its private placement strategy in 2003 raising around $3 billion, or more than 70% of the year's total borrowings. Of that total, $1.9 billion were raised through eight bond issues targeted to retail investors ranging from $130 million to $520 million. Their longer maturities smoothed ADB's redemption profile. In addition to retail bonds, ADB also raised $700 million through 49 callable structured notes. These notes typically carry principal and a coupon in Japanese yen that will vary with changes in foreign exchange rates between the two currencies. The remaining $400 million was raised through two US dollar callable zero coupon notes and three non-callable foreign exchange-linked notes. In line with established policy, all transactions were swapped on a fully hedged basis into floating rate US dollar liabilities.

Liquidity Portfolio Management

The liquidity portfolio helps ensure the uninterrupted availability of funds to meet loan disbursements, debt servicing, and other cash requirements. It also contributes to ADB's earning base.

The Investment Authority, which is approved by the Board of Directors, governs liquid asset investments. Its primary objective is to maintain security and liquidity of

funds invested. Subject to these two parameters, ADB seeks to maximize the total return on its investments in this portfolio. In compliance with its Charter, ADB does not convert currencies for investment; investments are made in the same currencies in which they are received. At present, liquid investments are held in 18 currencies.

Liquid assets are held in government and government-related debt instruments, time deposits and other unconditional obligations of banks and financial institutions, and, to a limited extent, in corporate bonds, mortgage-backed securities, and asset-backed securities of high credit quality. They are held in four subportfolios—core, operational cash, cash cushion, and discretionary liquidity—all of which have different risk profiles and performance benchmarks. The year-end balance of the portfolios in 2003 and 2002, excluding securities transferred under the securities lending arrangement and pending sales and purchases, is presented in the table below.

The core portfolio is invested to ensure that the primary objective of a liquidity buffer is met. Cash inflow and outflow are minimized to maximize the total return relative to a defined level of risk. The portfolio is funded largely by equity, and performance is measured against external benchmarks with an average duration of about 2 years. The remaining part of the core portfolio is funded by debt and is invested in high-quality instruments to maximize the spread earned between borrowing cost and investment income.

The operational cash portfolio is designed to meet net cash requirements over a 1-month horizon. It is funded by equity and invested in short-term, highly liquid money market instruments. The portfolio performance is measured against short-term external benchmarks.

The cash cushion portfolio holds the proceeds of ADB's borrowing transactions pending disbursement. It is invested in short-term instruments, and the performance is measured against short-term external benchmarks.

The discretionary liquidity portfolio is funded by issuing floating rate debt and is invested in high-quality instruments to maximize the spread earned between borrowing cost and investment income. For 2003, the size of the discretionary liquidity portfolio was set at $1.75 billion.

Risk Management

In undertaking its development banking operations, ADB assumes a variety of financial risks: credit, market (interest rate and foreign exchange), and operational. ADB has established a risk management infrastructure designed to ensure that the risks associated with its activities are fully identified, measured, monitored, and managed.

In 2003, ADB further enhanced risk management functions by enhancing the risk metrics and assumptions used in valuation and risk analysis of the treasury activities and the performance measurement and attribution methodologies used for its investment portfolio. Stress testing and scenario analysis were developed as supplementary risk management tools while the architecture for valuing highly structured borrowings and related swap transactions was improved. ADB prepared for establishing the Derivatives Collateral Management Program for 2004 as an important part of credit risk management.

Credit Risks. Credit risk can be defined as potential loss arising from default of a borrower (country), counterparty, and issuer. ADB's credit risk management for lending operations involves continuous monitoring of the creditworthiness of borrowing members and managing risks through a rigorous capital adequacy framework. In country credit risk management, ADB uses an internal quantitative risk-based capital model as the basis to monitor estimates of expected and unexpected loss linked to the equity capital adequacy, loan loss allowance, minimum net income requirement, and pricing of OCR loans. The methodology involves examining ADB's lending portfolio, incorporating default probability, exposure, and loan loss severity of the borrowers and is used as the foundation for managing lending risk within ADB.

Commercial credit risk is the risk of loss due to a counterparty not honoring its contractual obligations. Commercial credit risks involve issuer risk and counterparty risk. Issuer risk arises from ADB's investment transactions. It is concentrated in investments in debt instruments issued by sovereign governments, agencies, banks, and corporate entities. ADB restricts

Return on Liquidity Portfolio
(%)

	Annualized Financial Return	
	2003	2002
Core Portfolio	2.89	6.89
Operational Cash Portfolio	1.21	1.72
Cash Cushion Portfolio	0.68	1.04
Discretionary Liquidity Portfolio	0.44[a]	–

a Spread over funding cost.

Year-End Balance of Liquidity Portfolio
($ million)

	2003	2002
Core Portfolio	6,174.1	6,546.0
Operational Cash Portfolio	2,234.8	144.0
Cash Cushion Portfolio	1,393.9	1,081.0
Discretionary Liquidity Portfolio	1,755.6	–
TOTAL	**11,558.4**	**7,771.0**

investments to A or higher rated instruments.

To assist in ensuring investment and funding activities are undertaken in an effective and cost-efficient manner, ADB uses various cash and derivative instruments in its financial operations where these transactions involve counterparty credit risks. To manage and mitigate these risks, ADB restricts these activities to authorized dealers and counterparties meeting conservative credit risk guidelines. ADB monitors and controls counterparty credit risks arising from derivative transactions through credit approval, collateral agreements, and risk limits. ADB requires all swap counterparties to be rated AA-/Aa3 or higher. Credit limits are calculated and monitored on the basis of current and potential exposure which incorporates risks involved with counterparty default.

Market Risks. Market risks can result from unfavorable market movements, primarily in interest rate and foreign exchanger rates. The market risks associated with the loan portfolio are managed by passing all associated costs to borrowers and employing derivatives to manage and align characteristics of loans and borrowings. ADB assumes no significant market risks relating to its loan portfolio, except for minor cost of carry associated with borrowed funds held temporarily in liquid assets pending disbursement.

Market risk exposure is generally restricted to ADB's liquid asset investments. The principal source of interest risk arises from the income volatility associated with investments due to interest rate movements. ADB monitors and manages interest rate risks by employing various quantitative methods. All positions are mark-to-market, and risk-sensitive measures are calculated and compared to internally established risk limits daily. In addition, potential exposures are calculated and monitored against aggregate risk limits established under the new investment strategy.

ADB has a policy to match loans and investments in the same currencies in which the funds are received. However, the borrowed funds or funds to be invested may be converted into other currencies provided that forward exchange agreements are entered into simultaneously to ensure recovery of currencies converted. ADB does not otherwise convert one currency into another, except for limited amounts required to meet certain obligations in the ordinary course of business or as specifically authorized by the Board of Directors.

Operational Risks. Operational risk represents the potential for loss resulting from inadequate or failed internal processes or systems, human factors, or external events including business disruptions and system failure, transaction processing failures, and failure in execution of legal, fiduciary, and agency responsibilities. ADB is exposed to many types of operational risks and attempts to mitigate them by maintaining a system of internal control procedures and processes that are designed to maintain risks at appropriate levels.

Risk Management in Private Sector Operations. The risk management unit of private sector operations has two main functions: special asset management to give attention to the more vulnerable private sector projects which pursues recovery, restructuring, rescheduling, and litigation in managing non-performing projects; and credit review to evaluate and give an independent credit assessment, separate from the operating division's judgment on each project.

Summary of Financial Performance

Operating Income. Operating income for 2003 before FAS 133 adjustment was $616.6 million, $137.3 million (18%) less than the $753.9 million in 2002. The decrease was predominantly due to the following: (i) a decrease in net loan income after interest and financial expenses of $159.3 million attributed to the combined effect of decreases in average outstanding loans and borrowings—decreases attributed to significant loan prepayments ($5.9 billion) and to unfavorable fair value changes for swaps ($0.2 billion); (ii) a decrease in investment income of $21.8 million primarily due to changes in interest rate environment; and (iii) increases of $27.9 million and $13.5 million in administrative expenses and provision for losses, respectively. The increase in administrative expenses was principally due to retirement benefits and office occupancy-related expenses while provision for private and public sector loans and equity investments accounted for the increase in loss provision.

The $222.5 million decrease in net income resulting from these three factors was offset by gains on equity investment disposals of $25.4 million and other income of $3.3 million and by a decrease in technical assistance of $56.5 million.

FAS 133 Adjustments. The $178.4 million FAS 133 adjustment for the year represented a net decline in the values of derivatives of $176.1 million (unfavorable fair value changes of $386.3 million for borrowing swaps and favorable fair value changes of $60.8 million for investment swaps and embedded derivatives of $149.4 million) and amortization of FAS 133 transition adjustments of $2.3 million during the year. The $176.1 million loss in the derivatives portfolio is primarily attributed to increased interest rate environment during 2003 and general weakening of the US dollar.

Staff Retirement Plan and Postretirement Medical Benefits. Retirement benefits are provided by the Pension Plan to which staff are expected to contribute 9 1/3% of their salaries and to which they may make additional, voluntary contributions. The Pension Plan is administered by ADB as a separate fund and is required to be kept separate from ADB resources. In addition, postretirement medical

benefits are provided to retirees who elect to enroll in the Postretirement Plan. ADB covers 75% of the medical insurance premium.

Recognition of ADB's obligations for the two plans is based on benefit projections under certain actuarial assumptions net of the fair value of the projected plan assets under certain actuarial assumptions. As of 31 December, the Pension Plan and the Postretirement Plan showed an unfunded status of $116.9 million and $149.1 million, respectively. To the extent allowed, certain costs, gains/losses, and obligations are deferred and recognized in relevant accounting periods as permitted by accounting standards. Consequently, the unfunded amounts are not recognized as liabilities, but periodic costs based on actuarial valuation are recognized in the OCR accounts. Recognition of future costs will depend on future events. In that respect, the fund's status and the periodic costs are reviewed annually with the assistance of actuaries. These reviews may lead to a revision in the funding rate to the Pension Plan. In 2003, ADB's contribution rate increased from 11% to 13%; commencing January 2004 the rate will be 15%.

Critical Accounting Policies and Estimates

The significant accounting policies are contained in the Note B of OCR's financial statements. In presenting the financial statements, Management estimates the fair value of financial instruments. Estimates by their nature are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the financial statements.

Fair Valuation of Financial Instruments. Under statutory reporting, ADB carries its investments and derivatives, as defined by FAS 133, on a fair value basis. These derivatives include certain embedded derivatives in borrowings; for accounting purposes they are separately valued and accounted for in the balance sheet. Fair values for exchange traded securities and derivatives are based on quoted market prices. Fair valuations where market prices are not readily available are determined using market-based pricing models incorporating readily available market data and require use of Management judgment and estimates.

All pricing models used for fair valuing ADB's derivatives are based on discounting the expected cash flows using observable market data. ADB reviews the pricing models to assess the appropriateness of the assumptions to reasonably reflect the valuation of transactions. In addition, valuations derived from the models are subject to ongoing internal and external verification and review. The models use market-sourced inputs, such as interest rate yield curves, exchange rates, and option volatilities. Selection of these inputs may involve some judgment and may impact net income. Nevertheless, ADB believes that the estimates of the fair value are reasonable given existing controls and processes.

Special Funds

ADB is authorized by its Charter to establish and administer Special Funds. These are the Asian Development Fund; the Technical Assistance Special Fund; the Japan Special Fund, including the Asian Currency Crisis Support Facility; and the ADB Institute Special Fund. Financial statements for each fund are prepared in accordance with generally accepted accounting principles except for the ADF which are special purpose financial statements prepared in accordance with ADF regulations.

Asian Development Fund

The ADF is ADB's concessional lending window for DMCs with low per capita gross national products and limited debt repayment capacities. It is the only multilateral source of concessional assistance dedicated exclusively to reducing poverty and to improving the quality of life in Asia and the Pacific. Twenty-nine donor members (regional and nonregional) have contributed to the Fund (*see http://www.adb.org/ADF/*).

ADF VIII. The current replenishment of the Fund, authorized in December 2000 by Resolution No. 276 of the Board of Governors, is intended to finance concessional lending operations for 2001-2004. Donors agreed on a total replenishment from their contributions of $2.79 billion based on the exchange rates specified in the Resolution. By the end of 2003, ADB had received Instruments of Contribution from 24 donors for a total of $2.40 billion (including a contribution from Luxembourg, which became a member of ADB in September 2003 and an additional contribution from Spain). Twenty-two donors deposited unqualified Instruments of Contribution. Canada and Taipei,China deposited Instruments containing a qualification as permitted by the Resolution that all installments except the first were subject to budgetary appropriations. By the end of 2003, all donors that had submitted their Instruments had paid their first three installments, except Austria. Two donors, namely Italy and the United States, had not submitted their Instruments. *(For details of amounts released for operational commitment in 2003, see the column labeled "Addition" in Table 28 in the Statistical Annex.)*

To augment ADF VIII commitment authority, in April 2003 the Board of Governors approved the transfer of $200 million of 2002 OCR net income to the ADF. In addition, Management assessed the opportunities for freeing committed resources by canceling loans that were not moving or by identifying savings. In October 2003, the Board approved the use of loan savings

Asian Development Fund Commitment Authority
($ million)

	2003	2002
ADF VIII Contributions	1,911.9	1,072.9
ADF VII Contributions	341.7	310.0
ADF VI Contributions	0.0	0.0
OCR Net Income Transfer	200.0	-
Loan Savings and Cancellation	243.3	-
Expanded Advance Commitment Authority	2,400.0	1,600.0
Total ADF Resources[a]	5,096.8	2,983.0
Less:		
Loans Committed	4,184.4 [b]	2,229.5 [c]
Carryover of Conditional Loans Committed[d]	692.1	630.9
Provision for Disbursement Risk	175.3	89.9
TOTAL[e]	**45.0**	**32.7**

0.0 Less than 0.1 million.
- Data not applicable.

a Excludes pre-ADF VIII amounts for determining the ADF commitment authority under the new financial planning framework for managing ADF resources, as approved by the Board of Directors on 15 April 1997.
b Excludes loans that were conditionally approved in November–December 2003.
c Excludes loans that were conditionally approved in October–December 2002.
d Loans that were conditionally approved in the previous year.
e Total may not add due to rounding.

and cancellations to increase ADF VIII commitment authority. By the end of 2003, $243.3 million from canceled loans had been included for new loan commitments.

ADB donor members, Management, and senior staff met in Washington, DC on 14–15 April 2003 to undertake a midterm review of ADF VIII. The objective of the meeting was to take stock of progress in implementing the recommendations set out by donors in the ADF VIII Donors' Report.

ADF IX. Negotiations with a commitment to broad consultation on a further ADF replenishment are now under way. The first meeting was held in Copenhagen on 9–10 October 2003. The discussions revolved around development effectiveness in the context of the Global Development Agenda. A second meeting was held in Tokyo on 9–11 December 2003. In the Tokyo meeting, donors reaffirmed the central importance of the country strategies and programs linked to the Millennium Development Goals and national poverty reduction strategies.

ADF VII. As of 31 December 2003, the US arrears under ADF VII were $30.2 million, and the amount withheld by other donors totaled $24.9 million.

ADF Loan Approvals, Disbursements, and Repayments. In 2003, 47 ADF loans totaling $1.4 billion were approved compared with 53 loans totaling $1.7 billion in 2002. Disbursements during 2003 totaled $1,128.1 million, a decrease of 0.7% from $1,135.5 million in 2002. At the end of the year, cumulative disbursements from ADF resources were $19.8 billion. Loan repayments during the year amounted to $312.3 million, and cumulative repayments were $2.3 billion. At year's end, ADF loans outstanding amounted to $20 billion (*see related discussion on Financing Operations on page 7 and related tables in the Statistical Annex*).

Status of Loans. At the end of the year, 28 public sector loans to Myanmar were in nonaccrual status. The total of outstanding ADF loans to Myanmar amounted to $496 million comprising about 2.5% of total ADF loans outstanding.

Investment Portfolio Position. The ADF investment portfolio amounted to $4.3 billion on 31 December 2003, compared with $3.2 billion in 2002. About 35% of the portfolio was invested in bank deposits and 65% was in floating and fixed income securities. The financial rate of return on ADF investments in 2003 was 3.5% compared with 4.6% in 2002. The portfolio was denominated in 10 currencies. Euros, pounds sterling, Australian dollars, and Canadian dollars accounted for 86%.

Technical Assistance Special Fund

Review of Activities. In 2003, the Board of Governors approved an allocation of $80 million from 2002 OCR net income to the TASF. In addition, Pakistan made a wholly untied, direct, voluntary contribution (its 26th) amounting to $70,000. At the end of 2003, total TASF resources amounted to $1,005.5 million. Of this, $901.4 million were committed leaving an uncommitted balance of $104.1million. *(For details, see Table 29 in the Statistical Annex.)*

Operations and Resource Position. Technical assistance commitments (approved and effective) increased from $27.9 million in 2002 to $80.1 million in 2003 with 186 technical assistance projects effective during the year. In 2003, $10.1 million ($3.9 million in 2002) representing completed and canceled technical assistance projects were written back as a reduction in technical assistance, and the corresponding undisbursed commitment was eliminated. Revenue from investments rose from $4.8 million in 2002 to $5.3 million in 2003 because of an increase in the size of the investment portfolio. As a result, the uncommitted balance available for future commitments increased from $68.3 million in 2002 to $104.1 million in 2003. The TASF contributed 49% of funding for all technical assistance approved in 2003.

At the end of the year, TASF investments stood at $228.5 million, up 47.4% from 2002. Other assets–due from banks, advances to consultants, and others–totaled

$11.2 million. Accounts payable to OCR and others amounted to $15,000.

Japan Special Fund

Review of Activities. Technical assistance funded by the JSF continued to support ADB operations aimed at reducing poverty. In March 2003, Japan contributed 2 billion yen ($16.7 million equivalent) as a regular contribution. As of 31 December 2003, Japan's cumulative contribution to the JSF since its inception in 1988 amounted to 99.2 billion yen (about $852.7 million equivalent) comprising regular contributions of 81.1 billion yen and supplementary contributions of 18.1 billion yen. In 2003, ADB approved 66 technical assistance projects for the JSF totaling $36.9 million inclusive of those that were approved but not yet effective (*see table below*). The uncommitted balance after taking into account approved technical assistance not yet effective as of 31 December 2003 was $125.1 million. (*For details, see http://www.adb.org/JSF/ and tables 30 and 31 in the Statistical Annex.*)

Sector Activities. In 2003, the JSF financed 21% of the total amount of technical assistance approved by ADB including 35% of the total amount of project preparatory technical assistance during the year. The breakdown of JSF approvals by sector is shown in the table below.

Asian Currency Crisis Support Facility

Review of Activities. The Facility was established in March 1999 for a 3-year period as an independent component of the JSF and was terminated on 23 March 2002. Pending the completion of administrative matters, the remaining funds will be retained.

ADB Institute Special Fund

The costs for operating the ADB Institute are met from this Fund which is administered by ADB in accordance with the Statute of the ADB Institute. Japan made its eighth contribution in the amount of 1.4 billion yen ($11.8 million equivalent) in June 2003.

As of 31 December 2003, cumulative commitments amounted to 10.1 billion yen (about $83.1 million equivalent) excluding translation adjustments. Of the total contributions received, $69.8 million had been used by the end of the year mainly for research and capacity-building activities, including organizing symposia, forums, and training; preparing research reports, publications, and web sites; and associated administrative expenses. The balance of net current assets available for future projects and programs was about $13.3 million.

Trust Funds Managed by ADB

In addition to the OCR and the Special Funds, ADB also manages and administers the Japan Scholarship Program (JSP), the Japan Fund for Poverty Reduction, the Japan Fund for Information and Communication Technology, and channel financing of grants provided by bilateral donors to support technical assistance and soft components of loans. These funds do not form part of ADB's own resources.

Japan Scholarship Program

The Program was established in 1988 to provide an opportunity for well-qualified citizens of DMCs to undertake postgraduate studies in economics, management, science and technology, and other development-related fields at selected educational institutions in Asia and the Pacific. The Program is funded by Japan and administered by ADB. Currently, 18 institutions in 10 countries participate.

Between 1988 and 2003, Japan contributed about $61 million. A total of 1,621 scholarships has been awarded to recipients from 34 members. Of the total, 1,298 have already completed their courses. Women have received 487 scholarships. The number of new scholarships awarded annually grew from 49 in 1988 to 145 in 2003 (*see http://www.adb.org/JSP/*).

Technical Assistance Special Fund
Cumulative Resources
($ million)

	2003	2002
Regularized Replenishment Contributions	213.1	238.0
Allocations from OCR Net Income	581.0	501.0
Direct Voluntary Contributions	88.6	88.5
Income from Investment and Other Sources	126.3	95.6
Transfers from the TASF to the ADF	(3.5)	(3.5)
TOTAL	**1,005.5**	**919.6**

( ) Negative.

Japan Special Fund
Technical Assistance[a] by Sector, 2003

	$ Million	%
Social Infrastructure	10.7	29.0
Agriculture and Natural Resources	8.2	22.2
Others	5.1	13.8
Finance	4.8	13.0
Transport and Communications	3.0	8.1
Energy	2.3	6.2
Multisector	2.3	6.3
Industry and Nonfuel Minerals	0.5	1.4
TOTAL	**36.9**	**100.0**

a Includes regional technical assistance.

Channel Financing Arrangements

Official grant cofinancing plays a vital role in ADB operations, particularly in view of the continuing constraints on TASF and ADF resources. These grant funds support technical assistance and finance mostly soft components of loan projects. Most grants are provided by bilateral donors under channel financing arrangements (CFAs). ADB acts as administrator of the funds and applies its own guidelines and procedures in recruiting consultants, making disbursements, and supervising projects.

Under a CFA, the donor enters into a comprehensive agreement with ADB whereby the donor provides an untied grant fund to be administered by ADB, but the fund does not become part of ADB's own resources. The donor indicates its preferred sectors and recipient countries. ADB regularly provides a list and description of proposed technical assistance projects that satisfy the donor's preferences, and they agree on the specific activities to be financed. Funds provided under a CFA are transferred to an interest-bearing account and may also be invested by ADB pending disbursement. Donors are provided with regular financial statements and progress reports on the use of the funds. ADB is responsible for project preparation, processing, and administration. CFAs may be replenished with additional funds at the donor's discretion.

The primary advantage of CFAs is that funding for several individual technical assistance projects may be provided under a single agreement. Accordingly, they minimize the need for detailed negotiations on a case-by-case basis and foster administrative efficiency. The first CFA was negotiated in 1980. Since then, ADB has entered into CFAs with the following bilateral development partners: Australia, Belgium, Canada, Denmark, Finland, France, Italy, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, and United Kingdom.

In addition to the traditional type of CFA that may be used for several sectors, the processing of thematic CFAs with bilateral agencies has risen sharply in the last couple of years in such areas as renewable energy, climate change, poverty reduction, governance, water, gender and development, and poverty and environment. Several thematic CFAs have been packaged as umbrella facilities to allow more than one donor to contribute.

In 2003, ADB and its partners established two new cooperative funds: the Gender and Development Cooperation Fund with initial contributions from Canada, Denmark, and Norway; and the Poverty and Environment Fund with initial contributions from Norway and Sweden. A CFA was entered into with each donor. In addition, Norway also contributed to the existing Cooperation Fund for the Water Sector while Denmark also contributed to the existing Governance Cooperation Fund. (*See Table 33 in the Statistical Annex.*)

Japan Fund for Poverty Reduction

The Fund was established in May 2000 as a trust fund to support poverty reduction and social development activities that can add substantial value to ADB projects. Since 2000, Japan has contributed $302.4 million in total; 38 projects totaling $116 million were approved for implementation (*see http://www.adb.org/JFPR/ and Table 32 in the Statistical Annex*).

Japan Fund for Information and Communication Technology

The Fund was established in July 2001 to assist DMCs in bridging the digital divide to help reduce poverty. It had an initial contribution of 1.3 billion yen (approximately $10.7 million) for a 3-year period; $680,000 were approved for two projects.

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PRICEWATERHOUSECOOPERS

REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying balance sheets and the related statements of income and expenses, cash flows, and changes in capital and reserves present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank–Ordinary Capital Resources at 31 December 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Asian Development Bank; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying summary statements of loans and of borrowings as at 31 December 2003 and 2002, and of statement of subscriptions to capital stock and voting power as at 31 December 2003 are presented for purposes of additional analyses and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Detroit, Michigan
3 March 2004

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

BALANCE SHEET

31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Note B)

ASSETS

	2003		2002	
DUE FROM BANKS (Notes B and C)		$ 1,397,948		$ 503,954
INVESTMENTS (Notes B, C, D, and J)				
Government and government-guaranteed obligations	$ 3,033,055		$ 2,997,595	
Time deposits	5,498,343		1,930,562	
Other securities	2,909,440	11,440,838	2,971,376	7,899,533
SECURITIES TRANSFERRED UNDER SECURITIES LENDING ARRANGEMENT (Note B)		2,317,819		1,129,208
LOANS OUTSTANDING (OCR-5) (Notes A, B, and E)				
(Including FAS 133 adjustment of $985 – 2003 and $1,098 - 2002 and unamortized front-end fee of $25,395 - 2003 and $16,690 – 2002)				
Members and guaranteed by members	25,017,046		28,817,999	
Private sector	463,402		399,714	
	25,480,448		29,217,713	
Less—allowance for loan losses	82,381	25,398,067	72,477	29,145,236
EQUITY INVESTMENTS (Notes A, B, and F)		228,956		211,267
ACCRUED INCOME				
On investments	76,340		74,112	
On loans	264,010	340,350	339,915	414,027
RECEIVABLE FROM MEMBERS (Note I)				
Nonnegotiable, noninterest-bearing demand obligations (Note C)	236,403		313,416	
Amounts required to maintain value of currency holdings	–		316	
Subscription installments	739	237,142	2,815	316,547
RECEIVABLE FROM SWAPS (Notes B, D, and H)				
Investments	1,087,833		511,937	
Borrowings	9,776,335	10,864,168	9,231,868	9,743,805
OTHER ASSETS				
Property, furniture, and equipment (Notes B and G)	166,787		164,956	
Investment related receivables	129,745		104,231	
Unamortized issuance costs of borrowings	61,319		58,979	
Miscellaneous (Note L)	121,499	479,350	89,628	417,794
TOTAL		**$52,704,638**		**$49,781,371**

The accompanying notes are an integral part of these financial statements (OCR-8).

LIABILITIES, CAPITAL, AND RESERVES

	2003		2002	
BORROWINGS (OCR-6) (Notes B and H)				
(Including FAS 133 adjustment of $2,829 - 2003 and $9,221 - 2002)		$ 26,263,929		$ 25,905,301
ACCRUED INTEREST ON BORROWINGS		307,282		330,712
PAYABLE FOR SWAPS (Notes B, D, and H)				
Investments	$ 1,226,701		$ 548,218	
Borrowings	8,988,579	10,215,280	9,027,166	9,575,384
PAYABLE UNDER SECURITIES LENDING ARRANGEMENT (Note B)		2,520,991		1,132,623
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Investment related payables	261,729		230,402	
Undisbursed technical assistance commitments (Note K)	40,692		64,845	
Advance payments on subscriptions (Note I)	–		33	
Miscellaneous (Notes B, E, G, and L)	242,295	544,716	189,908	485,188
CAPITAL AND RESERVES (OCR-4)				
Capital stock (OCR-7) (Notes B and I)				
Authorized (SDR34,991,710,000 - 2003 and SDR34,909,940,000 – 2002)				
Subscribed (SDR34,991,710,000 – 2003 and SDR34,870,170,000 – 2002)	51,996,631		47,234,435	
Less—"callable" shares subscribed	48,339,510		43,912,259	
"Paid-in" shares subscribed	3,657,121		3,322,176	
Less—subscription installments not due	15,813		10,848	
Subscription installments matured	3,641,308		3,311,328	
Less—capital transferred to the Asian Development Fund	70,746		64,491	
	3,570,562		3,246,837	
Net notional amounts required to maintain value of currency holdings (Notes B and I)	(620,805)		(488,456)	
Ordinary reserve (Note J)	8,892,584		8,470,092	
Special reserve (Note J)	186,066		183,764	
Surplus (Note J)	116,645		116,645	
Cumulative revaluation adjustments account (Note I)	372,257		147,501	
Net income after appropriation (OCR-2) (Note J)	435,886		977,815	
Accumulated other comprehensive income (OCR-4) (Note J)	(100,755)	12,852,440	(302,035)	12,352,163
TOTAL		**$52,704,638**		**$49,781,371**

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF INCOME AND EXPENSES
For the Years Ended 31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note B)

	2003			2002		
INCOME (Note K)						
From loans (Notes B and E)						
Interest	$1,222,968			$1,595,479		
Commitment charge	49,286			50,297		
Other	110,695	$1,382,949		64,167	$ 1,709,943	
From investments (Notes B and D)						
Interest	251,175			256,641		
Net gain on sales	63,293			74,221		
Net loss from derivatives	(5,771)	308,697		(414)	330,448	
From other sources—net (Notes E and P)		48,527			19,723	
TOTAL INCOME			$1,740,173			$2,060,114
EXPENSES (Note K)						
Interest and other financial expenses (Note H)		987,509			1,155,167	
Administrative expenses (Note M)		118,440			90,553	
Technical assistance to member countries		(358)			55,998	
Provision for losses (Notes B and E)		18,007			4,476	
TOTAL EXPENSES			1,123,598			1,306,194
OPERATING INCOME BEFORE FAS 133 ADJUSTMENT			616,575			753,920
FAS 133 ADJUSTMENT (Notes B and K)			(178,387)			224,756
NET INCOME			438,188			978,676
APPROPRIATION OF GUARANTEE FEES TO SPECIAL RESERVE (Note J)			2,302			861
NET INCOME AFTER APPROPRIATION TO SPECIAL RESERVE			**$ 435,886**			**$ 977,815**

The accompanying notes are an integral part of these financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Note B)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and other charges on loans received	$ 1,315,860	$ 1,531,725
Interest on investments received	296,533	283,375
Interest and other financial expenses paid	(919,503)	(1,141,698)
Administrative expenses paid	(78,392)	(58,110)
Technical assistance disbursed	(23,880)	(12,694)
Others—net	6,586	30,116
Net Cash Provided by Operating Activities	597,204	632,714
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	8,972,878	6,279,108
Maturities of investments	150,581,589	170,407,495
Purchases of investments	(162,514,161)	(177,340,600)
Principal collected on loans	7,136,818	3,333,905
Loans disbursed	(2,535,704)	(2,812,703)
Net currency and interest rate swaps	11,151	–
Property, furniture, and equipment acquired	(12,403)	(18,724)
Net sales of equity investments	15,385	6,551
Net Cash Povided by (Used in) Investing Activities	1,655,553	(144,968)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds of new borrowings	3,316,994	8,225,115
Bonds purchased for redemption and borrowings redeemed	(4,721,249)	(8,211,815)
Matured capital subscriptions collected[1]	4,961	3,898
Borrowing issuance expenses paid	(18,825)	(19,168)
Demand obligations of members encashed	37,210	50,607
Net currency and interest rate swaps	226,771	(171,778)
Resources transferred to ADF	(200,000)	–
Resources transferred to TASF	(80,000)	–
Net Cash Used in Financing Activities	(1,434,138)	(123,141)
Effect of Exchange Rate Changes on Due from Banks	75,375	39,932
Net Increase in Due from Banks	893,994	404,537
Due from Banks at Beginning of Year	503,954	99,417
Due from Banks at End of Year	$ 1,397,948	$ 503,954
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income (OCR-2)	$ 438,188	$ 978,676
Adjustments to reconcile net income to net cash provided by operating activities:		
FAS 133 adjustment	178,387	(224,756)
Depreciation and amortization	184,418	151,997
Change in accrued income, including interest and commitment charges added to loans	(64,976)	(186,904)
Net gain from sales of investments and early redemption of borrowings	(92,362)	(82,799)
Change in accrued interest and other expenses	(17,817)	(88,105)
Change in undisbursed technical assistance commitments	(24,153)	45,092
Provision for losses charged	18,007	4,476
Change in administration charge receivable	(8,213)	33,238
Others—net	(14,275)	1,799
Net Cash Provided by Operating Activities	$ 597,204	$ 632,714

1 In addition, nonnegotiable, noninterest-bearing demand promissory notes amounting to $4,050 ($17,022 - 2002) were received from members.

The accompanying notes are an integral part of these financial statements (OCR-8).

ASIAN DEVELOPMENT BANK-ORDINARY CAPITAL RESOURCES

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

For the Years Ended 31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Notes B and I)

	Capital Stock	Net Notional Maintenance of Value	Ordinary Reserve	Special Reserve	Surplus	Cumulative Revaluation Adjustments Account	Net Income After Appropriations	Accumulated Other Comprehensive Income	Total
Balance— 1 January 2002	**$2,989,775**	**$(462,456)**	**$7,812,436**	**$182,903**	**$ 116,645**	**$ –**	**$ 861,965**	**$(627,045)**	**$10,874,223**
Comprehensive income for the year 2002 (Note J)				861			977,815	325,010	1,303,686
Change in SDR value of paid-in shares subscribed	242,691								242,691
Change in subscription installments not due	8,563								8,563
Additional paid-in shares subscribed during the year	10,519								10,519
Change in SDR value of capital transferred to Asian Development Fund	(4,711)								(4,711)
Change in notional maintenance of value		(26,000)							(26,000)
Allocation of 2001 net income to ordinary reserve (Note J)			714,464				(714,464)		–
Allocation of 2001 net income to cumulative revaluation adjustment account (Note J)						147,501	(147,501)		–
Charge to ordinary reserve for change in SDR value of capital stock (Note J)			(56,808)						(56,808)
Balance— 31 December 2002 (Forward)	**$3,246,837**	**$(488,456)**	**$8,470,092**	**$183,764**	**$116,645**	**$147,501**	**$977,815**	**$(302,035)**	**$12,352,163**

	Capital Stock	Net Notional Maintenance of Value	Ordinary Reserve	Special Reserve	Surplus	Cumulative Revaluation Adjustments Account	Net Income After Appropriations	Accumulated Other Comprehensive Income	Total
Balance— 31 December 2002 (Forward)	**$3,246,837**	**$(488,456)**	**$8,470,092**	**$ 183,764**	**$116,645**	**$147,501**	**$977,815**	**$(302,035)**	**$12,352,163**
Comprehensive income for the year 2003 (Note J)				2,302			435,886	201,280	639,468
Change in SDR value of paid-in shares subscribed	322,843								322,843
Change in subscription installments not due	(3,177)								(3,177)
Additional paid-in shares subscribed during the year	10,314								10,314
Change in SDR value of capital transferred to Asian Development Fund	(6,255)								(6,255)
Change in notional maintenance of value		(132,349)							(132,349)
Allocation of 2002 net income to ordinary reserve (Note J)			473,059				(473,059)		–
Allocation of 2002 net income to cumulative revaluation adjustment account (Note J)						224,756	(224,756)		–
Allocation of 2002 net income to TASF and ADF (Note J)							(280,000)		(280,000)
Charge to ordinary reserve for change in SDR value of capital stock (Note J)			(50,567)						(50,567)
Balance— 31 December 2003	**$3,570,562**	**$(620,805)**	**$8,892,584**	**$186,066**	**$116,645**	**$372,257**	**$435,886**	**$(100,755)**	**$12,852,440**

Accumulated Other Comprehensive Income (Note J)
For the Years Ended 31 December 2003 and 2002

Expressed in Thousands of United States Dollar (Note B)

	FAS 133 Adjustment and Amortization		Accumulated Translation Adjustments		Unrealized Investment Holding Gains(Losses)		Minimum Pension Liability Adjustment		Accumulated Other Comprehensive Income	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Balance, 1 January	$ (20,331)	$ (54,898)	$ (464,731)	$ (665,472)	$183,027	$ 93,325	$ –	$ –	$ (302,035)	$ (627,045)
Amortization	8,894	34,567	–	–	–	–	–	–	8,894	34,567
Other comprehensive income for the year	–	–	339,211	200,741	(137,523)	89,702	(9,302)	–	192,386	290,443
Balance, 31 December	**$(11,437)**	**$(20,331)**	**$(125,520)**	**$(464,731)**	**$ 45,504**	**$183,027**	**$ (9,302)**	**$ –**	**$(100,755)**	**$(302,035)**

The accompanying notes are an integral part of these financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

SUMMARY STATEMENT OF LOANS

31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Note B)

Borrowers/Guarantors	Loans Outstanding[1]	Undisbursed Balances of Effective Loans[2]	Loans Not Yet Effective	Total Loans	Percent of Total Loans
Bangladesh	$ 84,613	$ 285,723	$ 286,000	$ 656,336	1.62
China, People's Rep. of	4,622,747	1,981,601	1,896,360	8,500,708	21.06
Fiji Islands	57,712	33,334	47,000	138,046	0.34
India	3,448,546	2,638,924	1,772,123	7,859,593	19.47
Indonesia	8,041,814	1,439,088	573,400	10,054,302	24.91
Kazakhstan	275,587	60,805	34,600	370,992	0.92
Korea, Rep. of	1,899,664	–	–	1,899,664	4.71
Malaysia	413,744	37,211	–	450,955	1.12
Marshall Islands	4,000	–	–	4,000	0.01
Myanmar	–	–	–	–	–
Nauru	2,300	–	–	2,300	0.01
Nepal	37,343	–	–	37,343	0.09
Pakistan	2,614,162	1,440,226	500,646	4,555,034	11.28
Papua New Guinea	177,390	128,834	–	306,224	0.76
Philippines	2,775,708	684,525	119,276	3,579,509	8.87
Sri Lanka	128,895	81,451	90,000	300,346	0.74
Thailand	625,731	72,692	40,000	738,423	1.83
Uzbekistan	166,259	354,259	189,200	709,718	1.76
Viet Nam	129,628	29,208	–	158,836	0.39
	25,505,843	9,267,881	5,548,605	40,322,329	99.89
Regional	–	–	45,000	45,000	0.11
TOTAL – 31 December 2003	25,505,843	9,267,881	5,593,605	40,367,329	100.00
Allowance for loan losses	(82,381)			(82,381)	
Unamortized front-end fee	(25,395)			(25,395)	
NET BALANCE – 31 December 2003	**$25,398,067**	**$ 9,267,881**	**$5,593,605**	**$40,259,553**	
Made up of loans to:					
Members and guaranteed by members	$ 25,016,806	$ 9,178,750	$ 5,335,082	$ 39,530,638	
Private sector (net of allowance for loan losses)	381,261	89,131	258,523	728,915	
Net balance – 31 December 2003	$ 25,398,067	$ 9,267,881	$ 5,593,605	$ 40,259,553	
TOTAL – 31 December 2002	$ 29,234,403	$ 10,131,419	$ 3,606,524	$ 42,972,346	
Allowance for loan losses	(72,477)			(72,477)	
Unamortized front-end fee	(16,690)			(16,690)	
NET BALANCE - 31 December 2002	**$29,145,236**	**$10,131,419**	**$3,606,524**	**$42,883,179**	
Made up of loans to:					
Members and guaranteed by members	$ 28,817,999	$ 9,916,449	$ 3,466,524	$ 42,200,972	
Private sector (net of allowance for loan losses)	327,237	214,970	140,000	682,207	
Net balance – 31 December 2002	$ 29,145,236	$ 10,131,419	$ 3,606,524	$ 42,883,179	

1 Amounts outstanding on loans made under the pool-based variable interest rate systems and market-based variable/floating interest rate loans totalled $24,624,419 ($28,586,399 - 2002). The average yield on loans was 4.56% (5.93% - 2002).

2 Of the undisbursed balances, ADB has made irrevocable commitments to disburse various amounts totalling $141,882 ($85,311 - 2002).

The accompanying notes are an integral part of these financial statements (OCR-8).

MATURITY OF EFFECTIVE LOANS

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2004	$1,435,710	2013	10,936,660
2005	3,196,056	2018	7,938,003
2006	1,667,571	2023	4,445,569
2007	1,770,416	2028	1,415,283
2008	1,900,043	2030	68,413
		Total	**$34,773,724**

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	2003	2002	Currency	2003	2002
Australian dollar	$ –	$ 31	New Zealand dollar	–	184
Euro	9,056	10,401	Swiss franc	66,491	75,031
Japanese yen	7,248,973	7,608,832	United States dollar	18,181,323	21,539,924
			Total	**$25,505,843**	**$29,234,403**

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

SUMMARY STATEMENT OF BORROWINGS

31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Note B)

	Borrowings		Swap Arrangements[2]	
	Principal Outstanding[1]		Payable (Receivable)[3]	
	2003	2002	2003	2002
Long-Term Borrowings:				
Australian dollar	$ 2,497,435	$ 2,624,569	$(2,455,801)	$(2,413,935)
Canadian dollar	429,238	158,670	(404,477)	(170,238)
Euro	1,379,266	1,150,843	(1,516,492)	(1,279,491)
Hong Kong dollar	77,274	76,933	(79,093)	(79,615)
Japanese yen	4,913,314	4,171,908	3,276,949	3,222,992
			(1,667,193)	(1,006,720)
New Taiwan dollar	382,240	431,779	(381,836)	(464,610)
Pound sterling	175,266	157,974	–	–
Swiss franc	1,016,539	900,686	(505,801)	(456,328)
United States dollar	15,488,271	16,450,968	5,711,630	5,597,078
			(2,765,642)	(3,159,995)
Subtotal	26,358,843	26,124,330	(787,756)	(210,862)
Short-Term Borrowings:				
Japanese yen	–	–	–	207,096
United States dollar	–	200,000	–	(200,936)
Subtotal	–	200,000	–	6,160
Principal amount outstanding	26,358,843	26,324,330		
Unamortized discounts/ premiums and transition adjustments	54,560	(419,029)		
FAS 133 Adjustment	(149,474)	–		
Total	**$26,263,929**	**$25,905,301**		

MATURITY STRUCTURE OF BORROWINGS OUTSTANDING[5]

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2004	$5,457,768	2013	4,465,515
2005	3,651,746	2018	1,892,334
2006	2,955,121	2023	329,924
2007	5,173,515	2028	29,250
2008	2,339,439	2033	64,231
		Total	**$26,358,843**

1 Includes zero coupon and deep discount borrowings which have been recorded at their discounted values. The aggregate face amounts and discounted values of these borrowings (in United States dollar equivalents) are:

Currency	Aggregate Face Amount 2003	Aggregate Face Amount 2002	Discounted Value 2003	Discounted Value 2002
Australian dollar	$ 988,218	$ 849,375	$ 674,473	$536,676
Canadian dollar	618,573	–	429,239	–
Swiss franc	393,767	352,559	211,812	180,174
United States dollar	2,458,966	1,283,063	1,648,271	944,444

2 Include currency and interest rate swaps. At 31 December 2003, the remaining duration of swap agreements ranged from less than one year to 30 years. Approximately 66.65% of the swap receivables and 66.68% of the payables are due before 01 January 2009.

Net Currency Obligation[3]		Weighted Average Cost (%) After Swaps[4]
2003	2002	2003
$ 41,634	$ 210,634	(21.56)
24,761	(11,568)	4.50
(137,226)	(128,648)	0.38
(1,819)	(2,682)	(0.18)
6,523,070	6,388,180	1.61
404	(32,831)	0.22
175,266	157,974	11.43
510,738	444,358	6.22
18,434,259	18,888,051	4.26
25,571,087	25,913,468	3.75
–	207,096	(0.04)
–	(936)	1.33
–	206,160	0.04
		3.74
		0.91
		4.65

INTEREST RATE SWAP ARRANGEMENTS

		Average Rate (%)			
		Receive	Pay		
	Notional Amount		Fixed	Floating[6]	Maturing Through[7]
Receive Fixed Swaps:					
Australian dollar[8]	$ 168,233	3.75	3.59	(0.33)	2005-2032
Euro[9]	93,462	4.40	3.62		2010
Japanese yen	93,462	5.50		(0.29)	2004
United States dollar	5,225,646	3.45		0.99	2004-2018
United States dollar[10]	46,731	2.14		(0.32)	2016-2027
Receive Floating Swaps:					
Japanese yen	433,270	2.45	4.14	(0.34)	2004-2032
United States dollar	99,089	1.66	5.85	0.93	2004-2014
Total	**$6,159,893**				

3 Adjusted by the cumulative effect of the adoption of FAS 133 effective 1 January 2001.
4 Calculation is based on average carry book value of borrowings net of fair value of swaps. Thus the weighted average cost may be negative if the related swaps payable exposure is in a different currency and the fair value of swaps receivable exceeds the carry book value of borrowings.
5 Bonds with put and call options were considered maturing on the first put or call date.
6 Represent average current floating rates, net of spread.
7 Swaps with early termination date were considered maturing on the first termination date.
8 Consists of dual currency swaps with interest receivable in Australian dollar and interest payable in Japanese yen.
9 Consists of a dual currency swap with interest receivable in Euro and interest payable in Japanese yen.
10 Consists of dual currency swaps with interest receivable in United States dollar and interest payable in Japanese yen.

The accompanying notes are an integral part of these financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

31 December 2003

Expressed in Thousands of United States Dollars (Note B)

MEMBER	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value of Shares			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
REGIONAL							
Afghanistan	1,195	0.034	$ 17,757	$ 12,081	$ 5,676	15,080	0.345
Australia	204,740	5.851	3,042,375	2,829,317	213,058	218,625	4.998
Azerbaijan	15,736	0.450	233,832	217,383	16,450	29,621	0.677
Bangladesh	36,128	1.032	536,851	499,256	37,595	50,013	1.143
Bhutan	220	0.006	3,269	2,927	342	14,105	0.322
Cambodia	1,750	0.050	26,004	21,576	4,428	15,635	0.357
China, People's Rep. of	228,000	6.516	3,388,012	3,150,687	237,324	241,885	5.530
Cook Islands	94	0.003	1,397	1,308	89	13,979	0.320
Fiji Islands	2,406	0.069	35,752	33,241	2,511	16,291	0.372
Hong Kong, China	19,270	0.551	286,346	266,286	20,061	33,155	0.758
India	224,010	6.402	3,328,721	3,095,617	233,104	237,895	5.439
Indonesia	192,700	5.507	2,863,464	2,662,947	200,517	206,585	4.723
Japan	552,210	15.781	8,205,675	7,631,021	574,654	566,095	12.942
Kazakhstan	28,536	0.816	424,036	394,332	29,705	42,421	0.970
Kiribati	142	0.004	2,110	1,961	149	14,027	0.321
Korea, Rep. of	178,246	5.094	2,648,682	2,463,218	185,464	192,131	4.393
Kyrgyz Republic	10,582	0.302	157,245	146,234	11,011	24,467	0.559
Lao PDR	492	0.014	7,311	6,523	788	14,377	0.329
Malaysia	96,350	2.754	1,431,732	1,331,459	100,273	110,235	2.520
Maldives	142	0.004	2,110	1,961	149	14,027	0.321
Marshall Islands	94	0.003	1,397	1,308	89	13,979	0.320
Micronesia, Fed. States of	142	0.004	2,110	1,961	149	14,027	0.321
Mongolia	532	0.015	7,905	7,356	550	14,417	0.330
Myanmar	19,270	0.551	286,346	266,286	20,061	33,155	0.758
Nauru	142	0.004	2,110	1,961	149	14,027	0.321
Nepal	5,202	0.149	77,300	71,876	5,424	19,087	0.436
New Zealand	54,340	1.553	807,476	750,935	56,541	68,225	1.560
Pakistan	77,080	2.203	1,145,386	1,065,173	80,213	90,965	2.080
Palau	114	0.003	1,694	1,575	119	13,999	0.320
Papua New Guinea	3,320	0.095	49,334	45,902	3,433	17,205	0.393
Philippines	84,304	2.409	1,252,732	1,165,015	87,717	98,189	2.245
Samoa	116	0.003	1,724	1,545	178	14,001	0.320
Singapore	12,040	0.344	178,911	166,384	12,527	25,925	0.593
Solomon Islands	236	0.007	3,507	3,269	238	14,121	0.323
Sri Lanka	20,520	0.586	304,921	283,568	21,353	34,405	0.787
Taipei,China	38,540	1.101	572,693	532,601	40,091	52,425	1.199
Tajikistan	10,134	0.290	150,588	139,993	10,595	24,019	0.549
Thailand	48,174	1.377	715,851	665,715	50,137	62,059	1.419
Timor-Leste	350	0.010	5,201	4,829	371	14,235	0.325
Tonga	142	0.004	2,110	1,961	149	14,027	0.321
Turkmenistan	8,958	0.256	133,113	123,752	9,362	22,843	0.522
Tuvalu	50	0.001	743	684	59	13,935	0.319
Uzbekistan	23,834	0.681	354,166	329,365	24,801	37,719	0.862
Vanuatu	236	0.007	3,507	3,269	238	14,121	0.323
Viet Nam	12,076	0.345	179,446	158,865	20,581	25,961	0.594
Total Regional (Forward)	**2,212,895**	**63.241**	**$32,882,956**	**$30,564,486**	**$2,318,470**	**2,837,720**	**64.878**

MEMBER	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value of Shares			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
Total Regional (Forward)	**2,212,895**	**63.241**	**$32,882,956**	**$30,564,486**	**$2,318,470**	**2,837,720**	**64.878**
NONREGIONAL							
Austria	12,040	0.344	178,911	166,384	12,527	25,925	0.593
Belgium	12,040	0.344	178,911	166,384	12,527	25,925	0.593
Canada	185,086	5.289	2,750,322	2,557,726	192,597	198,971	4.549
Denmark	12,040	0.344	178,911	166,384	12,527	25,925	0.593
Finland	12,040	0.344	178,911	166,384	12,527	25,925	0.593
France	82,356	2.354	1,223,785	1,138,075	85,711	96,241	2.200
Germany	153,068	4.374	2,274,545	2,115,249	159,296	166,953	3.817
Italy	63,950	1.828	950,278	883,721	66,557	77,835	1.780
Luxembourg	12,040	0.344	178,911	166,325	12,586	25,925	0.593
The Netherlands	36,294	1.037	539,318	501,559	37,758	50,179	1.147
Norway	12,040	0.344	178,911	166,384	12,527	25,925	0.593
Portugal	12,040	0.344	178,911	166,325	12,586	25,925	0.593
Spain	12,040	0.344	178,911	166,384	12,527	25,925	0.593
Sweden	12,040	0.344	178,911	166,384	12,527	25,925	0.593
Switzerland	20,650	0.590	306,853	285,351	21,502	34,535	0.790
Turkey	12,040	0.344	178,911	166,384	12,527	25,925	0.593
United Kingdom	72,262	2.065	1,073,792	998,602	75,190	86,147	1.970
United States	552,210	15.781	8,205,675	7,631,021	574,654	566,095	12.942
Total Nonregional	**1,286,276**	**36.759**	**19,113,675**	**17,775,024**	**1,338,651**	**1,536,206**	**35.122**
TOTAL	**3,499,171**	**100.000**	**$51,996,631**	**$48,339,510**	**$3,657,121**	**4,373,926**	**100.000**

Note: Figures may not add due to rounding.

The accompanying notes are an integral part of these financial statements (OCR-8).

NOTES TO FINANCIAL STATEMENTS

31 December 2003 and 2002

NOTE A—NATURE OF OPERATIONS AND LIMITATIONS ON LOANS, GUARANTEES, AND EQUITY INVESTMENTS

Nature of Operations

The Asian Development Bank (ADB), a multilateral development finance institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in the Asian and Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. With the adoption of its poverty reduction strategy at the end of 1999, ADB made reducing poverty in the region its main goal. ADB provides financial and technical assistance (TA) for projects and programs which will contribute to achieving this purpose.

Mobilizing financial resources, including cofinancing, is an integral part of ADB's operational activities. In addition, ADB, alone or jointly, administers on behalf of donors, including members, their agencies and other development institutions, funds restricted for specific uses which include TA grants as well as regional programs.

ADB's ordinary operations comprise loans, equity investments, and guarantees. During the years 2001 and 2002, limited technical assistance to member countries to support high priority TA programs was included. ADB finances its ordinary operations through borrowings, paid-in capital, and retained earnings.

Limitations on Loans, Guarantees, and Equity Investments

Article 12, paragraph 1 of the Charter provides that the total amount outstanding of loans, equity investments, and guarantees made by ADB shall not exceed the total of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. At 31 December 2003, the total of such loans, equity investments, and guarantees aggregated approximately 67.7% (78.4% - 2002) of the total subscribed capital, reserves, and surplus as defined.

Article 12, paragraph 3 of the Charter provides that equity investments shall not exceed 10% of the unimpaired paid-in capital together with reserves and surplus, exclusive of the special reserve. At 31 December 2003, such equity investments represented approximately 3.2% (3.3% - 2002) of the paid-in capital, reserves, and surplus, as defined.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional Currencies and Reporting Currency

The currencies of members are all functional currencies. The reporting currency is the United States dollar, and the financial statements are expressed in thousands of current United States dollars.

Valuation of Capital Stock

The authorized capital stock of ADB is defined in Article 4, paragraph 1 of the Charter "in terms of United States dollars of the weight and fineness in effect on 31 January 1966" (the 1966 dollar) and the value of each share is defined as 10,000 1966 dollars. The capital stock had historically been translated into the current United States dollar (ADB's unit of account) on the basis of its par value in terms of gold. From 1973 until 31 March 1978, the rate arrived at on this basis was $1.20635 per 1966 dollar. Since 1 April 1978, 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 ADB's selection of the appropriate successor to the 1966 dollar, the capital stock has been valued for purposes of these financial statements in terms of the Special Drawing Right (SDR) at the value in current United States dollars as computed by the IMF, with each share valued at SDR10,000.

As of 31 December 2003, the value of the SDR in terms of the current United States dollar was $1.48597 ($1.35458 - 2002) giving a value for each share of ADB's capital equivalent to $14,859.70 ($13,545.80 - 2002). However, ADB could decide to fix the value of each share at $12,063.50 based on the 31 March 1978 par value of the United States dollar in terms of gold.

Translation of Currencies

Assets and liabilities are translated from their functional currencies to the reporting currency generally at the applicable rates of exchange at the end of a reporting period. Income and expense amounts are translated for each semi-monthly period generally at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period. Translation adjustments other than those relating to maintenance of SDR capital values *(see Notes I and J)*, are charged or credited to "Accumulated translation adjustments" and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income."

Derivative Financial Instruments

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", along with its amendments, collectively referred as FAS 133, became effective for ADB on 1 January 2001. FAS 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the Balance Sheet as either an asset or liability measured at its fair value. Changes in the fair value of derivatives are recorded in net income or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

ADB uses derivative instruments for asset/liability management of individual positions and portfolios, as well as for the reduction of transaction costs. In applying FAS 133 for purposes of financial statement reporting, ADB has elected not to define any qualifying hedging relationships. Rather, all derivative instruments, as defined by FAS 133, have been marked to fair value incorporating observable market data, and all changes in the fair value have been recognized in net income. ADB has elected not to define any qualifying hedging relationships, not because economic hedges do not exist, but rather because the application of FAS 133 hedging criteria does not make evident the impact of economic risks inherent in ADB's financial assets and liabilities.

The cumulative effect of a change in accounting principle includes the difference between the carrying value and the fair value of the derivative instruments in the borrowings portfolio on 31 December 2000 as well as loans that met hedge criteria, offset by any gains or losses on these borrowings and loans for which a fair value exposure was being hedged. The net effect gave rise to a transition loss of $81,657,000 in comprehensive income and a gain of $34,656,000 was reported in net income. The allocation between net income and other comprehensive income was based upon the hedging relationships that existed before the initial application of this statement.

Since ADB has not defined any qualifying hedging relationships under this standard, the amount recorded in other comprehensive income as part of the transition is being reclassified into earnings in the same period or periods in which the hedged forecasted transaction affects earnings.

Investments

All investment securities and negotiable certificate of deposits held by ADB other than derivative instruments are considered by Management to be "Available for Sale" and are reported at estimated fair value, with unrealized gains and losses excluded from net income and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income." Estimated fair value represents market value. Time deposits are classified as "Held-to-Maturity" and are reported at cost. Realized gains and losses are included in income from investments and are measured by the difference between amortized cost and the net proceeds of sales. With respect to futures, realized gain or loss is reported based on daily settlement of the net cash margin.

Securities Transferred Under Securities Lending Arrangement

ADB accounts for transfers of financial assets in accordance with FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FAS 125." In general, transfers are accounted for as sales under FAS 140 when ADB has relinquished control over the transferred assets. Transfers that are not accounted for as sales are accounted for as repurchase agreements and collateralized financing arrangements.

Loans

ADB's loans are made to or guaranteed by members, with the exception of loans to the private sector, and have maturities ranging between 3 and 30 years. ADB requires its borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies which it has disbursed. Loan interest income and loan commitment fees are recognized on accrual basis. With the introduction of LIBOR-based loans in 2001, in line with ADB's principle of cost pass through pricing, any variation in the actual cost of borrowings is passed to LIBOR-based borrowers as surcharge or rebate.

It is the policy of ADB to place loans in nonaccrual status for 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 been received by ADB. ADB follows a policy of not taking part in debt rescheduling agreements with respect to public sector loans. In the case of private sector loans, ADB may agree to debt rescheduling only after alternative courses of action have been exhausted.

ADB determines that a loan is impaired and therefore subject to provisioning when principal or interest is in arrears for one year for public sector loans (unless there is clear and convincing evidence warranting the deferment or acceleration of such provisioning) and six months for private sector loans. If the present value of expected future cash flows discounted at the loan's effective interest rate is

less than the carrying value of the loan, a valuation allowance is established with a corresponding charge to provision for loan losses.

ADB's periodic evaluation of the adequacy of the allowance for loan losses is based on its past loan loss experience, known and inherent risks in existing loans, and adverse situations that may affect a borrower's ability to repay.

ADB levies front-end fees on all new loans. These fees are deferred and amortized over the life of the loans after offsetting deferred direct loan origination costs.

In addition, ADB levies a commitment charge on the undisbursed balance of effective loans. Unless otherwise provided by the loan agreement, the charges take effect commencing on the 60th day after the loan signing date and are credited to loan income.

Guarantees

ADB extends guarantees to public sector and private sector borrowers. Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred. ADB would be required to perform under its guarantees if the payments guaranteed were not made by the debtor, and the guaranteed party called the guarantee by demanding payments from ADB in accordance with the term of the guarantee.

Prior to 1 January 2003, guarantees in the absence of any call, were not reflected in the financial statements but disclosed as a note to the financial statements (see Note E) in accordance with the provisions of FASB No. 5, Accounting for Contingencies. FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others", which came into effect in 2003, requires the recognition of two types of liabilities that are associated with guarantees: (a) the stand-by ready obligation to perform, and (b) the contingent liability. ADB recognizes at the inception of a guarantee, a liability for the stand-by ready obligation to perform on guarantees issued and modified after 31 December 2002. The liability is included in "Miscellaneous liabilities."

Front-end fee income on guarantees received is deferred and amortized over the period of the guarantee contract and the unamortized balance of deferred front-end fee of guarantee is included in "Miscellaneous liabilities."

Equity Investments

Investments in equity securities without readily determinable fair values are reported at cost less probable losses inherent in the portfolio but not specifically identifiable.

The reserve against losses for equity investments is established quarterly based on Management's evaluation of potential losses for such investments. Equity investments with readily determinable fair values are reported at fair value, with unrealized gains and losses excluded from net income and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income." ADB applies the equity method of accounting to one investment where it has the ability to exercise significant influence.

Property, Furniture, and Equipment

Property, furniture, and equipment are stated at cost and, except for land, depreciated over estimated useful lives on a straight-line basis. Maintenance, repairs, and minor betterments are charged to expense.

Accounting Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the end of the year and the reported amounts of revenues and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In November 2002, FASB issued FASB interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" - an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34. This interpretation requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of all of the obligations it has undertaken in issuing a guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. This provision applies to guarantees issued or modified after 31 December 2002. FIN No. 45 also clarifies requirements about disclosures on guarantees. Full disclosures on all outstanding financial guarantees have been made in Notes E and N to the financial statements.

In January and December 2003, FASB issued FIN No.46, "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements" and FAS No. 132 (revised

2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88 and 106, and a revision of FASB Statement No. 132", respectively.

FIN No. 46 requires an entity to consolidate and provide disclosures for any variable interest entity (VIE) for which it is the primary beneficiary. For public enterprise, the effectivity of FIN No. 46 has been deferred for application to the entity's reporting period ending 15 March 2004. An evaluation of its applicability to ADB will be considered in 2004. FAS 132 (revised 2003) provided for additional disclosures effective for 2003 year-end financial statements for public companies with domestic plans and with a delayed effective date for certain disclosures for foreign plans of non-public entities.

Further developments were issued by the Emerging Issues Task Force(EITF) in November 2003. EITF Issue No. 03-1 requires additional disclosures for FAS 114 and FAS 124 securities, among which are disclosures of the aggregate amount of unrealized losses and the aggregate related fair value of investments with unrealized losses.

In April and May 2003, FASB issued FAS No. 149 and 150, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" and "Accounting for Certain Financial instruments with Characteristics of both Liabilities and Equity", respectively. These standards do not have a significant impact on ADB's financial statements.

Statement of Cash Flows

For the purposes of the statement of cash flows, ADB considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

Reclassification

Certain reclassifications of prior year's information have been made to conform to the current year's presentation.

NOTE C–RESTRICTIONS ON USE OF CURRENCIES AND DEMAND OBLIGATIONS OF MEMBERS

In accordance with Article 24, paragraph 2(i) of the Charter, the use by ADB or by any recipient from ADB of certain currencies may be restricted by members to payments for goods or services produced and intended for use in their territories. With respect to the currencies of 40 DMCs for 2003 (40 - 2002), cash in banks (due from banks) and demand obligations totaling $54,388,000 ($51,660,000 - 2002) and $173,744,000 ($229,518,000 - 2002), respectively, may be, but are not currently so restricted.

In accordance with Article 24, paragraphs 2(i) and (ii) of the Charter, one member (one - 2002) has restricted the use by ADB or by any recipient from ADB of its currency to payments for goods or services produced in its territory. As such, cash in banks (due from banks) and investments totaling $18,000 ($86,000 - 2002) and $2,766,000 ($2,662,000 - 2002), respectively, have been restricted. None of the demand obligations held by ADB in 2003 was restricted (nil - 2002).

NOTE D–INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. In the US dollar portfolio only and up to limited amounts, investments may be made in corporate bonds rated A or better, AAA-rated asset-backed securities, and AAA rated mortgage-backed securities. In addition, ADB may purchase and sell financial futures and option contract, and enter into interest exchange agreements, currency exchange agreements and forward rate agreements. Securities may be lent, borrowed, and sold short.

ADB entered into ten asset swap transactions as a new investment vehicle with total notional amount of $1,321,986,000 ($40,053,000 - 2002).

Included in "Other securities" as of 31 December 2003 were corporate bonds and other obligations of banks amounting to $2,255,768,000 ($2,309,323,000 - 2002) and asset/mortgage-backed securities of $653,672,000 ($662,053,000 - 2002).

Exposure to interest rate risk may be adjusted within defined bands to reflect changing market circumstances. These adjustments are made through the purchase and sale of securities, financial futures and options. Accordingly, the financial futures and options are held for risk management purposes.

The currency compositions of the investment portfolio as of 31 December 2003 and 2002 expressed in United States dollars follow on the next page.

Currency	2003	2002
Australian dollar	$ 578,525,000	$ 371,126,000
Canadian dollar	190,734,000	147,575,000
Euro	445,248,000	305,862,000
Japanese yen	2,105,015,000	1,563,582,000
Pound sterling	306,087,000	198,868,000
Swiss franc	452,424,000	400,449,000
United States dollar	9,337,261,000	5,758,717,000
Others	343,363,000	282,562,000
	13,758,657,000	9,028,741,000
Less: Securities transferred under securities lending arrangement	(2,317,819,000)	(1,129,208,000)
Total	$11,440,838,000	$ 7,899,533,000

The estimated fair value and amortized cost of the investments by contractual maturity at 31 December 2003 are as follows:

	Estimated Fair Value	Amortized Cost
Due in one year or less	$ 6,331,766,000	$ 6,327,917,000
Due after one year through five years	5,385,126,000	5,320,690,000
Due after five years through ten years	2,041,765,000	2,074,232,000
Total	$13,758,657,000	$13,722,839,000

Additional information relating to investments in government and government-guaranteed obligations and other securities, including securities transferred under securities lending arrangements, is as follows:

	2003	2002
As of 31 December		
Amortized cost	$8,224,495,000	$6,919,488,000
Estimated fair value	8,260,313,000	7,098,180,000
Gross unrealized gains	89,508,000	178,697,000
Gross unrealized losses	(53,690,000)	(5,000)
For the years ended 31 December		
Change in net unrealized (losses) gains from prior year	(142,874,000)	87,636,000
Proceeds from sales	8,972,878,000	6,279,108,000
Gross gain on sales	75,229,000	81,017,000
Gross loss on sales	(11,936,000)	(6,796,000)

Asset/Mortgage-backed Securities: Asset/Mortgage-backed securities are instruments whose cash flow is based on the cash flows of a pool of underlying assets or mortgage loans managed by a trust.

Futures: Futures are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Initial margin requirements are met with cash or securities, and changes in the market prices are generally settled daily in cash. ADB generally closes out open positions prior to maturity. Therefore, cash receipts or payments are limited to the change in market value of the futures. At 31 December 2003, the nominal amount of outstanding purchase and sales contracts were $93,600,000 and $129,200,000 respectively ($161,700,000 and $121,100,000 - 2002).

As of 31 December 2003, gross unrealized losses amounted to $53,690,000 from government and government-guaranteed obligations, corporate bonds and mortgage/asset backed securities, resulting from the market movement. There were four asset-backed security positions that sustained unrealized losses for over one year, representing only .03% of the investments. Additional details are as follows:

	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government and government-guaranteed obligations	$2,151,408,000	$48,910,000	$ –	$ –	$2,151,408,000	$48,910,000
Corporate bonds	588,621,000	2,934,000	–	–	588,621,000	2,934,000
Mortage/Asset-backed securities	40,951,000	1,749,000	3,823,000	97,000	44,774,000	1,846,000
Total	$2,780,980,000	$53,593,000	$3,823,000	$97,000	$2,784,803,000	$53,690,000

NOTE E–LOANS AND GUARANTEES

Loans

ADB does not currently sell its loans, nor does it believe there is a comparable market for its loans. The estimated fair value of all loans is based on the estimated cash flows from principal repayments, interest and other charges discounted at the applicable market yield curves for ADB's borrowing cost plus lending spread. The estimated fair value of public sector loans is not generally affected by credit risks based on ADB's experience with its borrowers. Allowance for loan losses is made against impaired public sector and private sector loans.

The carrying amount and estimated fair value of loans outstanding at 31 December 2003 and 2002 are as follows:

	2003		2002	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fixed rate multicurrency loans	$ 429,368,000	$ 507,815,000	$ 495,503,000	$ 635,883,000
Pool-based multicurrency loans	6,509,640,000	7,375,407,000	7,090,757,000	7,847,113,000
Pool-based single currency (US$) loans	11,658,739,000	12,880,882,000	15,081,772,000	16,917,561,000
LIBOR-based loans	6,758,780,000	6,781,228,000	6,428,575,000	6,459,242,000
Fixed rate loans	41,540,000	52,183,000	48,629,000	62,304,000
Total	$25,398,067,000	$27,597,515,000	$29,145,236,000	$31,922,103,000

Prior to 1 July 1986, the lending rate of ADB was based on a multicurrency fixed lending rate system under which loans carried interest rates fixed at the time of loan approval for the entire life of the loans. Effective 1 July 1986, ADB adopted a multicurrency pool-based variable lending rate system. In addition, in July 1992, ADB introduced a United States dollar pool-based variable lending rate system, and in November 1994, a market-based variable lending rate system was made available to financial intermediaries in the public sector and to the private sector borrowers. For loans to the private sector borrowers, approximately 78% (72% - 2002) of the loans were based on variable lending rates.

Since 1988, ADB has charged front-end fees for private sector loans. Effective 1 January 2000, ADB levies front-end fee of 1% for public sector loans for which the loan negotiations are completed after that date. In 2003, ADB waived 50% of the front-end fee charged on all OCR public sector loans approved during the year. The effect of this waiver was to reduce net income by $3,008,000 (2002 - nil). Effective 1 January 2000, the lending spread applied to all outstanding pool-based OCR public sector loans and new public sector market-based loans was increased from 0.4% to 0.6%. Also effective the same date, a flat commitment fee of 0.75% is charged for new program loans, while the progressive commitment fee of 0.75% is maintained for project loans.

The front-end fees received for the year ended 31 December 2003 was $24,342,000 for loans ($37,057,000 and $6,092,000 for loans and guarantees, respectively - 2002). Administrative expenses relating to direct loan origination of $13,678,000 for the year ended 31 December 2003 ($19,440,000 - 2002) were deferred and offset against front-end fees earned. The excess, if any, is amortized over the life of each loan.

Commencing 1 July 2001, ADB offered LIBOR-based loans (LBLs) in the following currencies - Euro, Japanese yen, and United States dollar. The new LBL lending facility offers borrowers the flexibility of (i) choice of currency and interest rate basis; (ii) options to link repayment schedules to actual disbursements for financial intermediary borrowers; (iii) change the original loan terms (currency and interest rate basis) at any time during the life of the loan; and (iv) options to cap or collar the floating lending rate at any time during the life of the loan. LBL terms are available for all new loans for which the invitation to negotiate is issued on or after 1 July 2001. With the introduction of LBLs, all other loan windows are no longer offered to borrowers.

In November 2003, ADB offered borrowers to transform their outstanding pool-based multicurrency loans of $6.5 billion to pool-based single currency loans in Japanese yen. The transformation will facilitate borrower's administration for loan service payments and loan accounting. The transformation will be made effective on 1 January 2004.

In 2003, ADB received full and partial prepayments for 50 loans amounting to $5,883,772,000 ($1,977,139,000 - 2002) and collected prepayment premiums of $107,404,000 ($62,521,000 - 2002) which have been included in "Other income from loans." Sixty five percent of the prepaid amounts were pool-based multi-currency and pool-based single currency (US$) loans.

Undisbursed loan commitments and an analysis of loans by borrowing member countries as of 31 December 2003 are shown in OCR-5. The carrying amounts of loan outstanding by loan products at 31 December 2003 and 2002 are as follows:

	2003	2002
Public Sector		
Fixed rate multicurrency loans	$ 429,368,000	$ 495,503,000
Pool-based multicurrency loans	6,502,376,000	7,082,638,000
Pool-based single currency (US$) loans	11,660,523,000	15,083,794,000
LIBOR-based loans	6,449,677,000	6,172,488,000
	25,041,944,000	28,834,423,000
Less: Allowance for loan losses	(240,000)	–
Unamortized front-end fee	(24,898,000)	(16,424,000)
	(25,138,000)	(16,424,000)
Sub-total	25,016,806,000	28,817,999,000
Private Sector		
Pool-based multicurrency loans	9,684,000	10,442,000
Fixed rate loans	67,402,000	74,093,000
LIBOR-based loans	386,813,000	315,445,000
	463,899,000	399,980,000
Less: Allowance for loan losses	(82,141,000)	(72,477,000)
Unamortized front-end fee	(497,000)	(266,000)
	(82,638,000)	(72,743,000)
Sub-total	381,261,000	327,237,000
Total	$25,398,067,000	$29,145,236,000

Loans in Nonaccrual Status

One public sector loan to Nauru remained in nonaccrual status as of 31 December 2003 (two to Myanmar and one to Nauru - 2002). The principal outstanding for this loan as of 31 December 2003 was $2,300,000 ($3,199,000 - 2002) of which $340,000 ($1,129,000 - 2002) was overdue. The loan in nonaccrual status resulted in $145,000 ($231,000 - 2002) not being recognized as income from public sector loans for the year ended 31 December 2003. The accumulated interest and other charges on this loan that were not recognized as income as of 31 December 2003 would have totaled $558,000 ($745,000 - 2002).

Twelve private sector loans were in nonaccrual status as of 31 December 2003 (thirteen - 2002). The principal outstanding at that date was $77,115,000 ($83,874,000 - 2002) of which $70,045,000 ($69,891,000 - 2002) was overdue. Loans in nonaccrual status resulted in $6,776,000 ($7,930,000 - 2002) not being recognized as income from private sector loans for the year ended 31 December 2003. The accumulated interest and other charges on these loans that were not recognized as income as of 31 December 2003 would have totaled $36,906,000 ($30,131,000 - 2002). During the year, related foreclosure proceedings have commenced for three loans to the private sector in the Philippines. One loan to the private sector in India was restored to accrual status following loan restructuring.

Loan Loss Provision

ADB has not suffered any losses of principal on public sector loans. During the year, loan loss provision of $240,000 was provided against one public sector loan. The amount was determined based on the carrying value of the loan and the present value of expected cash inflows discounted at the loan's effective interest rate. Loan loss provisions have been made against impaired private sector loans *(see Note K)*.

Information pertaining to loans which were subject to loan loss provisions at 31 December 2003 and 2002 is as follows:

	2003	2002
Loans not subject to loss provisions	$25,405,205,000	$29,141,349,000
Loans subject to loss provisions	100,638,000	93,054,000
Total	$25,505,843,000	$29,234,403,000
Average amount of loans subject to loss provisions	$ 101,758,000	$ 91,945,000
Related interest income on such loans	$ 2,637,000	$ 2,262,000
Cash received on related interest income on such loans	$ 2,399,000	$ 1,385,000

The changes in the allowance for loan losses during 2003 and 2002 are as follows:

	2003	2002
Balance – 1 January	$72,477,000	$ 80,128,000
Provision during the year	12,877,000	3,909,000
Provision written back	(3,335,000)	(11,894,000)
Translation adjustments	362,000	334,000
Balance – 31 December	$82,381,000	$ 72,477,000

Loan Guarantees

ADB extends guarantees to public sector and private sector borrowers. Such guarantees include (i) partial credit guarantees where only certain principal and/or interest payments are covered; and (ii) political risk guarantees, which provide coverage against well-defined sovereign risks. While counterguarantees from the host government are required for all public sector guarantees, guarantees for private sector projects may be provided with or without a host government counterguarantee. A counterguarantee takes the form of a member government agreement to indemnify ADB for any payments it makes under the guarantee. In the event that a guarantee is called, ADB has the contractual right to require payment from the government, on demand, or as ADB may otherwise direct.

Guaranteed payments under partial credit guarantees are generally due 10 or more years from the loan inception date. ADB's political risk guarantee is callable when a guaranteed event has occurred and such an event has resulted in debt service default to the guaranteed lender.

The committed and outstanding amount of these guarantee obligations as of 31 December 2003 and 31 December 2002 covered:

	31 December 2003		31 December 2002	
	Committed Amount	Outstanding Amount	Committed Amount	Outstanding Amount
Partial Credit Guarantees				
With counterguarantee	$1,115,342,000	$1,115,342,000	$1,030,871,000	$1,030,871,000
Political Risk Guarantees				
With counterguarantee	252,673,000	101,940,000	252,523,000	86,939,000
Without counterguarantee	31,619,000	28,291,000	–	–
	284,292,000	130,231,000	252,523,000	86,939,000
	$1,399,634,000	$1,245,573,000	$1,283,394,000	$1,117,810,000

None of these amounts were subject to call as of 31 December 2003 (nil - 31 December 2002). The committed amount represents the maximum potential amount of undiscounted future payment that ADB could be required to make, inclusive of standby portion for which ADB is committed but not currently at risk. The outstanding amount represents the guaranteed amount utilized under the related loans, which have been disbursed as of the end of a reporting period, exclusive of the standby portion. ADB estimates that the present value of guarantees outstanding at 31 December 2003 was $649,665,000 ($553,152,000 - 2002).

As of 31 December 2003, in accordance with FIN 45, a liability of $3,932,000 relating to stand-by ready obligation for a political risk guarantee issued during the year has been included in "Miscellaneous liabilities" on the balance sheet. The committed amount of this guarantee was $31,619,000 of which $28,291,000 was outstanding as of 31 December 2003.

Cofinancing

ADB functions as lead lender in cofinancing arrangements with other participating financial institutions who also provide funds to ADB's public and private sector borrowers. In such capacity, ADB provides loan administration services, which include loan disbursements and loan collections. The participating financial institutions have no recourse to ADB for their outstanding loan balances.

Loans administered by ADB on behalf of participating institutions as at 31 December 2003 and 2002 are as follows:

	2003		2002	
	Amount	No.of Loans	Amount	No.of Loans
Public sector loans	$ 824,977,000	41	$ 946,069,000	43
Private sector loans	257,896,000	11	267,477,000	11
Total	$1,082,873,000	52	$1,213,546,000	54

During the year ended 31 December 2003, a total of $766,000 ($389,000 - 2002) was received as compensation for arranging and administering such loans. This amount has been included in "Income from other sources."

NOTE F—EQUITY INVESTMENTS

ADB's investments in equity securities issued by private enterprises located in DMCs include a $14,284,000 ($13,620,000 - 2002) investment in the Asian Finance and Investment Corporation Ltd.(AFIC) which is accounted for on the equity method. AFIC, domiciled and incorporated in Singapore, was established in 1989 with 26 shareholders comprising ADB and a group of international commercial banks. AFIC is principally engaged in the business of merchant banking including the operation of an Asian Currency Unit under the terms and condition specified by the Monetary Authority of Singapore. ADB's participation in AFIC's equity was to provide financing for private sector enterprises to strengthen and diversify the institutional structure in DMCs. At the end of 2003, AFIC had $46,891,000 in net assets ($43,710,000 - 2002) and $3,270,000 in net profit ($1,602,000 - 2002).

ADB's holding represents 30.5% of AFIC's issued ordinary share capital and net assets. ADB also holds 100% of AFIC issued convertible noncumulative preference shares in the amount of $25,000,000 ($25,000,000 - 2002). In October 2002, ADB, together with other financiers, renewed the revolving credit facility up to a maximum aggregate principal amount outstanding at any time of $36,000,000. The facility expired in November 2003, and as at 31 December 2003, the outstanding loan was nil ($4,444,000 - 2002). As of 31 December 2003, ADB's maximum exposure to loss as a result of its investment in AFIC was $39,284,000 ($38,620,000 - 2002). ADB is currently evaluating the impact of FIN 46 with respect to AFIC on the OCR statements.

Unrealized gains on equity investments reported at market value were $9,686,000 at 31 December 2003 ($4,335,000 - 2002) and were reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income."

Approved equity investment facility that has not been disbursed was $184,918,000 at 31 December 2003 ($197,928,000 - 2002).

NOTE G—PROPERTY, FURNITURE, AND EQUIPMENT

In 1991, under the terms of an agreement with the Philippines (Government), ADB returned the former headquarters premises, which had been provided by the Government. In accordance with the agreement as supplemented by a memorandum of understanding, ADB was compensated $22,657,000 for the return of these premises. The compensation is in lieu of being provided premises under the agreement and accordingly, is deferred and amortized over the estimated life of the new headquarters building as a reduction of occupancy expense. The amortization for the year ended 31 December 2003 amounted to $337,000 ($511,000 - 2002) reducing depreciation expense for the new headquarters building from $4,471,000 ($4,492,000 - 2002) to $4,134,000 ($3,981,000 - 2002). At 31 December 2003, the unamortized deferred compensation balance (included in "ACCOUNTS PAYABLE AND OTHER LIABILITIES - Miscellaneous") was $9,039,000 ($9,653,000 - 2002). At 31 December 2003, accumulated depreciation for property, furniture, and equipment was $101,766,000 ($91,195,000 - 2002).

NOTE H—BORROWINGS AND SWAP TRANSACTIONS

ADB uses derivative financial instruments in connection with its borrowing activities to diversify its funding sources across public and private debt markets, currencies and instruments. Currency swaps are used to convert a currency borrowed under advantageous terms into one of ADB's major operational currencies, taking advantage of the opportunities offered in different financial markets. Such currency swaps enable ADB to raise operationally needed currencies in a cost-efficient way and to maintain its borrowing presence in the major capital markets. Interest rate swaps are used generally to reduce balance sheet interest rate mismatches arising from lending operations.

ADB issues structured debt which includes embedded derivatives in order to decrease its cost of borrowing. However, ADB simultaneously enters into currency and/or interest rate swaps to fully hedge the effects of such embedded derivatives. Borrowings are reported on the balance sheet at their carrying book value adjusted for any unamortized premium or discounts, and include the fair value of embedded derivatives of $149,474,000 as of 31 December 2003 that are required to be separated by FAS 133.

ADB has a potential risk of loss if the swap counterparty fails to perform its obligations. In order to reduce such credit risk, ADB only enters into long-term swap transactions with counterparties eligible under ADB's swap guidelines which include a requirement that the counterparties have a credit rating of AA-/Aa3 or higher and requires certain counterparties to provide collateral.

The fair value of outstanding currency swap agreements and interest rate swap agreements is determined at the estimated amount that ADB would receive or pay to terminate the agreements using a market-based valuation model. The basis of valuation is the present value of expected cash flows based on observable market data.

Interest rate swaps: Under a typical interest rate swap agreement used by ADB, one party agrees to make periodic payments based on a notional principal amount and an interest rate that is fixed at the outset of the agreement. The counterparty agrees to make floating rate payments based on the same notional principal amount. The terms of ADB's interest rate swap agreements specifically match the terms of particular borrowings.

Currency swaps: Under a typical currency swap agreement, one party agrees to make periodic payments in one currency while the counterparty agrees to make periodic payments in another currency. The payments may be fixed at the outset of the agreement or vary based on interest rates. A receivable is created for the currency swapped out, and a payable is created for the currency swapped in. The terms of ADB's currency swap agreements specifically match the terms of particular borrowings.

NOTE I– CAPITAL STOCK, CAPITAL TRANSFERRED TO ASIAN DEVELOPMENT FUND, MAINTENANCE OF VALUE OF CURRENCY HOLDINGS, AND MEMBERSHIP

Capital Stock

The authorized capital stock of ADB as of the end of 2003 consists of 3,499,171 shares (3,490,994 - 2002), all of which have been subscribed by members (3,487,017 - 2002). Of the subscribed shares, 3,253,061 (3,241,762 - 2002) are "callable" and 246,110 (245,255 - 2002) are "paid-in." The "callable" share capital is subject to call by ADB only as and when required to meet ADB's obligations incurred on borrowings of funds for inclusion in its ordinary capital resources or on guarantees chargeable to such resources. The "paid-in" share capital has been paid or is payable in installments, partly in convertible currencies and partly in the currency of the subscribing member which may be convertible. In accordance with Article 6, paragraph 3 of the Charter, ADB accepts nonnegotiable, noninterest-bearing demand obligations in satisfaction of the portion payable in the currency of the member, provided such currency is not required by ADB for the conduct of its operations. The settlement of such amounts is not determinable and, accordingly, it is not practicable to determine a fair value for these receivables.

As of 31 December 2003, all matured installments amounting to $3,641,308,000 ($3,311,328,000 - 2002) were received except for $739,000 ($2,815,000 - 2002) from one country (one - 2002). Installments not due aggregating $15,813,000 ($10,848,000 - 2002) are receivable as follows:

For the Year ending 31 December:

2004	$6,333,000	2005	$6,333,000	2006	$3,147,000

Payments in respect of capital subscription installments in advance of due dates are shown in the Balance Sheet (under "ACCOUNTS PAYABLE AND OTHER LIABILITIES") as "Advance payments on subscriptions" pending the determination of the full value of such payments based on the rate of exchange to be used by ADB as of the date on which such payments are actually due.

Capital Transferred to Asian Development Fund

Pursuant to the provisions of Article 19, paragraph 1(i) of the Charter, the Board of Governors has authorized the setting aside of 10% of the unimpaired "paid-in" capital paid by members pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by members pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973 to be used as a part of the Special Funds of ADB. The resources so set aside amounting to $70,746,000 as of 31 December 2003 ($64,491,000 - 2002) expressed in terms of the SDR on the basis of $1.48597 ($1.35458 - 2002) per SDR ($57,434,000 in terms of $1.20635 per 1966 dollar–*see Note B*), were allocated and transferred to the Asian Development Fund.

Maintenance of Value of Currency Holdings

Prior to 1 April 1978, the effective date of the Second Amendment to the IMF Articles, ADB implemented maintenance of value (MOV) in respect of holdings of member currencies in terms of 1966 dollars, in accordance with the provisions of Article 25 of the Charter and relevant resolutions of the Board of Directors. Since then, settlement of MOV has been put in abeyance.

Inasmuch as the valuation of ADB's capital stock and the basis of determining possible MOV obligations are still under consideration, notional amounts have been calculated provisionally as receivable from or payable to members in order to maintain the value of currency holdings in

terms of the SDR. In view thereof, the notional MOV amounts of receivables and payables are offset against one another and shown as net notional amounts to maintain value of currency holdings in the "CAPITAL AND RESERVES" portion of the Balance Sheet. The timing of the establishment and settlement of such amounts is uncertain and, accordingly, it is not practicable to determine a fair value for such receivables and payables.

One country made an arrangement with ADB that has the effect of continuing the settlement of their MOV obligation. The "Amounts required to maintain value of currency holdings" under "RECEIVABLE FROM MEMBERS" of $316,000 represents the amount receivable from changes in exchange rates of the member's currency in relation to the United States dollar. In 2003, the arrangement was cancelled. Accordingly, this will no longer apply.

The net notional amounts as of 31 December 2003 consisted of (a) the increase of $606,902,000 ($334,457,000 - 2002) in amounts required to maintain the value of currency holdings to the extent of matured and paid capital subscriptions due to the increase in the value of the SDR in relation to the United States dollar during the period from 1 April 1978 to 31 December 2003 and (b) the net decrease of $13,903,000 ($153,999,000- 2002) in the value of such currency holdings in relation to the United States dollar during the same period. In terms of receivable from and payable to members, they are as follows:

	2003	2002
Notional MOV Receivables	$879,531,000	$718,212,000
Notional MOV Payables	258,726,000	229,756,000
Total	$620,805,000	$488,456,000

Membership

As of 31 December 2003, ADB is owned by 63 member countries, 45 countries from the region and 18 countries from outside the region *(see OCR-7)*. During 2003, Luxembourg and Palau have subscribed 12,040 and 114 shares of ADB's capital stock respectively, and remitted the required paid-in portion of their subscriptions.

NOTE J—RESERVES

Ordinary Reserve and Net Income

Under the provisions of Article 40 of the Charter, the Board of Governors shall determine annually what part of the net income shall be allocated, after making provision for reserves, to surplus and what part, if any, shall be distributed to the members. During 2003, of the net income for the year ended 31 December 2002, the amount of $473,059,000 was allocated to the Ordinary Reserve ($714,464,000 - 2002) and the amounts of $200,000,000 and $80,000,000 were allocated to ADF and TASF, respectively (nil - 2002).

The restatement of the capital stock for purposes of these financial statements on the basis of the SDR instead of the 1966 dollar *(see Note B)* resulted in a net charge of $50,567,000 to the Ordinary Reserve during the year ended 31 December 2003 ($56,808,000 - 2002). That charge is the increase in the value of the matured and paid capital subscriptions caused by the change during the year in the value of the SDR in relation to the United States dollar not allocated to members as notional maintenance of value adjustments in accordance with resolutions of the Board of Directors.

Cumulative Revaluation Adjustments Account

In May 2002, the Board of Governors approved the allocation of net income representing the cumulative FAS 133 adjustment to a separate category of Reserves - "Cumulative Revaluation Adjustments Account." During the year the amount allocated of the 31 December 2002 net income was $224,756,000 ($147,601,000 - 2002). The amount in the cumulative revaluation adjustments account as of 31 December 2003 was $372,257,000 ($147,601,000 - 2002).

Special Reserve

The Special Reserve includes commissions on loans and guarantee fees on guarantees set aside pursuant to Article 17 of the Charter. Special Reserve assets consist of term deposits and government and government-guaranteed obligations and are included under the heading "INVESTMENTS." For the year ended 31 December 2003, guarantee fees amounting to $2,302,000 ($861,000 - 2002) were appropriated to Special Reserve.

Surplus

Surplus represents funds for future use to be determined by the Board of Governors. No amounts were allocated by the Board of Governors out of Surplus during 2003 and 2002.

Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income has two major components: net income and other comprehensive income comprising gains and losses affecting equity that, under generally accepted accounting principles, are excluded from net income. Other comprehensive income includes such items as the effects of the implementation of FAS 133, unrealized gains and losses on available-for-sale securities and listed equity investments, currency translation adjustments and minimum pension liability adjustment.

NOTE K—INCOME AND EXPENSES

Total income from loans for the year ended 31 December 2003 was $1,382,949,000 ($1,709,943,000 - 2002). The average yield on the loan portfolio during the year was 4.56% (5.93% - 2002). Premium on prepaid loans collected during 2003 amounted to $107,404,000 ($62,521,000 - 2002).

Total income from investments including FAS 133 adjustments, for the year ended 31 December 2003 was $369,455,000 ($321,628,000 - 2002). The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month, excluding unrealized gains and losses on investment securities, was 3.74% (4.26% - 2002). If unrealized gains and losses on investment securities were included, the annualized rate of return would be 2.30% (5.34% - 2002).

Income from other sources primarily includes dividends received for the year ended 31 December 2003 amounting to $14,879,000 ($8,603,000 - 2002), gain on sale of equity investments of $25,440,000 ($7,078,000 - 2002), and share in the net income of an equity investment of $632,000 (losses of $363,000 - 2002) accounted for on the equity method.

Total interest expense incurred for the year ended 31 December 2003 amounted to $974,839,000 ($1,138,660,000 - 2002). Other financial expenses consist of amortization of borrowings' issuance costs and other expenses of $22,070,000 ($18,421,000 - 2002) and income of $9,400,000 ($1,914,000 - 2002) on early redemption of certain borrowing obligations.

Administrative expenses (other than those pertaining directly to ordinary operations and special operations) for the year ended 31 December 2003 were apportioned between ordinary capital resources and the Asian Development Fund according to the number of loans and equity investments approved during the year. Of the total administrative expenses of $285,136,000 ($254,372,000 - 2002), $153,018,000 ($144,379,000 - 2002) was accordingly charged to the Asian Development Fund. The balance of administrative expenses after allocation was reduced by the deferral of direct loan origination costs of $13,678,000 ($19,440,000 - 2002) related to new loans for the year ended 31 December 2003 (*see Notes B and E*).

Following the approval by the Board of Directors in June 2003 of the resumption of direct net income allocation to TASF to finance technical assistance (TA) operations, no TA commitments during the year were charged to OCR current income as "TECHNICAL ASSISTANCE TO MEMBER COUNTRIES." Accordingly the write-back in the amount of $358,000 for the year represented cancellations of the undisbursed amounts of completed TA projects committed in prior periods (charges of $55,998,000 - 2002).

As of 31 December 2003, the net cumulative amount of TA commitments that had been charged to OCR current income in the prior years amounted to $75,601,000 ($75,960,000 - 31 December 2002) out of which $34,909,000 ($11,115,000 - 2002) had been disbursed.

For the year ended 31 December 2003, the provision for losses totaled $18,007,000 ($12,637,000 for private sector loans, $240,000 for public sector loans and $5,130,000 for equity investments). For the year ended 31 December 2002, the provision for losses totaled $4,476,000 ($3,909,000 for private sector loans and $567,000 for equity investments).

Unfavorable FAS 133 adjustment of $178,387,000 (favorable of $224,756,000 - 2002) was made up of:

	2003	2002
Unrealized gains(losses) on		
Borrowings related swaps	$(386,324,000)	$250,872,000
Investments related swaps	60,758,000	(8,821,000)
Embedded derivatives in		
Structured Borrowings	149,474,000	-
Amortization of the FAS 133		
transition adjustment	(2,295,000)	(17,295,000)
Total	$(178,387,000)	$224,756,000

NOTE L—OTHER ASSETS AND LIABILITIES—MISCELLANEOUS

Included in miscellaneous assets and liabilities are as follows:

	2003	2002
Amounts receivable from:		
Asian Development Fund (Note K)	$28,687,000	$20,474,000
Technical Assistance Special Fund	15,000	60,000
Japan Special Fund	141,000	230,000
Asian Development Bank Institute Special Fund	317,000	72,000
Agency Trust Funds	452,000	111,000
Total	$29,612,000	$20,947,000
Amount payable to:		
Staff Retirement Plan	$ 7,425,000	$12,150,000

NOTE M—STAFF RETIREMENT PLAN AND POSTRETIREMENT MEDICAL BENEFITS

Staff Retirement Plan

ADB has a contributory defined benefit Staff Retirement Plan (the Plan). Every employee, as defined under the Plan, shall, as a condition of service, become a participant from the first day of service, provided that at such a date, the employee has not reached the normal retirement age of 60. The Plan applies also to members of the Board of Directors who elect to join the Plan. Retirement benefits are based on length of service and highest average remuneration during two years of eligible service. The Plan assets are segregated and are not included in the accompanying Balance Sheet. The costs of administering the Plan are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the Plan.

Participants are required to contribute 9 1/3% of their salary to the Plan and may also make additional voluntary contributions. ADB's contribution is determined at a rate sufficient to cover that part of the costs of the Plan not covered by the participants' contributions.

The expected amount of contributions to the Plan for 2004, based on ADB's budgeted contribution rate of 15% and the participants' mandatory contributions are $17,431,000 and $10,846,000 respectively. In addition, at year-end, ADB provided an additional contribution of $2,000,000 to the Plan that will be transferred in 2004.

Contributions in excess of current benefits payments are invested in international financial markets and in a variety of investment vehicles. Investments are under the management of six investment agents and one global custodian who function within the guidelines established by the Plan's Investment Committee. The investment of these assets, over the long term, is expected to produce higher returns than short-term investments. The investment policy incorporates the Plan's package of desired investment returns, and tolerance for risk, taking into account the nature and duration of the Plan's liabilities. The Plan's assets are diversified among different markets and different asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

The Plan's investment policy is periodically reviewed and revised to reflect the best interest of the Plan's participants and beneficiaries. The current policy, adopted in January 2003, specifies an asset-mix structure of 70% of assets in equities and 30% in fixed income securities. At present, investments of the Plan's assets are divided into three categories: US equity, Non-US equity, and US fixed income.

As of 31 December 2003 and 2002, the breakdown of the fair value of plan assets held is as follows:

	2003		2002	
	Amount	Percentage	Amount	Percentage
Equity Securities				
US	$428,578,000		$231,264,000	
Non-US	168,698,000		122,914,000	
	597,276,000	69.6%	354,178,000	54.7%
Fixed income securities	257,605,000	30.0	295,169,000	45.5
Other Assets (Liabilities)—net	3,712,000	0.4	(1,303,000)	(0.2)
Total	$858,593,000	100.0%	$648,044,000	100.0%

All investments are valued using market prices. Fixed income securities include US government and government guaranteed obligations, corporate bonds and time deposits. Other assets include forward exchange contracts in various foreign currencies transacted to hedge currency expos in the investment portfolio, which have been marked to fair value.

For the year ended 31 December 2003 the net return on the Plan assets was 27.7% (negative 7.8% - 2002) attributed to the strong global equity markets in 2003. ADB expects the long-term rate of return on the assets to be 8%.

The assumed overall rate of return takes into account long-term return expectations of the underlying asset classes within the investment portfolio mix, and the expected duration of the Plan's liabilities. Return expectations are forward looking and, in general, not much weight is given to short-term experience. Unless there is a drastic change in investment policy or market environment, the assumed investment return of 8% on the Plan's assets is expected to remain broadly the same, year to year.

Postretirement Medical Benefits Plan

In 1993, ADB adopted a cost-sharing plan for retirees' medical insurance premiums. Under the plan, ADB is obligated to pay 75% of the Group Medical Insurance Plan premiums for retirees, including retired members of the Board of Directors, and their eligible dependents who elected to participate. The cost-sharing plan is currently unfunded.

Generally accepted accounting principles require an actuarially determined assessment of the periodic cost of postretirement medical benefits.

The following table sets forth the pension and postretirement medical benefits at 31 December 2003 and 2002:

	Pension Benefits		Postretirement Medical Benefits	
	2003	2002	2003	2002
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 833,547,000	$ 714,365,000	$ 123,999,000	$ 105,789,000
Service cost	29,392,000	25,121,000	5,654,000	4,884,000
Interest cost	57,673,000	51,157,000	8,672,000	7,680,000
Participants' contributions	39,641,000	39,752,000	–	–
Actuarial loss	49,215,000	36,507,000	12,427,000	6,733,000
Benefits paid	(33,997,000)	(33,355,000)	(1,571,000)	(1,087,000)
Benefit obligation at end of year	$ 975,471,000	$ 833,547,000	$ 149,181,000	$ 123,999,000
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 648,044,000	$ 692,875,000	$ –	$ –
Actual return on plan assets	191,075,000	(62,054,000)	–	–
Employer's contribution	13,830,000	10,826,000	1,571,000	1,087,000
Plan participants' contributions	39,641,000	39,752,000	–	–
Benefits paid	(33,997,000)	(33,355,000)	(1,571,000)	(1,087,000)
Fair value of plan assets at end of year	$ 858,593,000	$ 648,044,000	$ –	$ –
Funded status	$(116,878,000)	$(185,503,000)	$(149,181,000)	$(123,999,000)
Unrecognized actuarial loss	86,049,000	166,234,000	46,663,000	36,731,000
Unrecognized prior service cost	32,597,000	37,118,000	(2,927,000)	(3,312,000)
Unrecognized transition obligation	(7,000)	(1,112,000)	2,888,000	5,297,000
Net amount recognized	$ 1,761,000	$ 16,737,000	$(102,557,000)	$ (85,283,000)
Amounts recognized in the Balance sheet consist of:				
Prepaid benefit cost	$ 2,198,000	$ 17,124,000	$ –	$ –
Accrued benefit liability	(42,336,000)	(403,000)	(102,557,000)	(85,283,000)
Intangible asset	32,597,000	–	N/A	N/A
Accumulated other comprehensive income	9,302,000	16,000	N/A	N/A
Net amount recognized	$ 1,761,000	$ 16,737,000	$(102,557,000)	$ (85,283,000)
Weighted-average assumptions as of 31 December				
Discount rate	6.25%	6.75%	6.25%	6.75%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase varies with age and averages	5.25%	5.75%	5.25%	5.75%

For measurement purposes, a 7.25% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as at 31 December 2003. The rate was assumed to decrease gradually to 5.75% for 2009 and remain at that level thereafter.

	Pension Benefits	
	2003	2002
Components of net periodic benefit cost:		
Service cost	$ 29,392,000	$ 25,121,000
Interest cost	57,673,000	51,157,000
Expected return on plan assets	(61,675,000)	(63,001,000)
Amortization of prior service cost	4,521,000	5,067,000
Amortization of transition obligation	(1,105,000)	(1,105,000)
Recognized actuarial (gain) loss	–	(2,067,000)
Net periodic benefit cost	$ 28,806,000	$ 15,172,000

	Postretirement Medical Benefits	
	2003	2002
Components of net periodic benefit cost:		
Service cost	$ 5,654,000	$ 4,884,000
Interest cost	8,672,000	7,680,000
Expected return on plan assets	–	–
Amortization of prior service cost	(385,000)	(385,000)
Amortization of transition obligation	2,409,000	2,409,000
Recognized actuarial (gain) loss	2,495,000	2,192,000
Net periodic benefit cost	$18,845,000	$16,780,000

The accumulated benefit obligation of the pension plan as of 31 December 2003 was $898,582,000 ($744,000,000 - 2002).

A one-percentage-point change in assumed health care trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	$ 3,436,000	$ (2,637,000)
Effect on postretirement benefit obligation	30,190,000	(23,763,000)

NOTE N—FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of ADB's significant financial instruments as of 31 December 2003 and 2002 are summarized as follows:

	2003	
	Carrying Amount[a]	Estimated Fair Value
On-balance sheet financial instruments:		
ASSETS:		
Due from banks	$ 1,397,948,000	$ 1,397,948,000
Investments (Note D)	11,440,838,000	11,440,838,000
Securities transferred under securities lending arrangements	2,317,819,000	2,317,819,000
Loans outstanding (Note E)	25,398,067,000	27,597,515,000
Equity investments (Note F)	228,956,000	228,956,000
Other assets		
Nonnegotiable, noninterest-bearing demand obligations	236,403,000	155,223,000
Receivable from swaps - investments (Note D)	1,087,833,000	1,087,833,000
Receivable from swaps - borrowings (Note H)	9,776,335,000	9,776,335,000
Future guarantee receivable	3,932,000	3,932,000
LIABILITIES:		
Borrowings (Note H)	26,571,211,000	27,808,899,000
Other liabilities		
Payable for swaps - investments (Note D)	1,226,701,000	1,226,701,000
Payable for swaps - borrowings (Note H)	8,988,579,000	8,988,579,000
Guarantee liability	3,932,000	3,932,000

	2003	
	Outstanding Amount	Present Value
Off-balance sheet financial instruments:		
Guarantees (Note E)	1,217,282,000	630,024,000

a The carrying amount for borrowings and swaps are inclusive of accrued interest.

CONTINUED

	2002	
	Carrying Amount[a]	Estimated Fair Value
On-balance sheet financial instruments:		
ASSETS:		
Due from banks	$ 473,360,000	$ 473,360,000
Investments (Note D)	7,899,533,000	7,899,533,000
Securities transferred under securities lending arrangements	1,129,208	1,129,208
Loans outstanding (Note E)	29,145,236,000	31,922,103,000
Equity investments (Note F)	211,267,000	211,267,000
Other assets		
Nonnegotiable, noninterest-bearing demand obligations	313,416,000	178,361,000
Receivable from swaps - investments (Note D)	511,937,000	511,937,000
Receivable from swaps - borrowings (Note H)	9,231,868,000	9,231,868,000
Future guarantee receivable	–	–
LIABILITIES:		
Borrowings (Note H)	26,236,013,000	28,645,177,000
Other liabilities		
Payable for swaps - investments (Note D)	548,218,000	548,218,000
Payable for swaps - borrowings (Note H)	9,027,166,000	9,027,166,000
Guarantee liability	–	–

	2002	
	Outstanding Amount	Present Value
Off-balance sheet financial instruments:		
Guarantees (Note E)	1,117,810,000	553,152,000

a The carrying amount for borrowings and swaps are inclusive of accrued interest.

Additional fair value information, including methods used to estimate certain values, is included in the notes referenced in the above table.

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value.

If available, quoted market values are used to determine fair values. Financial instruments for which market quotations are not readily available are valued using valuation model. The basis of valuation is the expected cash flows discounted based on observable market data.

NOTE O—CREDIT RISK

Guarantees involve elements of credit risk which are not reflected on the balance sheet. Credit risk represents the maximum potential accounting loss due to possible nonperformance by obligors and counterparties under the terms of the contract. The amount of credit risks on guarantees as at 31 December 2003 was $1,241,641,000 ($1,117,810,000 - 31 December 2002).

NOTE P—SPECIAL AND TRUST FUNDS

ADB's operations include special operations, which are financed from special fund resources, consisting of the Asian Development Fund, the Technical Assistance Special Fund, Japan Special Fund, and the Asian Development Bank Institute Special Fund.

In addition, ADB, alone or jointly with donors, administers on behalf of the donors, including members of ADB, their agencies and other development institutions, projects/programs supplementing ADB's operations. Such projects/programs are funded with external funds administered by ADB and with external funds not under ADB's administration. The funds are restricted for specific uses including technical assistance to borrowers and technical assistance for regional programs. The responsibilities of ADB under these arrangements range from project processing to project implementation including the facilitation of procurement of goods and services.

Special funds and funds administered by ADB on behalf of the donors are not included in the assets of ordinary capital resources. The breakdown of the total of such funds together with the funds of the special operations as of 31 December 2003 and 2002 is as follows:

	2003	
	Total Net Assets	No.of Funds
Special Funds		
Asian Development Fund	$26,758,581,000	1
Technical Assistance Special Fund	104,112,000	1
Japan Special Fund	167,677,000	1
Asian Development Bank Institute Special Fund	14,215,000	1
Subtotal	27,044,585,000	4
Trust Funds		
Funds administered by ADB	592,988,000	38
Funds not administered by ADB	17,100,000	2
Subtotal	610,088,000	40
Total	$27,654,673,000	44

NOTES TO FINANCIAL STATEMENTS

31 December 2003 and 2002

	2002	
	Total Net Assets	No.of Funds
Special Funds		
Asian Development Fund	$22,852,571,000	1
Technical Assistance Special Fund	68,338,000	1
Japan Special Fund	188,167,000	1
Asian Development Bank Institute Special Fund	10,397,000	1
Subtotal	23,119,473,000	4
Trust Funds		
Funds administered by ADB	463,977,000	32
Funds not administered by ADB	5,455,000	1
Subtotal	469,432,000	33
Total	$23,588,905,000	37

During the year ended 31 December 2003, a total of $1,124,000 ($638,000 - 2002) was received as compensation for administering projects/programs under Trust Funds. The amount has been included in "Income from other sources."

PRICEWATERHOUSECOOPERS

REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

We have audited the accompanying special purpose statements of assets, liabilities and fund balances of the Asian Development Bank–Asian Development Fund as of December 31, 2003 and 2002 and the related special purpose statements of revenues and expenses, cash flows and changes in fund balances for the years then ended. These financial statements are the responsibility of the management of the Asian Development Bank. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B, the Board of Directors approved in May 2001 the adoption of special purpose financial statements for the Asian Development Bank–Asian Development Fund. With the adoption of the special purpose financial statements, loan loss provisioning has been eliminated. The accompanying financial statements are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of Asian Development Bank - Asian Development Fund at 31 December 2003 and 2002, and the revenues and expenses and cash flows for the years then ended, on the basis explained in Note B.

Our audits were conducted for the purpose of forming an opinion on the special purpose financial statements taken as a whole. The accompanying special purpose statements of loans as at 31 December 2003 and 2002, and of resources as at 31 December 2003 are presented for purposes of additional analyses and are not required parts of the special purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the special purpose financial statements and in our opinion is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Governors, Board of Directors, management and members of the Asian Development Bank - Asian Development Fund. However, under the Agreement Establishing the Asian Development Fund, this report is included in the Annual Report of the Asian Development Bank and is therefore a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP

Detroit, Michigan
3 March 2004

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES

31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Note B)

	2003		2002	
ASSETS				
DUE FROM BANKS (Note B)		$ 35,530		$ 10,205
INVESTMENTS (Notes B and C)				
Government and government-guaranteed obligations	$ 1,184,896		$ 1,158,631	
Time deposits	1,514,014		727,676	
Corporate bonds	1,593,550	4,292,460	1,276,190	3,162,497
SECURITIES TRANSFERRED UNDER SECURITIES LENDING ARRANGEMENT (Note B)		459,469		112,293
LOANS OUTSTANDING (ADF-5) (Notes B and D)		20,046,522		17,232,780
ACCRUED REVENUE				
On investments	49,084		37,675	
On loans	47,621	96,705	40,478	78,153
DUE FROM CONTRIBUTORS (Notes B and E)		2,334,627		2,465,316
OTHER ASSETS				
Investment related receivables	227		56,007	
Others	2,501	2,728	3,056	59,063
TOTAL		**$27,268,041**		**$23,120,307**
LIABILITIES AND FUND BALANCES				
PAYABLE FOR CASH COLLATERAL RECEIVED UNDER SECURITIES LENDING ARRANGEMENT (Note B)		$ 468,473		$ 114,192
PAYABLE TO ORDINARY CAPITAL RESOURCES		28,687		20,474
ADVANCE PAYMENTS ON CONTRIBUTIONS (ADF-6)		11,680		16,472
OTHER LIABILITIES				
Investment related payables	$ –		$ 55,817	
Others	620	620	60,781	116,598
FUND BALANCES				
Amounts available for loan commitments (ADF-6)				
Contributed Resources (Note B)	24,016,828		20,790,249	
Set-Aside Resources (Note G)	70,746		64,491	
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund (Note A)	433,458		232,951	
	24,521,032		21,087,691	
Accumulated surplus (ADF-4)	1,931,557		1,755,189	
Accumulated other comprehensive income (ADF-4) (Notes B and H)	305,992	26,758,581	9,691	22,852,571
TOTAL		**$27,268,041**		**$23,120,307**

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSES
For the Years Ended 31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note B)

	2003			2002		
REVENUE						
From loans (Notes B and D)		$176,704			$156,370	
From investments (Notes B and C)						
Interest	$151,851			$125,772		
Net gain on sales	703	152,554		8,768	134,540	
From other sources—net		146	$ 329,404		152	$ 291,062
EXPENSES						
Financial expenses		15			26	
Administrative expenses (Note F)		153,021	153,036		144,379	144,405
EXCESS OF REVENUE OVER EXPENSES			**$176,368**			**$146,657**

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

SPECIAL PURPOSE STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note A)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest charges on loans received	$ 154,453	$ 136,842
Interest on investments received	165,153	132,439
Cash received from other sources	146	152
Administrative expenses paid	(144,808)	(130,957)
Financial expenses paid	(15)	(26)
Net Cash Provided by Operating Activities	174,929	138,450
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	254,667	447,477
Maturities of investments	67,647,666	55,394,621
Purchases of investments	(68,431,103)	(56,183,290)
Principal collected on loans	312,320	262,261
Loans disbursed	(1,107,679)	(1,115,613)
Net Cash Used in Investing Activities	(1,324,129)	(1,194,544)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received and encashed[1]	968,965	1,057,054
Cash received from Ordinary Capital Resources	200,000	–
Net Cash Provided by Financing Activities	1,168,965	1,057,054
Effect of Exchange Rate Changes on Due from Banks	5,560	2,952
Net increase in Due from Banks	25,325	3,912
Due from Banks at Beginning of Period	10,205	6,293
Due from Banks at End of Period	$ 35,530	$ 10,205
RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Excess of revenue over expenses (ADF-2)	$ 176,368	$ 146,657
Adjustments to reconcile excess of revenue over expenses—net income to net cash provided by operating activities		
Amortization of discounts/premiums	24,711	15,834
Capitalized charges on loans	(19,702)	(18,683)
Change in accrued revenue on investments and loans	(13,958)	(10,012)
Change in accrued /prepaid administrative expenses	8,213	13,422
Net gain on sales of securities	(703)	(8,768)
Net Cash Provided by Operating Activities	$ 174,929	$ 138,450

1 In addition, nonnegotiable, noninterest-bearing demand promissory notes amounting to $541,576 ($763,484 - 2002) were received from contributing members.

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

SPECIAL PURPOSE STATEMENT OF CHANGES IN FUND BALANCES
For the Years Ended 31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note B)

	Contributed Resources	Set-Aside Resources	Transfers from OCR & TASF	Accumulated Surplus	Accumulated Other Comprehensive Income	Total
Balance— 1 January 2002	**$18,180,486**	**$59,780**	**$232,553**	**$1,608,532**	**$(193,853)**	**$19,887,498**
Comprehensive income for the year 2002 (Note H)				146,657	203,544	350,201
Change in amount of contributed resources available for loan commitments	2,609,763					2,609,763
Change in SDR value of set-aside resources		4,711				4,711
Change in value of transfers from Technical Assistance Special Fund			398			398
Balance— 31 December 2002	**$20,790,249**	**$64,491**	**$232,951**	**$1,755,189**	**$9,691**	**$22,852,571**
Comprehensive income for the year 2003 (Note H)				176,368	296,301	472,669
Change in amount of contributed resources available for loan commitments	3,226,579					3,226,579
Transfer from ordinary capital resources			200,000			200,000
Change in SDR value of set-aside resources		6,255				6,255
Change in value of transfers from Technical Assistance Special Fund			507			507
Balance— 31 December 2003	**$24,016,828**	**$70,746**	**$433,458**	**$1,931,557**	**$305,992**	**$26,758,581**

Accumulated Other Comprehensive Income (Note H)
For the Years Ended 31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note B)

	Accumulated Translation Adjustments		Unrealized Investment Holding Gains(Losses)		Accumulated Other Comprehensive Income	
	2003	2002	2003	2002	2003	2002
Balance, 1 January	$ (10,429)	$(208,980)	$20,120	$ 15,127	$ 9,691	$(193,853)
Other comprehensive income for the year	310,564	198,551	(14,263)	4,993	296,301	203,544
Balance, 31 December	**$300,135**	**$ (10,429)**	**$ 5,857**	**$20,120**	**$305,992**	**$ 9,691**

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

SPECIAL PURPOSE SUMMARY STATEMENT OF LOANS

31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Note B)

Borrowers/Guarantors[1]	Loans Outstanding	Undisbursed Balances of Effective Loans[2]	Loans Not Yet Effective[2]	Total Loans	Percent of Total Loans
Afghanistan	$ 173,962	$ 179,876	$ –	$ 353,838	1.29
Azerbaijan	–	–	22,833	22,833	0.08
Bangladesh	5,035,611	915,203	258,745	6,209,559	22.71
Bhutan	78,344	17,149	10,038	105,531	0.39
Cambodia	433,911	270,962	102,281	807,154	2.95
Cook Islands	23,388	1,831	–	25,219	0.09
Indonesia	777,846	453,714	76,685	1,308,245	4.79
Kazakhstan	57,380	4,829	–	62,209	0.23
Kiribati	9,527	4,496	–	14,023	0.05
Kyrgyz Republic	396,537	152,499	16,401	565,437	2.07
Lao PDR	792,135	243,402	82,565	1,118,102	4.09
Maldives	49,951	25,730	11,854	87,535	0.32
Marshall Islands	61,688	12,651	–	74,339	0.27
Micronesia, Fed. States of	37,611	22,696	–	60,307	0.22
Mongolia	439,079	138,237	16,548	593,864	2.17
Myanmar	495,974	–	–	495,974	1.81
Nepal	1,298,561	485,308	61,865	1,845,734	6.75
Pakistan	4,715,161	1,102,851	286,918	6,104,930	22.33
Papua New Guinea	291,943	59,249	–	351,192	1.29
Philippines	940,101	22,793	–	962,894	3.52
Samoa	84,437	15,254	8,327	108,018	0.40
Solomon Islands	48,773	11,570	–	60,343	0.22
Sri Lanka	2,064,582	742,059	83,271	2,889,912	10.57
Tajikistan	56,937	111,950	62,341	231,228	0.85
Thailand	56,485	–	–	56,485	0.21
Tonga	49,049	–	–	49,049	0.18
Tuvalu	4,097	1,937	–	6,034	0.02
Uzbekistan	17,873	3,151	–	21,024	0.08
Vanuatu	52,462	–	–	52,462	0.19
Viet Nam	1,503,117	957,069	234,525	2,694,711	9.86
BALANCE – 31 December 2003	**$20,046,522**	**$5,956,466**	**$1,335,197**	**$27,338,185**	100.00
BALANCE – 31 December 2002	**$17,232,780**	**$5,052,356**	**$1,478,764**	**$23,763,900**	

1 Loans other than those made directly to a member or to its central bank have been guaranteed by the member with the exception of loans to the private sector amounting to $5,962 ($5,502 - 2002).

2 Loans negotiated before 1 January 1983 were denominated in current United States dollars. Loans negotiated after that date are denominated in Special Drawing Rights (SDR) for the purpose of commitment. The undisbursed portions of such SDR loans are translated into United States dollars at the applicable exchange rates as of the end of a reporting period. Of the undisbursed balances, ADB has entered into irrevocable commitments to disburse various amounts totalling $27,054 ($49,706 - 2002).

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

MATURITY OF EFFECTIVE LOANS

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2004	$576,487	2013	4,784,190
2005	483,675	2018	5,568,514
2006	528,333	2023	5,479,441
2007	581,656	2028	4,024,537
2008	676,146	2033	2,544,345
		2038	703,286
		2043	52,378
		Total	**$26,002,988**

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	2003	2002	Currency	2003	2002
Australian dollar	$ 371,139	$ 335,615	New Zealand dollar	19,189	17,785
Canadian dollar	873,959	773,930	Norwegian krone	25,848	30,689
Danish krone	86,223	75,045	Pound sterling	202,286	220,161
Euro	3,145,215	2,619,263	Singapore dollar	957	447
Japanese yen	11,802,439	10,206,797	Swedish krona	102,266	95,082
Korean won	43,566	27,584	Swiss franc	306,761	258,485
Malaysian ringgit	4,524	3,363	Thai baht	1,989	1,283
			United States dollar	3,060,161	2,567,251
			Total	**$20,046,522**	**$17,232,780**

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

SPECIAL PURPOSE STATEMENT OF RESOURCES

31 December 2003

Expressed in Thousands of United States Dollars

	Effective Amounts Committed During 2003	Effective Amounts Committed At Exchange Rates Per Resolutions	Effective Amounts Committed At 31 Dec 2003 Exchange Rates	Amounts Not Yet Available For Loan Commitments	Amounts Available For Loan Commitments	Amounts Received	Amounts Receivable
CONTRIBUTED RESOURCES							
Australia	$ –	$ 1,324,951	$ 1,219,954	$ 54,479	$ 1,165,475	$ 1,165,475	$ –
Austria	–	169,562	213,919	17,099	196,820	196,820	–
Belgium	–	159,126	186,395	6,385	180,010	180,010	–
Canada	–	1,413,316	1,370,349	37,647	1,332,702	1,332,702	–
Denmark	–	179,656	206,735	7,878	198,857	198,857	–
Finland	–	114,676	114,320	4,434	109,886	109,886	–
France	–	957,755	1,071,550	49,283	1,022,267	1,022,267	–
Germany	–	1,297,647	1,640,831	63,835	1,576,996	1,576,996	–
Hong Kong, China	–	36,550	36,550	4,070	32,480	32,480	–
Indonesia	–	14,960	14,960	–	14,960	14,960	–
Italy	–	707,302	579,144	–	579,144	579,144	–
Japan	–	7,502,667	12,195,205	262,280	11,932,925	11,932,925	–
Korea, Rep. of	–	158,580	136,888	19,612	117,276	117,276	–
Luxembourg	39,286	35,000	39,286	39,286	–	–	–
Malaysia	–	10,000	6,708	505	6,203	6,203	–
Nauru	–	1,933	1,933	–	1,933	1,433	500
The Netherlands	–	496,350	619,283	25,717	593,566	593,566	–
New Zealand	–	90,472	91,353	6,490	84,863	84,863	–
Norway	–	165,600	160,314	8,151	152,163	152,163	–
Portugal	–	47,142	64,287	5,321	58,966	58,966	–
Singapore	–	4,000	3,959	990	2,969	2,969	–
Spain	142,440	232,543	278,363	80,086	198,277	198,277	–
Sweden	–	288,985	253,623	11,443	242,180	242,180	–
Switzerland	–	250,051	339,694	11,214	328,480	328,480	–
Taipei,China	–	46,508	42,961	3,541	39,420	39,420	–
Thailand	–	6,642	5,096	637	4,459	4,459	–
Turkey	–	105,386	105,386	1,250	104,136	104,136	–
United Kingdom	–	862,613	882,331	37,686	844,645	844,645	–
United States	–	2,924,928	2,924,928	30,158	2,894,770	2,894,770	–
Totals	181,726	19,604,901	24,806,305	789,477	24,016,828	24,016,328 [1]	500
SET-ASIDE RESOURCES	–	–	70,746	–	70,746	–	–
TRANSFER FROM ORDINARY CAPITAL RESOURCES	–	–	430,000	–	430,000	–	–
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND [2]	–	–	3,458	–	3,458	–	–
TOTAL	**$ 181,726**	**$ 19,604,901**	**$ 25,310,509**	**$ 789,477**	**$24,521,032**	**$24,016,328**	**$ 500**

1 Excludes $11,680 equivalent representing advance payments received but not yet available for loan commitments as of 31 December 2003.
2 Includes translation adjustments amounting to $14 as of 31 December 2003.

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

31 December 2003 and 2002

NOTE A—NATURE OF OPERATIONS

The Asian Development Fund (ADF) was established on 28 June 1974 to more effectively carry out the special operations of the Asian Development Bank (ADB) by providing resources on concessional terms which are made available almost exclusively to the least developed borrowing countries.

The resources of ADF have been subsequently augmented by seven replenishments, the most recent of which became effective in June 2001 in a total amount equivalent to $2,791,483,000 to cover the operational requirements for the four-year period from January 2001. During the year, an allocation in the amount of $200,000,000 was made to ADF from the 2002 net income of ADB's ordinary capital resources (OCR).

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In May 2001, the Board of Directors approved the adoption of the special purpose financial statements for ADF. Due to the nature and organization of ADF, these financial statements have been prepared for the specific purpose of reflecting the sources and applications of member subscriptions. With the adoption of the special purpose financial statements, loan loss provisioning has been eliminated. With the exception of the aforementioned, the ADF financial statements are prepared in accordance with accounting principles generally accepted in the United States.

Functional Currencies and Reporting Currency

The currencies of contributing member countries are functional currencies. The reporting currency is the United States dollar, and the special purpose financial statements are expressed in thousands of current United States dollars.

Translation of Currencies

Assets, liabilities, amounts available for loan commitments and advance payments on contributions are translated from their functional currencies to the reporting currency, generally at the applicable rates of exchange at the end of a reporting period. Revenue and expense amounts are translated for each semimonthly period, generally at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period. Other translation adjustments are charged or credited to "Accumulated translation adjustments" and reported in "FUND BALANCES" as part of "Accumulated other comprehensive income." Translation adjustments relating to set-aside resources *(see Note G)* are recorded as notional amounts receivable from or payable to ordinary capital resources. Exchange gains or losses on currency transactions among functional currencies are included in revenue.

Investments

All investment securities and negotiable certificate of deposits held by ADF are considered by Management to be "Available for Sale" and are reported at estimated fair value, with unrealized gains and losses excluded from revenue and reported in "FUND BALANCES" as part of "Accumulated other comprehensive income." Estimated fair value represents market value. Time deposits are classified as "Held-to-Maturity" and are reported at cost. Realized gains and losses are included in revenue from investments and are measured by the difference between amortized cost and the net proceeds of sales.

Securities Transferred Under Securities Lending Arrangement

ADB accounts for transfers of financial assets in accordance with FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FAS 125." In general, transfers are accounted for as sales under FAS 140 when ADB has relinquished control over the transferred assets. Transfers that are not accounted for as sales are accounted for as repurchase agreements and collateralized financing arrangements.

Loans

It is the policy of ADF to place in nonaccrual status loans made to eligible borrowing member countries if the principal or interest with respect to any such loans is overdue by six months. Interest on nonaccruing loans is included in revenue only to the extent that payments have actually been received by ADF. ADB follows a policy of not taking part in debt rescheduling agreements with respect to public sector loans. In the case of private sector loans, ADB may agree to debt rescheduling only after alternative courses of action have been exhausted. When ADB decides that a particular loan is no longer collectible, the entire amount will be expensed during the period.

Contributed Resources

Contributions by member countries are included in the financial statements as amounts committed and are reported in "Contributed Resources" as part of "FUND BALANCES" from the date Instruments of Contribution are deposited and related formalities are completed.

Contributions are generally paid or to be paid in the currency of the contributor either in cash or notes.

Accounting Estimates

The preparation of special purpose financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year and the reported amounts of income and expenses during the year. The actual results could differ from those estimates.

Special Purpose Statement of Cash Flows

For the purposes of the special purpose statement of cash flows, ADF considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

Reclassification

Certain reclassifications of prior year's information have been made to conform with the current year's presentation.

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. In the US dollar portfolio only and up to limited amounts, investments may be made in corporate bonds rated A or better, AAA-rated asset-backed securities, and AAA rated mortgage-backed securities. In addition, ADB may purchase and sell financial futures and option contract, and enter into interest exchange agreements, currency exchange agreements and forward rate agreements. Securities may be lent, borrowed, and sold short.

The currency compositions of the investment portfolio as of 31 December 2003 and 2002 expressed in United States dollars are as follows:

Currency	2003	2002
Australian dollar	$1,038,683,000	$ 582,983,000
Canadian dollar	540,541,000	320,404,000
Danish krone	114,377,000	80,490,000
Euro	1,744,002,000	1,057,178,000
Japanese yen	36,211,000	56,025,000
New Zealand dollar	69,059,000	44,285,000
Norwegian krone	172,654,000	141,777,000
Pound sterling	835,155,000	606,242,000
Swedish krone	125,324,000	75,990,000
United States dollar	75,923,000	309,416,000
	4,751,929,000	3,274,790,000
Less: Securities transferred under securities lending arrangement	(459,469,000)	(112,293,000)
Total	$4,292,460,000	$3,162,497,000

The estimated fair value and amortized cost of the investments by contractual maturity at 31 December 2003 are as follows:

	Estimated Fair Value	Amortized Cost
Due in one year or less	$3,371,281,000	$3,365,501,000
Due after one year through five years	1,380,648,000	1,380,571,000
Total	$4,751,929,000	$4,746,072,000

Additional information relating to investments in government and government-guaranteed obligations and corporate bonds, including securities transferred under securities lending arrangements, is as follows:

	2003	2002
As of 31 December		
Amortized cost	$3,232,058,000	$2,526,994,000
Estimated fair value	3,237,915,000	2,547,114,000
Gross unrealized gains	12,060,000	20,232,000
Gross unrealized losses	(6,203,000)	(112,000)
For the years ended 31 December		
Change in net unrealized (losses) gains from prior year	(14,263,000)	4,993,000
Proceeds from sales	254,667,000	447,477,000
Gross gain on sales	722,000	8,824,000
Gross loss on sales	(19,000)	(56,000)

The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month, excluding unrealized gains and losses on investment securities, was 3.91% (4.50% - 2002). If unrealized gains and losses on investment securities were included, the annualized rate of return would have been 3.55% (4.65% - 2002).

As of 31 December 2003, gross unrealized losses amounted to $6,203,000 from government and government-guaranteed obligations and corporate bonds, resulting from market movements. There are four positions that sustained unrealized losses for over one year, representing only 1.6% of the investments. Additional details are as follows:

	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government and government-guaranteed obligations	$602,910,000	$4,365,000	$ 4,995,000	$ 4,000	$ 607,905,000	$4,369,000
Corporate bonds	345,409,000	1,618,000	72,909,000	216,000	418,318,000	1,834,000
Total	$948,319,000	$5,983,000	$77,904,000	$220,000	$1,026,223,000	$6,203,000

NOTE D—LOANS AND LOAN LOSS PROVISION

Loans

Prior to 1 January 1999, loans of ADF were extended to eligible borrowing member countries, which bore a service charge of 1% and required repayment over periods ranging from 35 to 40 years. On 14 December 1998, the Board of Directors approved an amendment to ADF loan terms, as follows: (i) for loans to finance specific projects, the maturity was shortened to 32 years including an 8-year grace period; (ii) for program loans to support sector development, the maturity was shortened to 24 years including an 8-year grace period; and (iii) all new loans bear a 1% interest charge during the grace period, and 1.5% during the amortization period, with equal amortization. The new ADF lending terms took effect on 1 January 1999 and apply only to new loans for which formal loan negotiations were completed on or after 1 January 1999. ADF requires borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies disbursed.

ADB believes that there is no comparable market, nor ADB intends to sell its loans. The use of market data to arrive at the loan at fair value will give meaningless results. As such, the fair value of loans is determined using an entry value method. Under this method, fair value is determined based on the terms at which a similar loan would currently be made by ADB to a similar borrower. For such loans, fair value approximates the carrying amount. The estimated fair value of loans is not affected by credit risks because the amount of any such adjustment is not considered to have a material effect based on ADB's experience with its borrowers.

Undisbursed loan commitments and an analysis of loans by country as of 31 December 2003 are shown in ADF-5.

The principal amount outstanding of public sector loans in nonaccrual status as of 31 December 2003 was $495,974,000 ($498,137,000 - 2002) of which $106,895,000 ($80,420,000 - 2002) was overdue. Loans in nonaccrual status resulted in $4,620,000 ($5,009,000 - 2002) not being recognized as income from loans for the year ended 31 December 2003. The accumulated interest on these loans that was not recognized as income as of 31 December 2003 would have totaled $28,281,000 ($24,361,000 - 2002). The loans in nonaccrual status as of 31 December 2003 were 28 loans made to Myanmar (28 loans to Myanmar and 14 loans to Solomon Islands - 2002).

No private sector loan was in nonaccrual status as of 31 December 2003 (nil - 2002).

Private sector loan outstanding as of 31 December 2003 was $5,962,000 ($5,502,000 - 2002), and there was no undisbursed loan commitment (nil - 2002).

NOTE E—DUE FROM CONTRIBUTORS

Included in "Due from contributors" are notes of contributors and contributions receivable. Notes of contributors are nonnegotiable, noninterest-bearing and, subject to certain restrictions imposed by applicable Board of Governors' resolutions, encashable by ADB at par upon demand.

ADB currently expects that the notes outstanding at 31 December 2003 will be encashed in varying amounts over an eight-year period ending 31 December 2011.

The fair value of notes of contributors is determined using an entry value method, whereby fair value is determined based on the terms at which notes are currently being accepted from contributors. On this basis, the fair value of outstanding notes of contributors approximates their carrying amount.

NOTE F—ADMINISTRATIVE EXPENSES AND ADMINISTRATION CHARGE

Administrative expenses for 2003 included a directly identifiable expense of $3,000 (nil - 2002) and administration charge from ordinary capital resources amounting to $153,018,000 ($144,379,000 - 2002). The charge represents an apportionment of all administrative expenses of ADB (other than those pertaining directly to ordinary operations and special operations), based on the number of loans and equity investments approved during the year.

NOTE G—SET-ASIDE RESOURCES

Pursuant to the provisions of Article 19, paragraph 1(i) of the Articles of Agreement Establishing the Asian Development Bank (the Charter), the Board of Governors has authorized the setting aside of 10% of the unimpaired "paid-in" capital paid by member countries pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by member countries pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973, to be used as a part of the Special Funds of ADB. The capital so set aside was allocated and transferred from the ordinary capital resources to ADF as Set-Aside Resources.

The capital stock of ADB is defined in Article 4, paragraph 1 of the Charter, "in terms of United States dollars of the weight and fineness in effect on 31 January 1966" (the 1966 dollar). Therefore, Set-Aside Resources had historically been translated into the current United States dollar (ADB's unit of account), on the basis of its par value in terms of gold. From 1973 until 31 March 1978, the rate arrived at on this basis was $1.20635 per 1966 dollar. Since 1 April 1978, at which time the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, currencies no longer had par values in terms of gold. Pending ADB's selection of the appropriate successor to the 1966 dollar, the Set-Aside Resources have been valued for purposes of the accompanying financial statements in terms of the Special Drawing Right (SDR), at the value in current United States dollars as computed by the IMF. As of 31 December 2003, the value of the SDR in terms of the current United States dollar was $1.48597 ($1.35458 - 2002). On this basis, Set-Aside Resources amounted to $70,746,000 ($64,491,000 - 2002). If the capital stock of ADB as of 31 December 2003 had been valued in terms of $12,063.50 per share, Set-Aside Resources would have been $57,435,000.

NOTE H—COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income has two major components: net income and other comprehensive income. Other comprehensive income include unrealized gains and losses on available-for-sale securities and currency translation adjustments.

NOTE I—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value.

If available, quoted market values are used to determine fair values. Financial instruments for which market quotations are not readily available are valued using methodologies and assumptions which necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction, or whether they are actually exchangeable is not determinable.

The carrying amounts of ADF's assets, liabilities, and fund balances are considered to approximate fair values for all significant financial instruments. See Notes B, C, D, and E for discussions relating to investments, loans, and notes of contributors.

PRICEWATERHOUSECOOPERS

REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank–Technical Assistance Special Fund at 31 December 2003 and 2002, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Asian Development Bank; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying statement of resources as at 31 December 2003 and summary statement of technical assistance approved and effective for the year ended 31 December 2003 are presented for purposes of additional analyses and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Detroit, Michigan
3 March 2004

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF FINANCIAL POSITION

31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Note B)

	2003		2002	
ASSETS				
DUE FROM BANKS (Note B)		$ 2,116		$ 1,792
INVESTMENTS (Notes B and C)				
Government and government-guaranteed obligations	$ –		$60,508	
Time deposits	175,152		94,457	
Corporate bonds	53,341	228,493	–	154,965
ACCRUED REVENUE		1,146		1,143
OTHER ASSETS		7,925		7,168
TOTAL		**$239,680**		**$165,068**
LIABILITIES AND UNCOMMITTED BALANCES				
PAYABLE TO ORDINARY CAPITAL RESOURCES		$ 15		$ 60
ACCOUNTS PAYABLE AND OTHER LIABILITIES		–		70
UNDISBURSED COMMITMENTS (Notes B and E)		135,553		96,600
UNCOMMITTED BALANCES (TASF-2 and TASF-4) (Note B)				
Unrestricted net assets		104,112		68,338
TOTAL		**$239,680**		**$165,068**

The accompanying notes are an integral part of these financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note B)

	2003		2002	
CHANGES IN UNRESTRICTED NET ASSETS				
CONTRIBUTIONS (TASF-4) (Notes B and D)		$ 80,070		$ 1,117
REVENUE				
From investments (Notes B and C)				
Interest	$ 6,629		$ 5,908	
Unrealized investment losses	(1,301)		(1,117)	
	5,328		4,791	
From other sources-net (Note E)	508	5,836	2,743	7,534
Total		85,906		8,651
EXPENSES				
Technical assistance (TASF-5) (Notes B and E)		80,125		27,931
Financial expenses		9		11
Total		80,134		27,942
CONTRIBUTIONS AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES		5,772		(19,291)
EXCHANGE GAINS—net (Note B)		30,002		6,358
INCREASE (DECREASE) IN NET ASSETS		35,774		(12,933)
NET ASSETS AT BEGINNING OF YEAR		68,338		81,271
NET ASSETS AT END OF YEAR		**$104,112**		**$68,338**

The accompanying notes are an integral part of these financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF CASH FLOWS

For the Years Ended 31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Note B)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 80,450	$ 520
Interest on investments received	7,014	5,847
Cash received from other activities	572	2,929
Technical assistance disbursed	(42,452)	(43,907)
Financial expenses paid	(9)	(11)
Net Cash Provided by (Used in) Operating Activities	45,575	(34,622)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	7,759	27,275
Maturities of investments	4,076,605	1,256,924
Purchases of investments	(4,130,238)	(1,249,279)
Net Cash (Used in) Provided by Investing Activities	(45,874)	34,920
Effect of Exchange Rate Changes on Due from Banks	623	27
Net Increase in Due from Banks	324	325
Due from Banks at Beginning of Year	1,792	1,467
Due from Banks at End of Year	$ 2,116	$ 1,792
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Increase (decrease) in net assets (TASF-2)	$ 35,774	$ (12,933)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Change in undisbursed commitments	38,953	(16,415)
Translation adjustments	(29,938)	(6,172)
Unrealized investment losses	1,301	1,117
Change in advances for technical assistance to member countries	(1,146)	(182)
Amortization of discounts/premiums	782	91
Gain on sale of Investments	(394)	–
Change in contributions receivable	380	(596)
Change in accrued interest receivable and others	(137)	468
Net Cash Provided by (Used in) Operating Activities	$ 45,575	$ (34,622)

The accompanying notes are an integral part of these financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF RESOURCES
31 December 2003

Expressed in Thousands of United States Dollars (Note B)

	Contributions Committed During 2003	Direct Voluntary Contributions	Regularized Replenishment[1]	Total Contributions
DIRECT VOLUNTARY CONTRIBUTIONS				
Australia	$ –	$ 2,484	$ 14,830	$ 17,314
Austria	–	159	1,845	2,004
Bangladesh	–	47	–	47
Belgium	–	1,394	1,594	2,988
Canada	–	3,346	16,200	19,546
China, People's Rep. of	–	1,600	–	1,600
Denmark	–	1,963	2,040	4,003
Finland	–	237	938	1,175
France	–	1,697	11,091	12,788
Germany	–	3,315	13,694	17,009
Hong Kong, China	–	100	120	220
India	–	2,857	–	2,857
Indonesia	–	250	40	290
Italy	–	774	9,371	10,145
Japan	–	47,710	79,206	126,916
Korea, Rep. of	–	1,900	600	2,500
Malaysia	–	909	–	909
Nauru	–	–	67	67
The Netherlands	–	1,338	5,327	6,665
New Zealand	–	1,096	666	1,762
Norway	–	3,279	1,822	5,101
Pakistan	70	1,596	–	1,596
Singapore	–	1,100	–	1,100
Spain	–	190	1,709	1,899
Sri Lanka	–	6	–	6
Sweden	–	861	3,787	4,648
Switzerland	–	1,035	2,708	3,743
Taipei,China	–	200	500	700
Turkey	–	–	2,354	2,354
United Kingdom	–	5,617	8,222	13,839
United States	–	1,500	34,352	35,852
Total		88,560	213,083	301,643
Transfers to Asian Development Fund				(3,472)
Allocation from OCR Net Income	80,000			581,000
Other Resources[2]				126,353
TOTAL				**$1,005,524**

1 Represents TASF portion of contributions to the replenishment of the Asian Development Fund and the Technical Asistance Special Fund authorized by Governors' Resolution Nos. 182 and 214 at historical values.
2 Represents income, repayments, and reimbursement accruing to TASF since 1980, including unrealized investment holding gains (losses).

The accompanying notes are an integral part of these financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

SUMMARY STATEMENT OF TECHNICAL ASSISTANCE APPROVED AND EFFECTIVE

For the Year Ended 31 December 2003

Expressed in Thousands of United States Dollars (Note B)

Recipient	Project Preparation	Project Implementation/ Advisory	Total
Afghanistan	$ 2,750	$ 950	$ 3,700
Azerbaijan	–	1,017	1,017
Bangladesh	900	2,928	3,828
Bhutan	700	1,550	2,250
Cambodia	1,430	2,612	4,042
China, People's Rep. of	1,440	4,225	5,665
Cook Islands	–	4	4
Fiji Islands	–	271	271
India	700	2,515	3,215
Indonesia	621	2,738	3,359
Kazakhstan	150	826	976
Kiribati	–	(103)	(103)
Kyrgyz Republic	–	1,268	1,268
Lao PDR	694	967	1,661
Maldives	(25)	556	531
Marshall Islands	–	124	124
Micronesia, Fed. States of	–	35	35
Mongolia	–	(4)	(4)
Nepal	920	623	1,543
Pakistan	2,726	1,944	4,670
Papua New Guinea	–	450	450
Philippines	150	3,252	3,402
Samoa	–	343	343
Solomon Islands	(250)	(533)	(783)
Sri Lanka	777	806	1,583
Tajikistan	–	(85)	(85)
Thailand	–	561	561
Timor-Leste, The Democratic Republic of	–	463	463
Tonga	515	237	752
Tuvalu	–	260	260
Uzbekistan	150	2,832	2,982
Vanuatu	(17)	208	191
Viet Nam	1,100	4,423	5,523
Total	$15,431	$38,263	53,694
Regional Activities			26,431
TOTAL			**$80,125**

Negative amounts represent net undisbursed commitments written back to balances available for future commitments (Notes B and E).

The accompanying notes are an integral part of these financial statements (TASF-6).

NOTES TO FINANCIAL STATEMENTS

31 December 2003 and 2002

NOTE A—NATURE OF OPERATIONS

The Technical Assistance Special Fund (TASF) was established to provide technical assistance on a grant basis to developing member countries of the Asian Development Bank (ADB) and for regional technical assistance. TASF resources consist of direct voluntary contributions by members, allocations from the net income of ordinary capital resources (OCR) and Asian Development Fund (ADF) contributions, and revenue from investments and other sources.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the TASF are presented on the basis of unrestricted and temporarily restricted net assets.

TASF reports contributed cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. There were no restricted net assets at 31 December 2003 and 2002.

Investments

All investment securities held by TASF are reported at estimated fair value, with realized and unrealized gains and losses included in revenue. Estimated fair value represents market value. Time deposits are classified as "Held-to-Maturity" and are reported at cost.

Contributions

Contributions from members are included in the financial statements from the date contribution agreements become effective. Contributions from donors which are restricted by them to technical assistance (TA) projects/programs with specified procurement sources are classified as temporarily restricted contributions. Those without any stipulations as to specific use are accounted for as unrestricted contributions.

Technical Assistance to Member Countries

Technical assistance is recognized in the financial statements when the related project is approved and becomes effective. Upon completion of the TA project, any undisbursed amount is written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment is eliminated accordingly.

Reporting Currency

The financial statements of TASF are expressed in thousands of current United States dollars. As a matter of convenience, the United States dollar is the functional and reporting currency and is used to measure exchange gains and losses.

Translation of Currencies

Assets, liabilities, and uncommitted balances in currencies other than United States dollars are translated at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts in currencies other than United States dollars are translated for each semimonthly period generally at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period. Translation adjustments are accounted for as exchange gains or losses and are charged or credited to operations.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year and the reported amounts of income and expenses during the year. The actual results could differ from those estimates.

Statement of Cash Flows

For the purposes of the statement of cash flows, the TASF considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

Reclassification

Certain reclassifications of prior year's information have been made to conform to the current year's presentation.

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. In the US dollar portfolio only and up to limited amounts, investments may be made in corporate bonds rated A or better, AAA-rated asset-backed securities, and AAA rated mortgage-backed securities. In addition, ADB may purchase and sell financial futures and option contract, and enter into interest exchange agreements, currency exchange agreements and forward rate agreements. Securities may be lent, borrowed, and sold short.

The currency compositions of the investment portfolio as of 31 December 2003 and 2002 expressed in United States dollars are as follows:

Currency	2003	2002
Australian dollar	$ 8,359,000	$ 6,027,000
Canadian dollar	131,321,000	124,352,000
Euro	15,315,000	12,354,000
United States dollar	68,789,000	8,239,000
Others	4,709,000	3,993,000
Total	$228,493,000	$154,965,000

The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month was 2.78% (2.86% - 2002).

NOTE D—FUNDING

Since inception in 1967, direct contributions have been made by 29 member countries. In 1986 and 1992, the Board of Governors, in authorizing a replenishment of the ADF, provided for an allocation to the TASF in an aggregate amount equivalent to $72,000,000 and $140,000,000, respectively, to be used for technical assistance to ADF borrowing developing member countries and for regional technical assistance.

In 2003, $80,000,000 was allocated out of OCR net income to TASF bringing the accumulated allocation out of OCR net income to $581,000,000.

Some of the direct contributions received were subject to restricted procurement sources, while some were given on condition that the technical assistance be made on a reimbursable basis. The total contributions received for the years ended 31 December 2003 and 2002 were without restrictions.

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent effective ongoing grant-financed TA projects/programs which are not yet disbursed as of the end of the year. During 2003, an amount of $10,136,000 ($3,870,000 - 2002) representing completed and canceled TA projects has been written back as a reduction in technical assistance of the period and the corresponding undisbursed commitment has been eliminated. The fair value of undisbursed commitments approximates the amounts undisbursed because ADB expects that grants will be made for all projects/programs covered by the commitments. Prior to 1 January 2002, when technical assistance provided as a project preparatory grant leads to an ADB loan, the amount of the grant exceeding $250,000 will be refunded by the borrower through the loan proceeds under the terms of that ADB loan. Refinanced amount of $458,000 ($2,625,000 - 2002) was charged to such loans and credited to revenue from other sources of the TASF during the year ended 31 December 2003. All project preparatory technical assistance (PPTA) funded from TASF and OCR current income approved on or after 1 January 2002 are no longer subject to cost recovery.

NOTE F—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value and thus unrealized loss was not incurred as of 31 December 2003.

The carrying amounts of TASF's assets, liabilities, and uncommitted balances are considered to approximate fair values for all significant financial instruments. See Notes B and E for discussions with respect to investments and undisbursed commitments, respectively.

PRICEWATERHOUSECOOPERS

REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank–Japan Special Fund at 31 December 2003 and 2002, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Asian Development Bank; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Detroit, Michigan
3 March 2004

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF FINANCIAL POSITION
31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note B)

	2003			2002		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
ASSETS						
DUE FROM BANKS (Note B)	$ 640	$ 1,977	$ 2,617	$ 656	$ 711	$ 1,367
INVESTMENTS (Notes A, B, and C)						
Government and government-guaranteed obligations	3,045	46,709	49,754	2,016	41,021	43,037
Time deposits	28,820	22,781	51,601	15,163	12,104	27,267
Other securities	5,687	150,613	156,300	43,490	189,746	233,236
	37,552	220,103	257,655	60,669	242,871	303,540
EQUITY INVESTMENTS (Notes A, B, and D), net	–	111	111	–	106	106
ACCRUED REVENUE	172	3,218	3,390	710	4,992	5,702
OTHER ASSETS (Note E)	275	3,538	3,813	98	6,306	6,404
TOTAL	**$38,639**	**$228,947**	**$267,586**	**$62,133**	**$254,986**	**$317,119**
LIABILITIES AND UNCOMMITTED BALANCES						
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note E)	$ 1,411	$ 218	$ 1,629	$14,625	$ 417	$ 15,042
UNDISBURSED COMMITMENTS (Notes B and F)						
Technical assistance	9,759	88,521	98,280	19,479	94,431	113,910
NET ASSETS (JSF-2) (Note B), represented by:						
Uncommitted balances (Notes A, G, and H)						
Unrestricted	–	140,208	140,208	–	160,138	160,138
Temporarily restricted	25,067	–	25,067	26,211	–	26,211
	25,067	140,208	165,275	26,211	160,138	186,349
Net accumulated investment income (Notes A and H)						
Temporarily restricted	2,402	–	2,402	1,818	–	1,818
	27,469	140,208	167,677	28,029	160,138	188,167
TOTAL	**$38,639**	**$228,947**	**$267,586**	**$62,133**	**$254,986**	**$317,119**

The accompanying notes are an integral part of these financial statements (JSF-4).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note B)

	2003			2002		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
CHANGES IN UNRESTRICTED NET ASSETS						
CONTRIBUTIONS (Notes B and H)	$ –	$ 16,633	$ 16,633	$ –	$ 22,550	$ 22,550
REVENUE FROM INVESTMENTS (Notes B and C)	–	3,260	3,260	–	5,810	5,810
REVENUE FROM OTHER SOURCES	–	53	53	–	43	43
NET ASSETS RELEASED FROM RESTRICTIONS (Notes B and H)	1,195	–	1,195	72,994	159,738	232,732
Total	1,195	19,946	21,141	72,994	188,141	261,135
TRANSFER TO JAPAN FUND FOR POVERTY REDUCTION (Note A)	–	–	–	(90,000)	–	(90,000)
EXPENSES						
Interest payment assistance written back (Notes B and F)	–	–	–	(33,251)	–	(33,251)
Technical assistance (Notes B and F)	1,147	38,342	39,489	16,157	34,554	50,711
Administrative expenses	48	1,213	1,261	88	1,333	1,421
Financial expenses	–	9	9	–	16	16
Total	1,195	39,564	40,759	(17,006)	35,903	18,897
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	–	(19,618)	(19,618)	–	152,238	152,238
EXCHANGE LOSSES (Note B)	–	(312)	(312)	–	(606)	(606)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS BEFORE TRANSLATION ADJUSTMENTS	–	(19,930)	(19,930)	–	151,632	151,632
TRANSLATION ADJUSTMENTS (Note B)	–	–	–	–	1	1
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	–	(19,930)	(19,930)	–	151,633	151,633
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
REVENUE FROM INVESTMENTS AND OTHER SOURCES (Notes B and C)	635	–	635	1,392	–	1,392
NET ASSETS RELEASED FROM RESTRICTIONS (Notes B and H)	(1,195)	–	(1,195)	(72,994)	(159,738)	(232,732)
EXCHANGE LOSSES (Note B)	–	–	–	(1,471)	–	(1,471)
TRANSLATION ADJUSTMENTS (Note B)	–	–	–	1,216	–	1,216
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(560)	–	(560)	(71,857)	(159,738)	(231,595)
DECREASE IN NET ASSETS	(560)	(19,930)	(20,490)	(71,857)	(8,105)	(79,962)
NET ASSETS AT BEGINNING OF YEAR	28,029	160,138	188,167	99,886	168,243	268,129
NET ASSETS AT END OF YEAR	**$27,469**	**$140,208**	**$167,677**	**$28,029**	**$160,138**	**$188,167**

The accompanying notes are an integral part of these financial statements (JSF-4).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note A)

	2003			2002		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Contributions received	$ –	$ 16,633	$ 16,633	$ –	$ 22,550	$ 22,550
Transfer to Japan Fund for Poverty Reduction	–	–	–	(90,000)	–	(90,000)
Interest on investments received	2,289	11,500	13,789	1,603	4,878	6,481
Technical assistance disbursed	(11,669)	(41,718)	(53,387)	(10,000)	(57,723)	(67,723)
Interest assistance paid	(12,536)	–	(12,536)	(22,225)	–	(22,225)
Administrative expenses paid	(102)	(1,193)	(1,295)	(101)	(1,258)	(1,359)
Financial expenses paid	–	(9)	(9)	–	(16)	(16)
Others—net	3	(250)	(247)	(1,464)	(549)	(2,013)
Net Cash Used in Operating Activities	(22,015)	(15,037)	(37,052)	(122,187)	(32,118)	(154,305)
CASH FLOWS FROM INVESTING ACTIVITIES						
Sales of investments	–	20,113	20,113	108,343	–	108,343
Maturities of investments	1,883,001	9,871,962	11,754,963	3,935,023	9,553,289	13,488,312
Purchases of investments	(1,861,002)	(9,875,773)	(11,736,775)	(3,924,828)	(9,521,124)	(13,445,952)
Net Cash Provided by Investing Activities	21,999	16,302	38,301	118,538	32,165	150,703
Effect of Exchange Rate Changes on Due from Banks	–	1	1	2,990	1	2,991
Net (Decrease) Increase in Due from Banks	(16)	1,266	1,250	(659)	48	(611)
Due from Banks at Beginning of Period	656	711	1,367	1,315	663	1,978
Due from Banks at End of Period	$ 640	$ 1,977	$ 2,617	$ 656	$ 711	$ 1,367
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:						
Decrease in net assets (JSF-2)	$ (560)	$ (19,930)	$ (20,490)	$ (71,857)	$ (8,105)	$ (79,962)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:						
Change in undisbursed commitments	(9,720)	(5,910)	(15,630)	(53,554)	(23,174)	(76,728)
Amortization of discounts/premiums	1,069	6,189	7,258	610	2,982	3,592
Unrealized investment losses (gains)	49	275	324	(101)	(258)	(359)
Translation adjustment	–	(14)	(14)	(1,216)	(1)	(1,217)
Net loss (gain) from sales of investments	–	2	2	(12)	–	(12)
Others—net	(12,853)	4,351	(8,502)	3,943	(3,562)	381
Net Cash Used in Operating Activities	$ (22,015)	$ (15,037)	$ (37,052)	$ (122,187)	$ (32,118)	$ (154,305)

The accompanying notes are an integral part of these financial statements (JSF-4).

NOTES TO FINANCIAL STATEMENTS

31 December 2003 and 2002

NOTE A—NATURE OF OPERATIONS

The Japan Special Fund (JSF) was established in March 1988 when Japan and the Asian Development Bank (ADB) entered into a financial arrangement whereby Japan agreed to make an initial contribution and ADB became the administrator. The purpose of JSF is to help developing member countries (DMCs) of ADB restructure their economies and broaden the scope of opportunities for new investments, thereby assisting the recycling of funds to DMCs of ADB. While JSF resources are used mainly to finance technical assistance (TA) operations, these resources may also be used for equity investment operations in ADB's DMCs. Under the agreement between ADB and Japan, ADB may invest the proceeds of JSF pending disbursement.

In March 1999, the Board approved the acceptance and administration by ADB of a new facility, the Asian Currency Crisis Support Facility (ACCSF) to assist Asian currency crisis-affected member countries (CAMCs). Funded by Japan, ACCSF was established within JSF to assist in the economic recovery of CAMCs through interest payment assistance (IPA) grants, TA grants, and guarantees. With the general fulfillment of the purpose of the facility, Japan and ADB agreed to terminate the ACCSF on 22 March 2002. An amount of $90 million in the ACCSF account, upon request of Japan, was transferred to the Japan Fund for Poverty Reduction (JFPR). JFPR, established by Japan in May 2000 supporting innovative poverty reduction and related social development activities, is one of the trust funds managed by ADB. The ACCSF account is to be kept open until the completion of all TA and IPA disbursements and the settlement of all administrative expenses.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of JSF are presented on the basis of unrestricted and temporarily restricted net assets. ACCSF funds are separately reported in the financial statements.

JSF reports the contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as "NET ASSETS RELEASED FROM RESTRICTIONS."

Investments

All investment securities held by JSF are reported at estimated fair value, with realized and unrealized gains and losses included in revenue. Estimated fair value represents market value. Time deposits are classified as "Held-to-Maturity" and are reported at cost.

Contributions

Contributions by Japan are included in the financial statements from the date indicated by Japan that funds are expected to be made available. Contributions which are restricted by the donor for specific TA projects/programs or for IPA grants are classified as temporarily restricted contributions. Those without any stipulation as to specific use are accounted for as unrestricted contributions and reported as such.

Technical Assistance and Interest Payment Assistance

Technical assistance and interest payment assistance are recognized in the financial statements when the related project or assistance is approved and becomes effective. Upon completion of the TA project or cancellation of a grant, any undisbursed amount is written back as a reduction in TA or IPA for the year and the corresponding undisbursed commitment is eliminated, accordingly.

Functional Currency and Reporting Currency

The United States dollar is considered the functional currency as it has become the currency of the primary economic operating environment of the Fund. The reporting currency is the United States dollar. The financial statements are expressed in thousands of current United States dollars.

Translation of Currencies

Assets, liabilities, and uncommitted balances are translated to the reporting currency at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the year are translated at the applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts are translated for each semimonthly period at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period. Exchange gains or losses on currency transactions arise on exchange differences between the date a project/program is committed and the timing of disburse-

ments. Exchange gains or losses are charged or credited to operations.

Equity Investments

Equity investments with readily determinable fair values are reported at fair value. The reserve against losses is established quarterly based on Management's evaluation of potential losses on investments without readily determinable fair values.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year and the reported amounts of income and expenses during the year. The actual results could differ from those estimates.

Statement of Cash Flows

For the purposes of the statement of cash flows, the JSF considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

Reclassification

Certain reclassifications of prior year's information have been made to conform to the current year's presentation.

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. In the US dollar portfolio only and up to limited amounts, investments may be made in corporate bonds rated A or better, AAA-rated asset-backed securities, and AAA rated mortgage-backed securities. In addition, ADB may purchase and sell financial futures and option contract, and enter into interest exchange agreements, currency exchange agreements and forward rate agreements. Securities may be lent, borrowed, and sold short.

The investment portfolios of both JSF and ACCSF as of 31 December 2003 and 2002 are comprised of United States dollars holdings.

The annualized rates of return on the average investments held under ACCSF and JSF funds during the year, based on the portfolio held at the beginning and end of each month were 1.45% and 1.30%, respectively (1.54% and 2.15%, respectively - 2002).

NOTE D—EQUITY INVESTMENTS

ADB used JSF resources to make an equity investment in India in 1990. Commencing May 2001, due to the unavailability of a reliable market for the investment, ADB reported the investment at its written down value of $111,000 ($106,000 - 2002).

NOTE E—OTHER ASSETS AND LIABILITIES

Included in other assets and liabilities are interfund transfers as follows:

	2003	2002
Amounts Receivable by JSF from:		
ACCSF	$1,410,000	$2,089,000
Cofinanced TA Grant	–	100,000
Total	$1,410,000	$2,189,000
Amounts Payable by:		
JSF to: Ordinary Capital Resources	$ 141,000	$ 230,000
Technical Assistance Special Fund	–	13,000
Agency Trust Funds	8,000	105,000
Total	149,000	348,000
ACCSF to: Japan Special Fund	1,410,000	2,089,000
Total	$1,559,000	$2,437,000

CONTINUED

NOTE F—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent TA projects/programs and IPA grants which have become effective but not yet disbursed. During 2003, an amount of $7,891,000 representing completed and partially canceled TA projects ($3,010,000 and $33,251,000 for TA & IPA grants, respectively - 2002) have been written back as a reduction in technical assistance for the year, and the corresponding undisbursed commitments have been eliminated. The fair value of undisbursed commitments approximates the amounts outstanding because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE G—UNCOMMITTED BALANCES

Uncommitted balances comprised of amounts which have not been committed by ADB as at 31 December 2003. These balances include TA projects/programs that had been approved but not yet become effective.

As of 31 December 2003 and 2002 these balances are as follows:

	2003			2002		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
Uncommitted balances	$25,067,000	$140,208,000	$165,275,000	$26,211,000	$160,138,000	$186,349,000
TA projects/programs approved by Japan and ADB but not yet effective	–	(13,830,000)	(13,830,000)	(2,500,000)	(22,820,000)	(25,320,000)
TA projects/programs approved by Japan and not yet effective	–	(1,300,000)	(1,300,000)	–	(1,900,000)	(1,900,000)
Uncommitted balances available for new commitments	$25,067,000	$125,078,000	$150,145,000	$23,711,000	$135,418,000	$159,129,000

NOTE H—CONTRIBUTIONS AND TEMPORARILY RESTRICTED NET ASSETS

All contributions for the years ended 31 December 2003 and 2002 were received during the respective years. Some of the contributions received were with restriction that were to be utilized for specific TA projects/programs. Such contributions were classified as temporarily restricted support.

Effective 31 December 2002, all remaining temporarily restricted net assets under JSF were transferred and integrated into the regular net assets, as concurred by Japan, in order to optimize the use of JSF. Similarly, Japan lifted the restriction over the use of net accumulated investment income, which under the original terms of agreement between ADB and Japan, may only be used for defraying JSF's administrative expenses. Japan agreed to use the net accumulated investment income as additional resources for funding future ADB's TA operations.

The temporarily restricted uncommitted balance remaining available as of 31 December 2003 corresponds to funds under ACCSF of $25,067,000 ($26,211,000 - 2002) to cover completion of TA disbursements and the amount of net accumulated investment income of $2,402,000 ($1,818,000 - 2002) for settlement of all administrative expenses.

Net assets released from restrictions relate to commitments for technical assistance satisfying the conditions specified by the donor and, in the case of accumulated investment income, to defray the administrative expenses of the Fund.

NOTE I—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current

transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value and thus unrealized loss was not incurred as of 31 December 2003.

If available, quoted market values are used to determine fair values. Financial instruments for which market quotations are not readily available are valued using methodologies and assumptions which necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not determinable.

The carrying amounts of JSF's assets, liabilities, and uncommitted balances are considered to approximate fair values for all significant financial instruments. See Notes B, C, D, and F for discussions relating to investments, equity investments, and undisbursed commitments.

PRICEWATERHOUSECOOPERS

REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets, and cash flows present fairly, in all material respects in terms of United States dollars, the financial position of the Asian Development Bank—Asian Development Bank Institute Special Fund at 31 December 2003 and 2002, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Asian Development Bank Institute; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Detroit, Michigan
3 March 2004

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

STATEMENT OF FINANCIAL POSITION
31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note B)

	2003		2002	
ASSETS				
DUE FROM BANKS (Note B)		$ 11,943		$ 6,300
INVESTMENTS (Notes B, C and D)				
Time deposits		1,402		2,955
PROPERTY, FURNITURE, AND EQUIPMENT (Note B and F)				
Leasehold improvements	$1,869		$1,689	
Less—allowance for depreciation	1,197	672	926	763
Furniture and Equipment	2,862		2,614	
Less—allowance for depreciation	2,602	260	2,281	333
OTHER ASSETS		2,030		1,849
TOTAL		**$16,307**		**$12,200**
LIABILITIES AND UNCOMMITTED BALANCES				
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note G)		$ 2,092		$ 1,803
UNCOMMITTED BALANCES (ADBISF-2)				
Unrestricted net assets		14,215		10,397
TOTAL		**$16,307**		**$12,200**

The accompanying notes are an integral part of these financial statements (ADBISF-4).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2003 and 2002

Expressed in Thousands of United States Dollars (Note B)

	2003	2002
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note B)	$ 11,805	$ 9,779
REVENUE		
Income from investments (Notes B and C)	–	–
Income from other sources—net	14	6
Total	11,819	9,785
EXPENSES		
Administrative expenses	8,202	8,580
Program expenses	1,458	1,957
Total	9,660	10,537
CONTRIBUTIONS AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	2,159	(752)
EXCHANGE GAINS—NET	119	49
TRANSLATION ADJUSTMENTS (Note B)	1,540	1,243
INCREASE IN UNRESTRICTED NET ASSETS AFTER TRANSLATION ADJUSTMENTS	3,818	540
NET ASSETS AT BEGINNING OF YEAR	10,397	9,857
NET ASSETS AT END OF YEAR	**$14,215**	**$10,397**

The accompanying notes are an integral part of these financial statements (ADBISF-4).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2003 and 2002
Expressed in Thousands of United States Dollars (Note B)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 11,805	$ 9,779
Expenses paid	(9,001)	(9,642)
Net Cash Provided by Operating Activities	2,804	137
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturity and sales of investments	20,923	148,400
Purchases of investments	(19,224)	(144,649)
Net Cash Provided by Investing Activities	1,699	3,751
Effect of Exchange Rate Changes on Cash	1,140	251
Net Increase in Due From Banks	5,643	4,139
Due from Banks at Beginning of Year	6,300	2,161
Due from Banks at End of Year	$ 11,943	$ 6,300
RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net unrestricted assets (ADBISF-2)	$ 3,818	$ 540
Adjustments to reconcile increase in net unrestricted assets to net cash provided by operating activities:		
Translation adjustments	(1,540)	(1,243)
Depreciation	260	226
Others—net	266	614
Net Cash Provided by Operating Activities	$ 2,804	$ 137

The accompanying notes are an integral part of these financial statements (ADBISF-4).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2003 and 2002

NOTE A—NATURE OF OPERATIONS

In 1996, the Asian Development Bank (ADB) approved the establishment of the Asian Development Bank Institute (the Institute) in Tokyo, Japan as a subsidiary body of ADB. The Institute commenced its operations upon the receipt of the first funds from Japan on 24 March 1997, and it was inaugurated on 10 December 1997. The Institute's funds may consist of voluntary contributions, donations, and grants from ADB member countries, nongovernment organizations, and foundations. The objectives of the Institute, as defined under its Statute, are the identification of effective development strategies and capacity improvement for sound development management in developing member countries.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the Institute are presented on the basis of those for not-for-profit organizations.

The Institute reports donor's contributions of cash and other assets as unrestricted support as these are made available to the Institute without conditions other than for the purposes of pursuing the objectives of the Institute.

Investments

All investment securities held by the Institute are reported at estimated fair value, with realized and unrealized gains and losses included in revenue. Estimated fair value represents market value. Time deposits are classified as "Held-to-Maturity" and are reported at cost.

Property, Furniture, and Equipment

Property, furniture, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method.

Contributions

Contributions from donors are included in the financial statements from the date committed.

Functional Currency and Reporting Currency

The functional currency of the Institute is the Japanese yen. The reporting currency is the United States dollar and the financial statements are expressed in thousands of current United States dollars.

Translation of Currencies

Assets, liabilities, and uncommitted balances are translated from the functional currency to the reporting currency at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the period are translated at the applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts in currency other than the United States dollar are translated for each semimonthly period at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period.

Accounting Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the end of the year and the reported amounts of income and expenses during the year. Actual results could differ from those estimates.

Statement of Cash Flows

For the purposes of the statement of cash flows, the Institute considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

NOTE C—INVESTMENTS

The investment portfolio was composed wholly of investments denominated in Japanese yen. As of 31 December 2003 and 2002, the estimated fair value of the investments approximated cost or amortized cost. All such investments are due within one year.

The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month was 0.003% (0.01% - 2002).

Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits. Subject to these parameters, ADB administers the Institute's investment and seeks the highest possible return on its investments.

As of 31 December 2003, ADBI did not hold any investments in an unrealized loss position.

NOTE D—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of time deposits is a reasonable estimate of fair value.

The Institute's statements of financial position carrying amounts are considered to approximate fair values for all significant financial instruments.

NOTE E—STAFF RETIREMENT PLAN AND POSTRETIREMENT MEDICAL BENEFITS

Staff Retirement Plan

The Institute participates in the contributory defined benefit Staff Retirement Plan (the Plan) of ADB. Every member of the professional staff, as defined under the Plan, shall, as a condition of service, become a participant from the first day of service, provided that at such a date, the staff has not reached the normal retirement age of 60. Retirement benefits are based on length of service and highest average remuneration during two years of eligible service. The Plan assets are segregated and are not included in the statement of financial position. The costs of administering the Plan are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the Plan.

Participants are required to contribute 9 1/3% of their salary to the Plan and may also make voluntary contributions. The Institute's contribution is determined at a rate sufficient to cover that part of the costs of the Plan not covered by the participants' contributions.

The expected amount of contributions to the Plan for 2004, based on the Institute's contribution rate for the coming year of 15%, and the participants' mandatory contribution are $138,000 and $86,000 respectively.

Contributions in excess of current benefits payments are invested in international financial markets and in a variety of investment vehicles. Investments are under the management of six investment agents and one global custodian who function within the guidelines established by the Plan's Investment Committee. The investment of these assets, over the long term, is expected to produce higher returns than short-term investments. The investment policy incorporates the Plan's package of desired investment returns, and tolerance for risk, taking into account the nature and duration of the Plan's liabilities. The Plan's assets are diversified among different markets and different asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

The Plan's investment policy is periodically reviewed and revised to reflect the best interest of the Plan's participants and beneficiaries. The current policy, adopted in January 2003, specifies an asset-mix structure of 70% of assets in equities and 30% in fixed income securities. At present, investments of the Plan's assets are divided into three categories: US equity, Non-US equity, and US fixed income.

As of 31 December 2003 and 2002, the breakdown of the fair value of plan assets held is as follows:

	2003		2002	
	Amount	**Percentage**	**Amount**	**Percentage**
Equity Securities				
US	$ 602,000		$341,000	
Non-US	237,000		181,000	
	839,000	69.6%	522,000	54.7%
Fixed income securities	362,000	30.0	434,000	45.5
Other Assets (Liabilities)—net	5,000	0.4	(2,000)	(0.2)
Total	$1,206,000	100.0%	$954,000	100.0%

All investments are valued using quoted market prices. Fixed income securities include US government and government guaranteed obligations, corporate bonds and time deposits. Other assets include forward exchange contracts in various foreign currencies transacted to hedge currency exposure in the investment portfolio, which have been marked to fair value.

For the year ended 31 December 2003 the net return on the Plan assets was 27.7% (negative 7.8% - 2002) attributed to the strong global equity markets in 2003. ADB expects the long-term rate of return on the assets to be 8%.

The assumed overall rate of return takes into account long-term return expectations of the underlying asset classes within the investment portfolio mix, and the expected duration of the Plan's liabilities. Return expectations are forward looking and, in general, not much weight is given to short-term experience. Unless there is a drastic change in investment policy or market environment, the assumed investment return of 8% on the Plan's assets is expected to remain broadly the same, year to year.

Postretirement Medical Benefits Plan

The Institute participates in the cost-sharing plan of ADB for retirees' medical insurance premiums of ADB. Under the plan, the Institute is obligated to pay 75% of the Group Medical Insurance Plan premiums for retirees and their eligible dependents who elect to participate. The cost-sharing plan is currently unfunded.

Generally accepted accounting principles require an actuarially determined assessment of the periodic cost of postretirement medical benefits.

The following table sets forth the pension and postretirement benefits at 31 December 2003 and 31 December 2002:

	Pension Benefits		Postretirement Medical Benefits	
	2003	2002	2003	2002
Change in benefit obligation:				
Benefit obligation at beginning of year	$1,406,000	$1,220,000	$ 348,000	$ 290,000
Service cost	242,000	313,000	52,000	108,000
Interest cost	115,000	113,000	27,000	28,000
Plan participants' contributions	99,000	116,000	–	–
Actuarial gain	425,000	(272,000)	58,000	(61,000)
Benefits paid	(258,000)	(84,000)	(17,000)	(17,000)
Benefit obligation at end of year	$2,029,000	$1,406,000	$ 468,000	$ 348,000
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 954,000	$ 869,000	$ –	$ –
Actual return on plan assets	274,000	(84,000)	–	–
Employer's contribution	137,000	137,000	17,000	17,000
Plan participants' contributions	99,000	116,000	–	–
Benefits paid	(258,000)	(84,000)	(17,000)	(17,000)
Fair value of plan assets at end of year	$1,206,000	$ 954,000	$ –	$ –
Funded status	$ (823,000)	$ (452,000)	$(468,000)	$(348,000)
Unrecognized actuarial gain	(60,000)	(328,000)	(101,000)	(182,000)
Unrecognized prior service cost	35,000	40,000	(11,000)	(13,000)
Net amount recognized	$ (848,000)	$ (740,000)	$(580,000)	$(543,000)
Amounts recognized in the statement of financial position consist of:				
Accrued benefit liability	$ (848,000)	$ (740,000)	$(580,000)	$(543,000)
Net amount recognized	$ (848,000)	$ (740,000)	$(580,000)	$(543,000)
Weighted-average assumptions as of 31 December				
Discount rate	6.25%	6.75%	6.25%	6.75%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase varies with age and averages	5.25%	5.75%	5.25%	5.75%

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2003 and 2002

For measurement purposes, a 7.25% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as at 31 December 2003. The rate was assumed to decrease gradually to 5.75% for 2009 and remain at that level thereafter.

	Pension Benefits		Postretirement Medical Benefits	
	2003	2002	2003	2002
Components of net periodic benefit cost:				
Service cost	$242,000	$313,000	$ 52,000	$108,000
Interest cost	115,000	113,000	27,000	28,000
Expected return on plan assets	(85,000)	(78,000)	–	–
Amortization of prior service cost	5,000	5,000	(2,000)	(2,000)
Recognized actuarial loss	(32,000)	(17,000)	(23,000)	(14,000)
Net periodic benefit cost	$245,000	$336,000	$ 54,000	$120,000

The accumulated benefit obligation of the pension plan as of 31 December 2003 was $1,783,000 ($1,188,000 - 2002).

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	$17,000	$(14,000)
Effect on postretirement benefit obligation	90,000	(71,000)

NOTE F—LEASED ASSETS

The Institute leases office space and other assets. Rental expenses under operating leases for the years ended 31 December 2003 and 2002 were $3,075,000 and $2,855,000, respectively. The minimum rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year at 31 December 2003 follow:

Year ending 31 December	Minimum future rentals
2004	$3,057,000

NOTE G—DUE TO ADB

Accounts payable and other liabilities include amounts due to ADB of $317,000 and $72,000 at 31 December 2003 and 2002, respectively.

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Every effort has been made to ensure the accuracy of the data used in this publication. However, source and interpretation of the data may vary among ADB's publications. ADB, therefore, accepts no responsibility whatsoever from any consequence of their use.

OPERATIONAL DATA

Table 1
PUBLIC AND PRIVATE SECTOR LOAN APPROVALS BY COUNTRY, 2003
($ million)

	OCR	ADF	Total	Total Project Cost[a]	Date Approved
AFGHANISTAN					
Emergency Infrastructure Rehabilitation and Reconstruction	–	150.00	150.00	150.00	3 Jun
Subtotal	–	150.00	150.00	150.00	
AZERBAIJAN					
Flood Mitigation	–	22.00	22.00	29.35	19 Dec
Subtotal	–	22.00	22.00	29.35	
BANGLADESH					
Second Primary Education Development Program (Sector Loan)	–	100.00	100.00	1,815.00	3 Nov
Road Network Improvement and Maintenance II	–	126.00	126.00	187.10	20 Nov
Power Sector Development Program					
– Program Loan	100.00	–	100.00	100.00	10 Dec
– Project Loan	186.00	–	186.00	328.50	10 Dec
Second Participatory Livestock Development	–	20.00	20.00	55.80	19 Dec
Subtotal	286.00	246.00	532.00	2,486.40	
BHUTAN					
Rural Electrification and Network Expansion	–	9.40	9.40	13.00	30 Sep
Subtotal	–	9.40	9.40	13.00	
CAMBODIA					
Provincial Towns Improvement (Supplementary Loan)	–	6.26	6.26	8.24	28 Oct
Agriculture Sector Development Program					
– Program Loan	–	25.00	25.00	25.00	26 Nov
– Project Loan	–	4.70	4.70	5.88	26 Nov
Northwest Irrigation Sector	–	18.00	18.00	30.87	9 Dec
Greater Mekong Subregion Transmission	–	44.30	44.30	95.00	15 Dec
Subtotal	–	98.26	98.26	164.99	
CHINA, PEOPLE'S REPUBLIC OF					
Harbin Water Supply	100.00	–	100.00	399.50	11 Mar
Wuhan Wastewater Management	83.00	–	83.00	193.59	25 Apr
Ningxia Roads Development	250.00	–	250.00	611.80	11 Sep
Western Yunnan Roads Development	250.00	–	250.00	582.00	28 Oct
Xi'an Urban Transport	270.00	–	270.00	762.00	27 Nov
Gansu Clean Energy Development	35.00	–	35.00	87.00	5 Dec
Yichang-Wanzhou Railway	500.00	–	500.00	2,363.00	15 Dec
Subtotal	1,488.00	–	1,488.00	4,998.89	
FIJI ISLANDS					
Suva-Nausori Water Supply and Sewerage	47.00	–	47.00	72.40	18 Dec
Subtotal	47.00	–	47.00	72.40	
INDIA					
Tala-Delhi Transmission[b]	62.00	–	62.00	249.00	16 Jan
Rural Roads Sector I	400.00	–	400.00	571.00	20 Nov
National Highway Corridor (Sector) I	400.00	–	400.00	760.20	4 Dec
Assam Power Sector Development Program					
– Program Loan	150.00	–	150.00	150.00	10 Dec
– Project Loan	100.00	–	100.00	243.50	10 Dec
Urban Water Supply and Environmental Improvement in Madhya Pradesh	200.00	–	200.00	303.50	12 Dec
Chhattisgarh State Roads Development Sector	180.00	–	180.00	285.70	15 Dec
Private Sector Housing Finance[b]					
– Sundaram Home Finance Limited	20.00	–	20.00	20.00	18 Dec
– Dewan Housing Finance Corporation Limited	20.00	–	20.00	20.00	18 Dec
Subtotal	1,532.00	–	1,532.00	2,602.90	

– Data not applicable.

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

b Private sector loan without government guarantee.

CONTINUED

	OCR	ADF	Total	Total Project Cost[a]	Date Approved
INDONESIA					
Participatory Irrigation Sector	54.00	19.00	73.00	126.00	19 Dec
Neighborhood Upgrading and Shelter Sector	68.60	20.00	88.60	126.50	19 Dec
Second Decentralized Health Services	64.80	35.20	100.00	143.00	19 Dec
Subtotal	187.40	74.20	261.60	395.50	
KAZAKHSTAN					
Rural Area Water Supply and Sanitation Sector	34.60	–	34.60	65.00	29 Sep
Subtotal	34.60	–	34.60	65.00	
KYRGYZ REPUBLIC					
Community-Based Early Childhood Development	–	10.50	10.50	13.47	29 Sep
Emergency Rehabilitation	–	5.00	5.00	6.28	11 Dec
Subtotal	–	15.50	15.50	19.75	
LAO PEOPLE'S DEMOCRATIC REPUBLIC					
Small Towns Development Sector	–	16.00	16.00	20.00	28 Jan
Northern Area Rural Power Distribution	–	30.00	30.00	51.51	18 Sep
Subtotal	–	46.00	46.00	71.51	
MALDIVES					
Employment Skills Training	–	6.00	6.00	7.50	2 Dec
Subtotal	–	6.00	6.00	7.50	
MONGOLIA					
Second Health Sector Development	–	14.00	14.00	17.50	5 Jun
Second Phase of the Governance Reform Program (Subprogram I)	–	13.50	13.50	13.50	14 Oct
– Capacity Building for Governance Reforms	–	2.00	2.00	2.40	14 Oct
Subtotal	–	29.50	29.50	33.40	
NEPAL					
Public Sector Management Program	–	35.00	35.00	35.00	8 Jul
Community-Based Water Supply and Sanitation Sector	–	24.00	24.00	35.70	30 Sep
Kathmandu Valley Water Services Sector Development Program					
– Program Loan	–	5.00	5.00	5.00	18 Dec
– Project Loan	–	10.00	10.00	15.00	18 Dec
Community Livestock Development	–	20.00	20.00	33.00	19 Dec
Subtotal	–	94.00	94.00	123.70	
PAKISTAN					
Balochistan Road Development Sector	185.70	–	185.70	267.30	20 Nov
– Community Development and Poverty Reduction	–	1.00	1.00	1.25	20 Nov
Punjab Resource Management Program (Subprogram I)	200.00	–	200.00	200.00	4 Dec
– Supporting Public Resource Management Reforms in Punjab	–	4.00	4.00	5.55	4 Dec
Sindh Devolved Social Services Program					
– Program Loan	110.00	100.00	210.00	210.00	12 Dec
– Technical Assistance Loan	–	10.00	10.00	14.24	12 Dec
Southern Punjab Basic Urban Services	45.00	45.00	90.00	128.60	18 Dec
Small and Medium Enterprise Sector Development Program					
– Program Loan	152.00	–	152.00	152.00	19 Dec
– Project Loan	–	18.00	18.00	28.00	19 Dec
Subtotal	692.70	178.00	870.70	1,006.94	
PHILIPPINES					
Second Nonbank Financial Governance Program	150.00	–	150.00	150.00	2 Sep
MWSS New Water Source Development	3.26	–	3.26	4.97	14 Oct
Development of Poor Urban Communities Sector	30.50	–	30.50	48.80	18 Dec
Subtotal	183.76	–	183.76	203.77	

– Data not applicable.

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

CONTINUED

	OCR	ADF	Total	Total Project Cost[a]	Date Approved
SAMOA					
Sanitation and Drainage	–	8.00	8.00	10.00	27 Nov
Subtotal	–	8.00	8.00	10.00	
SRI LANKA					
Secondary Towns and Rural Community-Based Water Supply and Sanitation	–	60.29	60.29	86.35	16 Jan
Distance Education Modernization	–	45.00	45.00	60.00	11 Jun
North East Coastal Community Development	–	20.00	20.00	28.40	28 Nov
Rural Finance Sector Development Program					
– Credit Line	10.00	–	10.00	27.79	11 Dec
– Program Loan	50.00	–	50.00	50.00	11 Dec
– Project Loan	–	10.00	10.00	–	11 Dec
Conflict Affected Areas Rehabilitation	30.00	50.00	80.00	107.90	11 Dec
Subtotal	90.00	185.29	275.29	360.44	
TAJIKISTAN					
Microfinance Systems Development Program					
– Program Loan	–	4.00	4.00	4.00	26 Jun
– Project Loan	–	4.00	4.00	5.31	26 Jun
Health Sector Reform	–	7.50	7.50	9.38	17 Dec
Education Sector Reform	–	7.50	7.50	9.38	17 Dec
Dushanbe-Kyrgyz Border Road Rehabilitation (Phase I)	–	15.00	15.00	23.60	18 Dec
Subtotal	–	38.00	38.00	51.66	
THAILAND					
BLCP Power[b]	40.00	–	40.00	1,341.00	12 Nov
Subtotal	40.00	–	40.00	1,341.00	
UZBEKISTAN					
Grain Productivity Improvement	26.00	–	26.00	40.00	14 Nov
Amu Zang Irrigation Rehabilitation	73.20	–	73.20	112.60	19 Dec
Subtotal	99.20	–	99.20	152.60	
VIET NAM					
Support Implementation of the Public Administration Reform Master Program (Phase I)	–	45.00	45.00	45.00	16 Jan
Phuoc Hoa Water Resources	–	90.00	90.00	164.60	27 Nov
Central Region Urban Environmental Improvement	–	44.00	44.00	96.00	8 Dec
Subtotal	–	179.00	179.00	305.60	
REGIONAL					
Trade Finance Facilitation Program[b]	45.00	–	45.00	45.00	21 Nov
Subtotal	45.00	–	45.00	45.00	
TOTAL	**4,725.66**	**1,379.15**	**6,104.81**	**14,711.29**	

– Data not applicable.

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

b Private sector loan without government guarantee.

Table 2
LOAN APPROVALS BY SECTOR: 3-YEAR MOVING AVERAGES, 1968–1970—2001–2003

	Total Lending[a] ($ million)	Agriculture and Natural Resources	Energy	Finance	Industry and Nonfuel Minerals	Social Infra-structure	Transport and Commu-nications	Multi-sector/ Others
Average during		(percent of total lending)						
1968–1970	128.44	19.48	11.98	23.36	15.06	6.10	24.03	0.00
1969–1971	199.25	20.48	25.38	19.57	8.69	4.20	21.68	0.00
1970–1972	271.92	15.69	33.06	13.97	5.04	10.75	21.48	0.00
1971–1973	330.53	15.78	32.18	15.49	0.42	12.25	23.88	0.00
1972–1974	428.42	18.76	26.71	15.06	4.02	14.12	21.32	0.00
1973–1975	543.16	27.87	23.03	16.73	4.25	10.44	17.68	0.00
1974–1976	661.30	29.27	21.35	17.44	5.48	9.85	16.61	0.00
1975–1977	774.22	30.51	22.02	15.46	4.19	10.85	16.97	0.00
1976–1978	940.36	27.42	21.53	14.37	7.25	13.45	15.98	0.00
1977–1979	1,098.92	29.86	24.03	11.81	5.62	16.55	12.10	0.04
1978–1980	1,282.01	30.95	24.88	10.96	3.93	16.84	12.39	0.06
1979–1981	1,454.96	32.56	27.21	10.72	0.90	19.11	9.41	0.09
1980–1982	1,598.97	34.00	27.71	10.00	0.74	15.97	11.53	0.06
1981–1983	1,751.46	33.68	26.60	10.61	2.36	18.26	7.52	0.96
1982–1984	1,937.03	34.18	28.98	7.01	1.91	14.36	12.12	1.43
1983–1985	1,978.52	32.42	24.63	6.50	1.87	20.30	12.75	1.53
1984–1986	2,013.77	35.46	25.26	4.65	0.34	17.48	14.40	2.40
1985–1987	2,081.84	30.63	17.47	11.24	3.06	15.24	20.54	1.81
1986–1988	2,512.17	26.90	18.76	12.84	7.46	11.32	21.27	1.45
1987–1989	3,053.71	22.37	16.41	17.16	6.69	14.60	21.94	0.82
1988–1990	3,564.93	25.83	20.78	12.67	4.50	15.15	19.37	1.71
1989–1991	4,115.48	25.30	26.04	10.83	3.58	14.86	17.93	1.45
1990–1992	4,610.39	21.40	28.91	9.42	3.75	12.81	20.60	3.10
1991–1993	5,022.89	13.74	31.01	9.00	5.40	14.17	23.46	3.22
1992–1994	4,665.65	10.87	28.56	7.55	4.40	14.01	29.18	5.43
1993–1995	4,791.51	12.07	30.62	6.59	3.36	17.56	26.67	3.13
1994–1996	4,806.49	14.13	26.67	7.64	2.58	17.16	25.43	6.40
1995–1997	6,718.17	12.68	18.01	29.09	1.30	18.67	16.27	3.99
1996–1998	6,883.72	10.07	11.03	33.78	1.29	15.55	18.43	9.86
1997–1999	6,791.72	9.11	8.97	32.18	2.22	18.98	16.80	11.76
1998–2000	5,514.56	11.23	13.91	11.51	4.60	21.35	23.09	14.31
1999–2001	5,299.95	12.83	15.87	4.99	5.30	20.88	23.58	16.55
2000–2002	5,526.41	12.68	17.02	9.74	3.14	15.49	26.35	15.57
2001–2003	5,700.48	8.70	14.25	11.19	1.00	13.20	32.84	18.82
Cumulative (1968–2003)	**105,069.60**	**17,925.15**	**21,366.16**	**14,886.02**	**3,316.64**	**17,058.40**	**22,983.95**	**7,533.30**

0.00 Data negligible.

a Total may not add due to rounding.

Table 3
LOAN APPROVALS BY SECTOR, 2003

		$ Million		
		OCR	ADF	Total
AGRICULTURE AND NATURAL RESOURCES				
AZE	Flood Mitigation	–	22.00	22.00
BAN	Second Participatory Livestock Development	–	20.00	20.00
CAM	Agriculture Sector Development Program			
	– Program Loan	–	25.00	25.00
	– Project Loan	–	4.70	4.70
CAM	Northwest Irrigation Sector	–	18.00	18.00
INO	Participatory Irrigation Sector	54.00	19.00	73.00
NEP	Community Livestock Development	–	20.00	20.00
SRI	North East Coastal Community Development	–	20.00	20.00
UZB	Grain Productivity Improvement	26.00	–	26.00
UZB	Amu Zang Irrigation Rehabilitation	73.20	–	73.20
VIE	Phuoc Hoa Water Resources	–	90.00	90.00
	Subtotal	153.20	238.70	391.90
ENERGY				
BAN	Power Sector Development Program			
	– Program Loan	100.00	–	100.00
	– Project Loan	186.00	–	186.00
BHU	Rural Electrification and Network Expansion	–	9.40	9.40
CAM	Greater Mekong Subregion Transmission	–	44.30	44.30
IND	Tala-Delhi Transmission [a]	62.00	–	62.00
IND	Assam Power Sector Development Program			
	– Program Loan	150.00	–	150.00
	– Project Loan	100.00	–	100.00
LAO	Northern Area Rural Power Distribution	–	30.00	30.00
PRC	Gansu Clean Energy Development	35.00	–	35.00
THA	BLCP Power [a]	40.00	–	40.00
	Subtotal	673.00	83.70	756.70
FINANCE				
IND	Private Sector Housing Finance [a]			
	– Sundaram Home Finance Limited	20.00	–	20.00
	– Dewan Housing Finance Corporation Limited	20.00	–	20.00
PAK	Small and Medium Enterprise Sector Development Program			
	– Program Loan	152.00	–	152.00
	– Project Loan	–	18.00	18.00
PHI	Second Nonbank Financial Governance Program	150.00	–	150.00
REG	Trade Finance Facilitation Program [a]	45.00	–	45.00
SRI	Rural Finance Sector Development Program			
	– Credit Line	10.00	–	10.00
	– Program Loan	50.00	–	50.00
	– Project Loan	–	10.00	10.00
TAJ	Microfinance Systems Development Program			
	– Program Loan	–	4.00	4.00
	– Project Loan	–	4.00	4.00
	Subtotal	447.00	36.00	483.00
SOCIAL INFRASTRUCTURE				
BAN	Second Primary Education Development Program (Sector Loan)	–	100.00	100.00
CAM	Provincial Towns Improvement (Supplementary Loan)	–	6.26	6.26
FIJ	Suva-Nausori Water Supply and Sewerage	47.00	–	47.00
IND	Urban Water Supply and Environmental Improvement in Madhya Pradesh	200.00	–	200.00
INO	Neighborhood Upgrading and Shelter Sector	68.60	20.00	88.60
INO	Second Decentralized Health Services	64.80	35.20	100.00
KAZ	Rural Area Water Supply and Sanitation Sector	34.60	–	34.60

– Data not applicable.
a Private sector loan without government guarantee.
Key: AZE (Azerbaijan), BAN (Bangladesh), BHU (Bhutan), CAM (Cambodia), FIJ (Fiji Islands), IND (India), INO (Indonesia), KAZ (Kazakhstan), LAO (Lao People's Democratic Republic), NEP (Nepal), PAK (Pakistan), PHI (Philippines), PRC (People's Republic of China), REG (Regional), SRI (Sri Lanka), TAJ (Tajikistan), THA (Thailand), UZB (Uzbekistan), and VIE (Viet Nam).

CONTINUED

		$ Million		
		OCR	ADF	Total
SOCIAL INFRASTRUCTURE				
LAO	Small Towns Development Sector	–	16.00	16.00
MLD	Employment Skills Training	–	6.00	6.00
MON	Second Health Sector Development	–	14.00	14.00
NEP	Community-Based Water Supply and Sanitation Sector	–	24.00	24.00
NEP	Kathmandu Valley Water Services Sector Development Program			
	– Program Loan	–	5.00	5.00
	– Project Loan	–	10.00	10.00
PAK	Southern Punjab Basic Urban Services	45.00	45.00	90.00
PHI	MWSS New Water Source Development	3.26	–	3.26
PHI	Development of Poor Urban Communities Sector	30.50	–	30.50
PRC	Harbin Water Supply	100.00	–	100.00
PRC	Wuhan Wastewater Management	83.00	–	83.00
SAM	Sanitation and Drainage	–	8.00	8.00
SRI	Secondary Towns and Rural Community-Based Water Supply and Sanitation	–	60.29	60.29
SRI	Distance Education Modernization	–	45.00	45.00
TAJ	Education Sector Reform	–	7.50	7.50
TAJ	Health Sector Reform	–	7.50	7.50
VIE	Central Region Urban Environmental Improvement	–	44.00	44.00
	Subtotal	676.76	453.75	1,130.51
TRANSPORT AND COMMUNICATIONS				
BAN	Road Network Improvement and Maintenance II	–	126.00	126.00
IND	Rural Roads Sector I	400.00	–	400.00
IND	National Highway Corridor (Sector) I	400.00	–	400.00
IND	Chhattisgarh State Roads Development Sector	180.00	–	180.00
PAK	Balochistan Road Development Sector	185.70	–	185.70
	– Community Development and Poverty Reduction	–	1.00	1.00
PRC	Ningxia Roads Development	250.00	–	250.00
PRC	Western Yunnan Roads Development	250.00	–	250.00
PRC	Xi'an Urban Transport	270.00	–	270.00
PRC	Yichang-Wanzhou Railway	500.00	–	500.00
TAJ	Dushanbe-Kyrgyz Border Road Rehabilitation (Phase I)	–	15.00	15.00
	Subtotal	2,435.70	142.00	2,577.70
MULTISECTOR				
AFG	Emergency Infrastructure Rehabilitation and Reconstruction	–	150.00	150.00
KGZ	Community-Based Early Childhood Development	–	10.50	10.50
KGZ	Emergency Rehabilitation	–	5.00	5.00
PAK	Sindh Devolved Social Services Program			
	– Program Loan	110.00	100.00	210.00
	– Technical Assistance Loan	–	10.00	10.00
SRI	Conflict Affected Areas Rehabilitation	30.00	50.00	80.00
	Subtotal	140.00	325.50	465.50
OTHERS				
MON	Second Phase of the Governance Reform Program (Subprogram I)	–	13.50	13.50
	– Capacity Building for Governance Reforms	–	2.00	2.00
NEP	Public Sector Management Program	–	35.00	35.00
PAK	Punjab Resource Management Program (Subprogram I)	200.00	–	200.00
	– Supporting Public Resource Management Reforms in Punjab	–	4.00	4.00
VIE	Support Implementation of the Public Administration Reform Master Program (Phase I)	–	45.00	45.00
	Subtotal	200.00	99.50	299.50
TOTAL		**4,725.66**	**1,379.15**	**6,104.81**

– Data not applicable.

Key: AFG (Afghanistan), BAN (Bangladesh), IND (India), KGZ (Kyrgyz Republic), LAO (Lao People's Democratic Republic), MLD (Maldives), MON (Mongolia), NEP (Nepal), PAK (Pakistan), PHI (Philippines), PRC (People's Republic of China), SAM (Samoa), SRI (Sri Lanka), TAJ (Tajikistan), and VIE (Viet Nam).

Table 4
SECTORAL DISTRIBUTION OF LOANS,[a] 2003

	OCR		ADF		Total		
	No. of Loans	$ Million	No. of Loans	$ Million	No. of Projects[b]	$ Million	%
Agriculture and Natural Resources	3	153.20	9	238.70	10	391.90	6.42
Energy	7	673.00	3	83.70	8	756.70	12.40
Finance	7	447.00	4	36.00	6	483.00	7.91
Industry and Nonfuel Minerals	–	–	–	–	–	–	–
Social Infrastructure	10	676.76	17	453.75	23	1,130.51	18.52
Transport and Communications	8	2,435.70	3	142.00	10	2,577.70	42.22
Multisector	2	140.00	6	325.50	5	465.50	7.63
Others	1	200.00	5	99.50	4	299.50	4.91
TOTAL	**38**	**4,725.66**	**47**	**1,379.15**	**66**	**6,104.81**	**100.00[c]**

– Data not applicable.
a Includes private sector loans.
b A project with multiple loans is counted as one project.
c Total may not add due to rounding.

Table 5
LOAN APPROVALS BY COUNTRY AND SOURCE OF FUNDS,[a] 2003
(amounts in $ million)

	OCR	ADF	Total	%
Afghanistan	–	150.00	150.00	2.46
Azerbaijan	–	22.00	22.00	0.36
Bangladesh	286.00	246.00	532.00	8.71
Bhutan	–	9.40	9.40	0.15
Cambodia	–	98.26	98.26	1.61
China, People's Rep. of	1,488.00	–	1,488.00	24.37
Fiji Islands	47.00	–	47.00	0.77
India	1,532.00	–	1,532.00	25.09
Indonesia	187.40	74.20	261.60	4.29
Kazakhstan	34.60	–	34.60	0.57
Kyrgyz Republic	–	15.50	15.50	0.25
Lao PDR	–	46.00	46.00	0.75
Maldives	–	6.00	6.00	0.10
Mongolia	–	29.50	29.50	0.48
Nepal	–	94.00	94.00	1.54
Pakistan	692.70	178.00	870.70	14.26
Philippines	183.76	–	183.76	3.01
Samoa	–	8.00	8.00	0.13
Sri Lanka	90.00	185.29	275.29	4.51
Tajikistan	–	38.00	38.00	0.62
Thailand	40.00	–	40.00	0.66
Uzbekistan	99.20	–	99.20	1.62
Viet Nam	–	179.00	179.00	2.93
Regional	45.00	–	45.00	0.74
TOTAL	**4,725.66**	**1,379.15**	**6,104.81**	**100.00[b]**

– Data not applicable.
a Includes private sector loans.
b Total may not add due to rounding.

Table 6
PROJECTS INVOLVING COFINANCING, 2003
($ million)

	ADB Loan	Cofinancing			Source of Cofinancing
		Official		Commercial[a]	
		Grants	Loans		
BANGLADESH					
Second Primary Education Development Program (Sector Loan)	100.00	3.00	–	–	Japan International Cooperation Agency (JICA), Japan
	–	–	150.00	–	International Development Association (IDA)
	–	12.00	–	–	United Nations Children's Fund in Partnership with Australian Agency for International Development
	–	20.00[b]	–	–	Canadian International Development Agency
	–	150.00[b]	–	–	Department for International Development, United Kingdom
	–	100.00[b]	–	–	European Community
	–	50.00[b]	–	–	The Netherlands
	–	40.00[b]	–	–	Norwegian Agency for International Cooperation
	–	29.00[b]	–	–	Swedish International Development Agency
Second Participatory Livestock Development	20.00	0.50	–	–	Danish International Development Agency
Power Sector Development Program	186.00	–	–	34.20	Domestic banks in Bangladesh
	–	–	9.60	–	Nordic Development Fund (NDF)
BHUTAN					
Rural Electrification and Network Expansion	9.40	1.70	–	–	JICA
CAMBODIA					
Northwest Irrigation Sector	18.00	3.74	–	–	Agence Française de Développement (AFD), France
Greater Mekong Subregion Transmission	44.30	–	11.00	–	NDF
	–	–	16.00	–	IDA
CHINA, PEOPLE'S REPUBLIC OF					
Gansu Clean Energy Development	35.00	–	–	38.00	Bank of China, People's Republic of China (PRC)
Western Yunnan Roads Development	250.00	–	38.00	–	AFD
	–	–	–	122.90	Kunming City Commercial Bank, PRC
Ningxia Roads Development	250.00	–	–	113.80	China Development Bank (CDB), PRC
Wuhan Wastewater Management	83.00	–	–	23.80	Industrial and Commercial Bank of China (ICBC), PRC
Harbin Water Supply	100.00	–	–	179.60	ICBC, PRC
Yichang-Wanzhou Railway	500.00	–	–	725.00	CDB, PRC
INDIA					
Tala-Delhi Transmission[c]	62.00	–	–	20.00	Domestic financial institutions in India
Urban Water Supply and Environmental Improvement in Madhya Pradesh	200.00	0.50	–	–	United Nations Habitat
INDONESIA					
Participatory Irrigation Sector	73.00	15.00[b]	–	–	The Netherlands
Second Decentralized Health Services	100.00	5.00	–	–	JICA
KAZAKHSTAN					
Rural Area Water Supply and Sanitation Sector	34.60	–	9.50	–	Islamic Development Bank

a Comprising debt cofinancing (e.g., syndicated loans, bonds, and floating rate notes) from commercial/market sources and guarantees.
b ADB-administered grant fund.
c Private sector loan.

CONTINUED

	ADB Loan	Cofinancing			Source of Cofinancing
		Official		Commercial[a]	
		Grants	Loans		
LAO PEOPLE'S DEMOCRATIC REPUBLIC					
Northern Area Rural Power Distribution	30.00	–	10.00	–	NDF
PAKISTAN					
Small and Medium Enterprise Sector Development Program	170.00	–	–	65.00	Commercial lenders with ADB Partial Credit Guarantee (PCG)
PHILIPPINES					
Development of Poor Urban Communities Sector	30.50	–	5.00	–	Finland
	–	0.90	–	–	Cities Alliance
	–	0.40	–	–	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Germany
SRI LANKA					
Conflict Affected Areas Rehabilitation	80.00	–	20.00	–	Japan Bank for International Cooperation official development assistance (ODA)
North East Coastal Community Development	20.00	1.50	–	–	The Netherlands
TAJIKISTAN					
Dushanbe-Kyrgyz Border Road Rehabilitation (Phase I)	15.00	–	6.00	–	OPEC Fund for International Development
THAILAND					
BLCP Power[b]	40.00	–	–	100.00	Commercial lenders with ADB's Complementary Financing Scheme
	–	–	–	70.00	Commercial lenders with ADB Political Risk Guarantee
VIET NAM					
Phuoc Hoa Water Resources	90.00	–	34.00	–	AFD
Central Region Urban Environmental Improvement	44.00	–	33.00	–	AFD
REGIONAL					
Trade Finance Facilitation Program[b]	45.00	–	–	105.00	Commercial lenders with ADB PCG
ASEAN-PRC SME Investment Fund[c]	15.00	–	–	15.00	CDB, PRC
	–	–	–	5.00	Societe de Promotion et de Participation pour le Cooperation Economique, France
	–	–	–	15.00	State Secretariat of Economic Affairs of Switzerland
	–	–	–	10.00	United Overseas Bank, Singapore
TOTAL	**2,644.80**	**433.24**	**342.10**	**1,642.30**	

a Comprising debt cofinancing (e.g., syndicated loans, bonds, and floating rate notes) from commercial/market sources and guarantees.
b Private sector loan.
c Equity investment.

Table 7
LOAN DISBURSEMENTS, 2002 AND 2003
(amounts in $ thousand)

	2002					
	OCR	% of Total OCR	ADF	% of Total ADF	Total	% of Total Disbursements
Project[a]						
Nondevelopment Finance Institution	1,302,484	42	576,567	51	1,879,051	45
Development Finance Institution	117,514	4	1,791	0	119,305	3
Total Project Loans	1,419,998	46	578,358	51	1,998,356	48
Program[b]	1,369,228	45	331,092	29	1,700,320	40
Sector[c]	221,891	7	226,088	20	447,979	11
Private Sector[d]	55,411	2	–	–	55,411	1
TOTAL	**3,066,528**	**100**	**1,135,538**	**100**	**4,202,066**	**100**

	2003						% Change (2003/2002)		
	OCR	% of Total OCR	ADF	% of Total ADF	Total	% of Total Disburse-ments	OCR	ADF	Total
Project[a]									
Nondevelopment Finance Institution	1,394,923	52	661,961	59	2,056,884	54	7	15	9
Development Finance Institution	78,014	3	61	0	78,075	2	(34)	(97)	(35)
Total Project Loans	1,472,937	55	662,022	59	2,134,959	56	4	14	7
Program[b]	873,847	33	251,194	22	1,125,041	29	(36)	(24)	(34)
Sector[c]	228,091	8	214,840	19	442,931	12	3	(5)	(1)
Private Sector[d]	113,281	4	–	–	113,281	3	104	–	104
TOTAL	**2,688,156**	**100**	**1,128,056**	**100**	**3,816,212**	**100**	**(12)**	**(1)**	**(9)**

0 Data negligible.
– Data not applicable.
( ) Negative.

a A project loan is a loan provided to finance specific projects. ADB uses development finance institutions in its developing member countries (DMCs) as vehicles to finance small- to medium-sized projects in the private sector.
b A program loan is a loan provided to support DMCs' efforts to improve the policy, institutional, and investment environment of sector development. It helps meet short-term costs that policy adjustments entail.
c A sector loan is a loan provided to develop a specific sector or subsector. It finances a large number of subprojects in a single sector or subsector.
d Excludes equity investments.

Table 8
PROGRAM LOAN DISBURSEMENTS, 2003
($ million)

	OCR	ADF	Total
Afghanistan	–	56.10	56.10
Cambodia	–	5.60	5.60
India	307.00	–	307.00
Lao PDR	–	5.18	5.18
Marshall Islands	0.46	2.23	2.69
Micronesia, Fed. States of	–	1.85	1.85
Mongolia	–	14.90	14.90
Nepal	–	19.73	19.73
Pakistan	315.81	30.31	346.12
Papua New Guinea	0.03	–	0.03
Philippines	235.00	–	235.00
Sri Lanka	14.85	50.03	64.88
Tonga	–	6.10	6.10
Uzbekistan	0.70	–	0.70
Viet Nam	–	59.16	59.16
TOTAL	**873.85**	**251.19**	**1,125.04**

– Data not applicable.

Table 9
PRIVATE SECTOR APPROVALS AND TOTAL PROJECT COSTS BY COUNTRY, 2003
($ million)

	Loan	Equity Investment	Total ADB Funds	Complementary Loan/Political Risk Guarantee Coguarantor Program	Partial Credit Guarantee	Political Risk Guarantee	Total ADB Approvals	Project Cost/ Fund Size	Sector
INDIA									
Tala-Delhi Transmission	62.00	–	62.00	–	–	–	62.00	249.00	Infrastructure
Centurion Bank Limited	–	0.65[a]	0.65	–	–	–	0.65	–	Finance
Private Sector Housing Finance[b]									
- Sundaram Home Finance Limited	20.00	–	–	–	–	–	20.00	20.00	Finance
- Dewan Housing Finance Corporation Limited	20.00	–	–	–	–	–	20.00	20.00	Finance
PAKISTAN									
Small and Medium Enterprise Partial Credit Guarantee Facility[b]	–	–	–	–	65.00	–	65.00	120.00	Finance
THAILAND									
BLCP Power	40.00	–	40.00	100.00	–	70.00	210.00	1,341.00	Infrastructure
REGIONAL									
ASEAN-PRC SME Investment Fund	–	15.00	15.00	–	–	–	15.00	125.00	Finance
Trade Finance Facilitation Program	45.00	–	45.00	–	105.00	–	150.00	375.00	Finance
FEGACE Asian Sub-Fund L.P.	–	20.00	20.00	–	–	–	20.00	70.00	Finance
TOTAL	**187.00**	**35.65**	**222.65**	**100.00**	**170.00**	**70.00**	**562.65**	**2,320.00**	

– Data not applicable.
a Increase in investment approved in April 2003.
b A partial credit guarantee project attached to a public sector loan.

Table 10
PRIVATE SECTOR APPROVALS AND TOTAL PROJECT COSTS BY SECTOR, 2003
($ million)

	Loan	Equity Investment	Total ADB Funds	Complementary Loan/Political Risk Guarantee Coguarantor Program	Partial Credit Guarantee	Political Risk Guarantee	Total ADB Approvals	Total Project Cost
Infrastructure	102.00	–	102.00	100.00	–	70.00	272.00	1,590.00
Investment Funds and Financial Institutions	85.00	35.65	120.65	–	170.00	–	290.65	730.00
Others	–	–	–	–	–	–	–	–
TOTAL	**187.00**	**35.65**	**222.65**	**100.00**	**170.00**	**70.00**	**562.65**	**2,320.00**

– Data not applicable.

Table 11
PRIVATE SECTOR APPROVALS BY YEAR, 1983–2003
(amounts in $ million)

	No. of Projects[a]	Loan	Equity Investment[b]	Total ADB Funds	Complementary Loan/Political Risk Guarantee Coguarantor Program	Partial Credit Guarantee	Political Risk Guarantee	Total ADB Approvals[a]	Total Project Cost
1983	2	–	2.96	2.96	–	–	–	2.96	36.00
1984	1	–	0.42	0.42	–	–	–	0.42	2.80
1985	5	–	3.40	3.40	–	–	–	3.40	39.68
1986	5	6.46	6.01	12.47	–	–	–	12.47	42.72
1987	8	20.50	27.61	48.11	5.00	–	–	53.11	524.34
1988	12	58.00	35.67	93.67	–	–	–	93.67	524.24
1989	16	95.70	67.59	163.29	51.10	–	–	214.39	1,178.55
1990	17	78.85	35.94	114.79	24.00	–	–	138.79	2,051.63
1991	10	156.80	20.52	177.32	–	–	–	177.32	1,330.07
1992	4	50.00	5.42	55.42	81.50	–	–	136.92	409.39
1993	9	182.10	20.70	202.80	19.30	–	–	222.10	1,513.70
1994	9	–	48.70	48.70	–	–	–	48.70	919.20
1995	8	68.00	99.41	167.41	5.83	–	–	173.24	1,050.32
1996	8	98.50	80.15	178.65	91.50	–	–	270.15	1,788.77
1997	5	45.00	49.50	94.50	–	–	–	94.50	1,239.69
1998	6	136.12	39.44	175.56	151.08	–	–	326.64	1,152.70
1999	4	146.50	7.40	153.90	181.50	–	–	335.40	1,412.50
2000	11	152.00	77.65	229.65	45.00	–	122.00	396.65	1,629.84
2001	6	37.50	30.36	67.86	–	–	–	67.86	648.00
2002	7	110.00	35.53	145.53	–	–	60.00	205.53	1,176.60
2003	7	187.00	35.65	222.65	100.00	170.00	70.00	562.65	2,320.00
TOTAL	**160**	**1,629.03**	**730.03**	**2,359.06**	**755.81**	**170.00**	**252.00**	**3,536.87**	**20,990.74**

– Data not applicable.
a Net of cancellations.
b Includes equity investments, lines of equity, and equity underwritings.

Table 12
CUMULATIVE PRIVATE SECTOR APPROVALS BY COUNTRY, 1983–2003
(amounts in $ million)

	No. of Projects[a]	Loan	Equity Invest-ment[b]	Total ADB Funds	Complementary Loan/Political Risk Guarantee Coguarantor Program	Partial Credit Guarantee	Political Risk Guarantee	Total ADB Approvals[a]	Total Project Cost
Bangladesh	7	117.20	14.98	132.18	20.00	–	70.00	222.18	748.36
Bhutan	1	–	0.53	0.53	–	–	–	0.53	0.79
China, People's Rep. of	8	116.50	82.30	198.80	171.50	–	–	370.30	1,989.80
India	27	257.70	116.45	374.15	5.00	–	–	379.15	2,932.16
Indonesia	12	82.00	23.65	105.65	63.50	–	–	169.15	714.22
Korea, Rep. of	5	–	8.96	8.96	–	–	–	8.96	292.23
Malaysia	1	–	2.00	2.00	–	–	–	2.00	3.64
Nepal	4	49.55	3.26	52.81	5.83	–	–	58.64	218.03
Pakistan	28	241.80	30.63	272.43	129.90	65.00	–	467.33	1,810.99
Philippines	19	282.32	36.85	319.17	233.58	–	–	552.75	2,957.02
Samoa	1	–	0.40	0.40	–	–	–	0.40	1.60
Sri Lanka	9	72.00	13.58	85.58	–	–	52.00	137.58	519.73
Thailand	10	71.46	77.07	148.53	100.00	–	70.00	318.53	3,071.80
Viet Nam	6	168.50	–	168.50	26.50	–	60.00	255.00	1,470.00
Regional	22	170.00	319.37	489.37	–	105.00	–	594.37	4,260.37
TOTAL	**160**	**1,629.03**	**730.03**	**2,359.06**	**755.81**	**170.00**	**252.00**	**3,536.87**	**20,990.74**

– Data not applicable.
a Net of cancellations.
b Includes equity investments, lines of equity, and equity underwritings.

Table 13
NUMBER OF LOANS AND PROJECTS APPROVED AND UNDER ADMINISTRATION, PROJECT COMPLETION REPORTS (PCRs) CIRCULATED, PROJECTS COMPLETED, LOANS CLOSED, AND PROJECT/PROGRAM PERFORMANCE AUDIT REPORTS (PPARs) CIRCULATED
(as of 31 December 2003)

	Cumulative No. of Loans Approved[a]	Cumulative No. of Effective Loans	Cumulative No. of Projects Approved[b]	Cumulative No. of Blended Loans	Cumulative No. of Supplementary Loans	Cumulative No. of Cofinanced Projects
Afghanistan	11	10	10	–	1	2
Azerbaijan	1	–	1	–	–	–
Bangladesh	158	152	145	8	5	70
Bhutan	19	18	18	–	–	7
Cambodia	32	27	26	1	1	14
China, People's Rep. of	104	93	102	–	–	51
Cook Islands	12	12	12	–	–	1
Fiji Islands	15	14	15	–	–	6
Hong Kong, China	5	5	5	–	–	–
India	86	75	73	2	–	22
Indonesia	269	260	240	20	2	57
Kazakhstan	12	11	8	2	–	2
Kiribati	6	6	6	–	–	1
Korea, Rep. of	81	81	80	–	–	8
Kyrgyz Republic	22	20	17	–	–	5
Lao PDR	60	57	54	–	3	33
Malaysia	76	76	74	1	1	9
Maldives	13	11	13	–	–	4
Marshall Islands	12	12	11	1	–	1
Micronesia, Fed. States of	6	6	5	–	–	–
Mongolia	34	32	28	–	–	7
Myanmar	32	32	28	2	2	12
Nauru	1	1	1	–	–	–
Nepal	109	104	97	2	9	43
Pakistan	228	214	177	31	5	73
Papua New Guinea	56	56	45	10	–	11
Philippines	189	183	160	17	4	63
Samoa	30	28	26	–	4	9
Singapore	14	14	14	–	–	2
Solomon Islands	16	16	15	–	–	5
Sri Lanka	120	114	105	8	5	42
Taipei,China	12	12	12	–	–	–
Tajikistan	15	9	12	2	–	3
Thailand	84	83	80	2	2	37
Timor-Leste	–	–	–	–	–	–
Tonga	15	14	15	–	–	3
Turkmenistan	–	–	–	–	–	–
Tuvalu	2	2	2	–	–	–
Uzbekistan	17	13	14	2	–	3
Vanuatu	9	9	8	–	1	3
Viet Nam	61	54	53	3	–	25
Regional	5	4	11[e]	1	–	5
TOTAL	**2,049**	**1,940**	**1,818**	**115**	**45**	**639**

– Nil or data not applicable.
a Includes special implementation assistance loans, special assistance, and private sector loans; excludes loans withdrawn by borrowers.
b A project with multiple loans is counted as one project. Supplementary loans, special implementation assistance loans, and subprogram loans of program loan clusters are not counted as separate projects.
c Includes projects/loans that have been approved but are still awaiting effectivity, inactive loans, fully disbursed private sector loans without government guarantee but still under administration; excludes projects/loans exclusively financed from other sources.
d Projects that were physically completed in 2003.

No. of Loans Under Administration[c]	No. of Projects Under Administration[a,c]	Cumulative No. of PCRs Circulated/ Prepared	No. of Projects Completed in 2003[d]	No. of Loans Closed in 2003	No. of PCRs Circulated in 2003	No. of PPARs Circulated in 2003	
2	2	–	1	–	–	–	Afghanistan
1	1	–	–	–	–	–	Azerbaijan
35	30	102	3	8	4	2	Bangladesh
5	5	10	1	1	1	1	Bhutan
22	19	5	1	4	2	2	Cambodia
42	42	51	11	12	11	1	China, People's Rep. of
1	1	11	–	–	1	–	Cook Islands
3	3	10	–	–	–	–	Fiji Islands
–	–	5	–	–	–	–	Hong Kong, China
34	30	36	1	6	4	1	India
58	50	155	9	6	4	–	Indonesia
6	4	5	2	–	1	1	Kazakhstan
1	1	4	–	–	–	–	Kiribati
–	–	61	–	–	1	–	Korea, Rep. of
13	13	6	2	1	1	1	Kyrgyz Republic
23	22	29	5	3	1	1	Lao PDR
2	2	53	–	1	–	–	Malaysia
7	7	6	1	–	–	–	Maldives
2	2	5	–	3	–	1	Marshall Islands
4	3	2	1	–	–	1	Micronesia, Fed. States of
16	13	15	3	2	3	2	Mongolia
–	–	26	–	–	–	–	Myanmar
–	–	1	–	–	1	–	Nauru
27	25	70	5	–	4	1	Nepal
61	42	115	10	11	8	1	Pakistan
11	11	32	1	1	2	–	Papua New Guinea
39	33	107	7	5	6	1	Philippines
4	4	19	–	–	–	–	Samoa
–	–	7	–	–	–	–	Singapore
2	2	14	1	–	–	–	Solomon Islands
45	36	63	7	1	1	3	Sri Lanka
–	–	1	–	–	–	–	Taipei,China
13	12	1	1	1	–	–	Tajikistan
7	6	56	5	1	4	–	Thailand
–	–	–	–	–	–	–	Timor-Leste
1	1	15	1	–	–	–	Tonga
–	–	–	–	–	–	–	Turkmenistan
1	1	1	–	–	1	–	Tuvalu
14	13	1	1	1	1	–	Uzbekistan
–	–	8	–	–	2	–	Vanuatu
39	36	13	7	2	3	2	Viet Nam
2	2	3	–	1	–	–	Regional
543	**474**	**1,124**	**87**	**72**	**67**	**22**	**TOTAL**

e Includes the regional projects—Greater Mekong Subregion (GMS): Phnom Penh to Ho Chi Minh City Highway (Cambodia and Viet Nam loan components); GMS: East-West Corridor (Lao PDR and Viet Nam loan components); Almaty-Bishkek Regional Road Rehabilitation (Kazakhstan and Kyrgyz Republic loan components); GMS: Mekong Tourism Development (Cambodia, Lao PDR, and Viet Nam loan components); Regional Power Transmission Modernization (Tajikistan and Uzbekistan loan components); Regional Trade Facilitation and Customs Cooperations Program (Kyrgyz Republic and Tajikistan loan components); Asian Finance and Investment Corporation, Ltd; and Trade Finance Facilitation Program.

Table 14
AMOUNT OF LOANS APPROVED, CONTRACTS AWARDED, AND DISBURSEMENTS
(as of 31 December 2003; amounts in $ million)

	Cumulative Loan Amounts Approved[a]	Cumulative Net Effective Loans[b,c]	Contracts Awarded in 2003[c,d]	Cumulative Contracts Awarded[c,d]
Afghanistan	412.28	364.43	3.00[f]	138.14[f]
Azerbaijan	22.10	–	–	–
Bangladesh	7,320.38	6,278.62	133.32	4,976.04
Bhutan	111.16	96.51	7.33	88.51
Cambodia	775.24	674.42	65.84	462.49
China, People's Rep. of	13,615.98	10,374.04	457.44	8,074.91
Cook Islands	26.67	25.13	1.18	26.78
Fiji Islands	224.90	170.27	7.29	152.96
Hong Kong, China	101.50	94.50	–	94.50
India	13,315.90	9,698.05	746.53	7,602.62
Indonesia	19,357.81	15,398.42	327.35	12,710.39
Kazakhstan	501.60	442.12	48.28	425.64
Kiribati	15.14	13.99	0.56	11.70
Korea, Rep. of	6,338.33	5,560.33	–	5,572.55
Kyrgyz Republic	532.70	520.09	50.97	400.65
Lao PDR	1,085.44	1,006.91	34.88	805.48
Malaysia	1,987.54	1,429.03	3.13	1,414.88
Maldives	83.68	75.86	1.82	52.19
Marshall Islands	78.13	74.21	5.94	62.52
Micronesia, Fed. States of	56.14	56.62	2.34	34.65
Mongolia	568.71	556.40	41.44	440.78
Myanmar	530.86	411.83	–	418.77
Nauru	5.00	2.30	–	2.30
Nepal	2,104.98	1,858.02	38.94	1,346.54
Pakistan	13,549.74	11,891.02	491.10	8,874.07
Papua New Guinea	854.98	781.39	14.98	598.09
Philippines	8,218.03	6,575.15	308.53	5,451.53
Samoa	121.92	112.45	3.24	102.64
Singapore	181.08	144.44	–	130.22
Solomon Islands	79.31	65.87	–	54.82
Sri Lanka	3,255.25	3,015.82	299.01	2,305.62
Taipei,China	100.39	91.14	–	90.28
Tajikistan	210.92	165.85	15.45	70.18
Thailand	5,388.07	4,197.87	23.47	4,132.10
Timor-Leste	–	–	–	–
Tonga	57.79	52.26	6.10	58.18
Turkmenistan	–	–	–	–
Tuvalu	5.85	6.04	0.17	4.15
Uzbekistan	794.70	550.70	69.43	230.32
Vanuatu	51.25	48.99	–	47.91
Viet Nam	2,858.27	2,559.17	136.23	1,522.75
Regional[g]	170.00	125.00	–	–
TOTAL	**105,069.60**	**85,565.24**	**3,345.28**	**68,988.85**

– Nil or data not applicable.

a Includes special assistance loans and private sector loans but excludes loans terminated. The US dollar equivalent is in accordance with the exchange rate prevailing in ADB at the time of loan approval.

b Net refers to effective loan amounts less cancellations.

c The US dollar equivalent is in accordance with the exchange rate prevailing in ADB on 31 December 2003. The cumulative contracts awarded exceed the net effective loan amounts due to the following reasons:
(i) for countries without active loans, the base contract amount of loans that were closed prior to computerization does not reflect the adjustment with regard to procurement data, e.g., Afghanistan; and
(ii) for countries with active loans, the contract amount entered is basically the percentage of the ADB-financed portion, and each contract amount was adjusted upon completion of disbursement.

d Excludes private sector loans without government guarantee.

% of Cumulative Contracts Awarded to Cumulative Net Effective Loans[c]	Disbursements in 2003	Cumulative Disbursements[e]	% of Cumulative Disbursements to Cumulative Net Effective Loans	
37.91	56.41	184.55	50.64	Afghanistan
–	–	–	–	Azerbaijan
79.25	209.45	5,078.22	80.88	Bangladesh
91.71	4.71	79.36	82.23	Bhutan
68.58	73.14	403.46	59.82	Cambodia
77.84	705.14	8,392.44	80.90	China, People's Rep. of
106.58	0.47	23.29	92.71	Cook Islands
89.83	8.82	136.94	80.42	Fiji Islands
100.00	–	94.50	100.00	Hong Kong, China
78.39	658.21	7,044.79	72.64	India
82.54	442.90	13,504.43	87.70	Indonesia
96.27	13.49	376.48	85.15	Kazakhstan
83.63	2.42	9.49	67.85	Kiribati
100.22	–	5,560.32	100.00	Korea, Rep. of
77.03	25.72	367.59	70.68	Kyrgyz Republic
80.00	54.66	763.51	75.83	Lao PDR
99.01	10.92	1,391.82	97.40	Malaysia
68.80	4.95	50.13	66.08	Maldives
84.25	5.04	61.56	82.96	Marshall Islands
61.20	2.73	33.93	59.92	Micronesia, Fed. States of
79.22	39.30	418.16	75.16	Mongolia
101.68	–	411.83	100.00	Myanmar
100.00	–	2.30	100.00	Nauru
72.47	33.61	1,371.55	73.82	Nepal
74.63	465.82	9,328.40	78.45	Pakistan
76.54	13.81	593.31	75.93	Papua New Guinea
82.91	359.00	5,827.58	88.63	Philippines
91.28	1.85	97.20	86.43	Samoa
90.15	–	144.44	100.00	Singapore
83.23	0.23	54.30	82.43	Solomon Islands
76.45	225.50	2,182.24	72.36	Sri Lanka
99.06	–	91.14	100.00	Taipei,China
42.32	14.68	53.90	32.50	Tajikistan
98.43	28.74	4,125.18	98.27	Thailand
–	–	–	–	Timor-Leste
111.32	6.10	52.26	100.00	Tonga
–	–	–	–	Turkmenistan
68.77	0.13	4.10	67.92	Tuvalu
41.82	46.29	193.29	35.10	Uzbekistan
97.80	0.01	48.99	100.00	Vanuatu
59.50	301.98	1,530.39	59.80	Viet Nam
–	–	98.96	–	Regional
80.63	**3,816.21**	**70,186.32**	**82.03**	**TOTAL**

e The cumulative disbursements may exceed the cumulative contracts awarded due to disbursed amount without procurement contract summary sheet, e.g., interest during construction, contingencies, and private sector loans that do not require procurement.
f Excludes contract amount of $55.4 million under a program loan released in 2003 which was posted in the system in 2004.
g Private sector loans to the Asian Finance and Investment Corporation, Ltd.

Table 15
CONTRACTS AWARDED BY COUNTRY OF ORIGIN,[a] 2003
PROJECT LOANS—ORDINARY CAPITAL RESOURCES (amounts in $ million)

	Goods and Related Services, and Civil Works	% Distribution[b]	Consulting Services	% Distribution	Total Contracts Awarded	% Distribution
Afghanistan	0.00	0.00	0.00	0.00	0.00	0.00
Australia	3.47	0.26	3.43	6.29	6.90	0.50
Austria	13.94	1.04	0.16	0.28	14.09	1.01
Azerbaijan	0.00	0.00	0.00	0.00	0.00	0.00
Bangladesh	0.00	0.00	0.00	0.00	0.00	0.00
Belgium	0.07	0.01	0.00	0.00	0.07	0.00
Bhutan	0.00	0.00	0.00	0.00	0.00	0.00
Cambodia	0.00	0.00	0.00	0.00	0.00	0.00
Canada	1.81	0.14	2.60	4.77	4.41	0.32
China, People's Rep. of	411.42	30.78	0.04	0.08	411.47	29.57
Cook Islands	0.00	0.00	0.00	0.00	0.00	0.00
Denmark	0.12	0.01	0.11	0.20	0.23	0.02
Fiji Islands	2.79	0.21	0.00	0.00	2.79	0.20
Finland	0.15	0.01	0.00	0.00	0.15	0.01
France	5.41	0.40	1.24	2.27	6.65	0.48
Germany	25.08	1.88	0.06	0.10	25.14	1.81
Hong Kong, China	5.11	0.38	0.79	1.45	5.90	0.42
India	413.21	30.91	6.82	12.51	420.04	30.19
Indonesia	222.50	16.64	15.99	29.31	238.49	17.14
Italy	7.00	0.52	0.39	0.71	7.39	0.53
Japan	44.21	3.31	4.37	8.02	48.58	3.49
Kazakhstan	0.00	0.00	0.00	0.00	0.00	0.00
Kiribati	0.00	0.00	0.00	0.00	0.00	0.00
Korea, Rep. of	1.45	0.11	0.00	0.00	1.45	0.10
Kyrgyz Republic	0.00	0.00	0.00	0.00	0.00	0.00
Lao PDR	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	3.22	0.24	0.10	0.19	3.33	0.24
Maldives	0.00	0.00	0.00	0.00	0.00	0.00
Marshall Islands	0.00	0.00	0.00	0.00	0.00	0.00
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia	0.00	0.00	0.00	0.00	0.00	0.00
Myanmar	0.00	0.00	0.00	0.00	0.00	0.00
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	0.00	0.00	0.00	0.00	0.00	0.00
The Netherlands	2.25	0.17	4.56	8.35	6.81	0.49
New Zealand	4.41	0.33	0.28	0.50	4.69	0.34
Norway	0.97	0.07	0.00	0.00	0.97	0.07
Pakistan	1.35	0.10	0.00	0.00	1.35	0.10
Papua New Guinea	0.71	0.05	0.10	0.18	0.80	0.06
Philippines	44.54	3.33	5.49	10.06	50.03	3.60
Portugal	0.00	0.00	0.00	0.00	0.00	0.00
Samoa	0.00	0.00	0.00	0.00	0.00	0.00
Singapore	4.09	0.31	0.00	0.00	4.09	0.29
Solomon Islands	0.00	0.00	0.00	0.00	0.00	0.00
Spain	18.23	1.36	0.59	1.09	18.82	1.35
Sri Lanka	0.50	0.04	0.00	0.00	0.50	0.04
Sweden	6.56	0.49	0.00	0.00	6.56	0.47
Switzerland	7.89	0.59	0.20	0.37	8.09	0.58
Taipei,China	1.15	0.09	0.00	0.00	1.15	0.08
Tajikistan	0.00	0.00	0.00	0.00	0.00	0.00
Thailand	15.07	1.13	0.00	0.00	15.07	1.08
Timor-Leste	0.00	0.00	0.00	0.00	0.00	0.00
Tonga	0.65	0.05	0.00	0.00	0.65	0.05
Turkey	48.87	3.66	0.00	0.00	48.87	3.51
Turkmenistan	0.00	0.00	0.00	0.00	0.00	0.00
Tuvalu	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	10.48	0.78	5.11	9.37	15.59	1.12
United States	6.38	0.48	0.27	0.50	6.65	0.48
Uzbekistan	1.72	0.13	1.86	3.40	3.58	0.26
Vanuatu	0.00	0.00	0.00	0.00	0.00	0.00
Viet Nam	0.00	0.00	0.00	0.00	0.00	0.00
Regional	0.00	0.00	0.00	0.00	0.00	0.00
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	**1,336.78**	**100.00**	**54.55**	**100.00**	**1,391.33**	**100.00**

0.00 Data negligible.

a Represents the country of origin where the goods are mined, produced, grown and manufactured, based on US dollar value equivalent of contract.

b Total may not add due to rounding.

Table 16
CONTRACTS AWARDED BY COUNTRY OF ORIGIN,[a] 2003
PROJECT LOANS—ASIAN DEVELOPMENT FUND (amounts in $ million)

	Goods and Related Services, and Civil Works	% Distribution	Consulting Services	% Distribution	Total Contracts Awarded[b]	% Distribution[b]
Afghanistan	0.00	0.00	1.06	0.78	1.06	0.12
Australia	2.23	0.30	21.85	16.18	24.08	2.74
Austria	0.71	0.10	0.00	0.00	0.71	0.08
Azerbaijan	0.00	0.00	0.00	0.00	0.00	0.00
Bangladesh	84.69	11.37	5.80	4.29	90.48	10.28
Belgium	0.00	0.00	0.00	0.00	0.00	0.00
Bhutan	6.74	0.90	0.07	0.05	6.80	0.77
Cambodia	23.46	3.15	1.22	0.91	24.68	2.80
Canada	0.14	0.02	1.45	1.07	1.59	0.18
China, People's Rep. of	21.61	2.90	0.00	0.00	21.61	2.46
Cook Islands	0.04	0.00	0.07	0.05	0.10	0.01
Denmark	38.87	5.22	0.00	0.00	38.87	4.42
Fiji Islands	0.00	0.00	0.17	0.13	0.17	0.02
Finland	0.02	0.00	0.00	0.00	0.02	0.00
France	9.97	1.34	0.41	0.30	10.37	1.18
Germany	4.83	0.65	1.43	1.06	6.27	0.71
Hong Kong, China	7.13	0.96	0.00	0.00	7.13	0.81
India	6.40	0.86	0.34	0.25	6.74	0.77
Indonesia	35.78	4.80	21.00	15.55	56.78	6.45
Italy	0.05	0.01	0.00	0.00	0.05	0.01
Japan	82.52	11.08	7.05	5.22	89.57	10.18
Kazakhstan	1.30	0.17	0.02	0.02	1.33	0.15
Kiribati	0.28	0.04	0.00	0.00	0.28	0.03
Korea, Rep. of	16.38	2.20	0.07	0.05	16.45	1.87
Kyrgyz Republic	22.06	2.96	1.69	1.25	23.75	2.70
Lao PDR	19.08	2.56	0.75	0.55	19.83	2.25
Malaysia	2.98	0.40	1.05	0.78	4.03	0.46
Maldives	0.38	0.05	0.00	0.00	0.38	0.04
Marshall Islands	1.65	0.22	0.20	0.15	1.85	0.21
Micronesia, Fed. States of	0.13	0.02	0.00	0.00	0.13	0.01
Mongolia	5.34	0.72	0.60	0.44	5.94	0.67
Myanmar	0.00	0.00	0.00	0.00	0.00	0.00
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	7.38	0.99	1.21	0.90	8.59	0.98
The Netherlands	0.73	0.10	0.00	0.00	0.73	0.08
New Zealand	1.41	0.19	4.50	3.33	5.91	0.67
Norway	0.00	0.00	0.39	0.29	0.39	0.04
Pakistan	141.11	18.94	6.32	4.68	147.43	16.75
Papua New Guinea	1.92	0.26	0.64	0.47	2.56	0.29
Philippines	10.87	1.46	2.44	1.81	13.31	1.51
Portugal	0.00	0.00	0.00	0.00	0.00	0.00
Samoa	1.78	0.24	0.21	0.15	1.99	0.23
Singapore	3.88	0.52	0.00	0.00	3.88	0.44
Solomon Islands	0.00	0.00	0.00	0.00	0.00	0.00
Spain	0.07	0.01	0.00	0.00	0.07	0.01
Sri Lanka	86.15	11.56	9.75	7.22	95.90	10.90
Sweden	0.00	0.00	3.24	2.40	3.24	0.37
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00
Taipei,China	2.27	0.30	0.00	0.00	2.27	0.26
Tajikistan	6.96	0.93	0.14	0.10	7.10	0.81
Thailand	8.72	1.17	0.23	0.17	8.94	1.02
Timor-Leste	0.00	0.00	0.00	0.00	0.00	0.00
Tonga	0.00	0.00	0.00	0.00	0.00	0.00
Turkey	15.44	2.07	0.00	0.00	15.44	1.75
Turkmenistan	0.00	0.00	0.00	0.00	0.00	0.00
Tuvalu	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	1.70	0.23	20.01	14.81	21.70	2.47
United States	7.47	1.00	9.25	6.85	16.72	1.90
Uzbekistan	3.11	0.42	0.00	0.00	3.11	0.35
Vanuatu	0.00	0.00	3.03	2.24	3.03	0.34
Viet Nam	49.30	6.62	7.42	5.50	56.72	6.45
Regional	0.00	0.00	0.00	0.00	0.00	0.00
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	**745.01**	**100.00**	**135.06**	**100.00**	**880.07**	**100.00**

0.00 Data negligible.

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.
b Total may not add due to rounding.

Table 17
CONTRACTS AWARDED BY COUNTRY OF ORIGIN,[a] 2003
PROJECT LOANS—ORDINARY CAPITAL RESOURCES AND ASIAN DEVELOPMENT FUND COMBINED (amounts in $ million)

	Goods and Related Services, and Civil Works	% Distribution	Consulting Services	% Distribution	Total Contracts Awarded[b]	% Distribution[b]
Afghanistan	0.00	0.00	1.06	0.56	1.06	0.05
Australia	5.70	0.27	25.28	13.33	30.98	1.36
Austria	14.65	0.70	0.16	0.08	14.81	0.65
Azerbaijan	0.00	0.00	0.00	0.00	0.00	0.00
Bangladesh	84.69	4.07	5.80	3.06	90.48	3.98
Belgium	0.07	0.00	0.00	0.00	0.07	0.00
Bhutan	6.74	0.32	0.07	0.04	6.80	0.30
Cambodia	23.46	1.13	1.22	0.65	24.68	1.09
Canada	1.96	0.09	4.05	2.13	6.01	0.26
China, People's Rep. of	433.04	20.80	0.04	0.02	433.08	19.07
Cook Islands	0.04	0.00	0.07	0.04	0.10	0.00
Denmark	38.99	1.87	0.11	0.06	39.10	1.72
Fiji Islands	2.79	0.13	0.17	0.09	2.96	0.13
Finland	0.17	0.01	0.00	0.00	0.17	0.01
France	15.38	0.74	1.65	0.87	17.02	0.75
Germany	29.91	1.44	1.49	0.79	31.40	1.38
Hong Kong, China	12.24	0.59	0.79	0.42	13.03	0.57
India	419.61	20.16	7.16	3.78	426.77	18.79
Indonesia	258.29	12.41	36.99	19.51	295.28	13.00
Italy	7.05	0.34	0.39	0.20	7.44	0.33
Japan	126.73	6.09	11.43	6.03	138.16	6.08
Kazakhstan	1.30	0.06	0.02	0.01	1.33	0.06
Kiribati	0.28	0.01	0.00	0.00	0.28	0.01
Korea, Rep. of	17.83	0.86	0.07	0.04	17.90	0.79
Kyrgyz Republic	22.06	1.06	1.69	0.89	23.75	1.05
Lao PDR	19.08	0.92	0.75	0.39	19.83	0.87
Malaysia	6.20	0.30	1.16	0.61	7.36	0.32
Maldives	0.38	0.02	0.00	0.00	0.38	0.02
Marshall Islands	1.65	0.08	0.20	0.10	1.85	0.08
Micronesia, Fed. States of	0.13	0.01	0.00	0.00	0.13	0.01
Mongolia	5.34	0.26	0.60	0.31	5.94	0.26
Myanmar	0.00	0.00	0.00	0.00	0.00	0.00
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	7.38	0.35	1.21	0.64	8.59	0.38
The Netherlands	2.98	0.14	4.56	2.40	7.54	0.33
New Zealand	5.83	0.28	4.77	2.52	10.60	0.47
Norway	0.97	0.05	0.39	0.21	1.36	0.06
Pakistan	142.46	6.84	6.32	3.33	148.78	6.55
Papua New Guinea	2.63	0.13	0.74	0.39	3.36	0.15
Philippines	55.42	2.66	7.93	4.18	63.35	2.79
Portugal	0.00	0.00	0.00	0.00	0.00	0.00
Samoa	1.78	0.09	0.21	0.11	1.99	0.09
Singapore	7.97	0.38	0.00	0.00	7.97	0.35
Solomon Islands	0.00	0.00	0.00	0.00	0.00	0.00
Spain	18.30	0.88	0.59	0.31	18.89	0.83
Sri Lanka	86.65	4.16	9.75	5.14	96.40	4.24
Sweden	6.56	0.32	3.24	1.71	9.80	0.43
Switzerland	7.89	0.38	0.20	0.11	8.09	0.36
Taipei,China	3.42	0.16	0.00	0.00	3.42	0.15
Tajikistan	6.96	0.33	0.14	0.07	7.10	0.31
Thailand	23.78	1.14	0.23	0.12	24.01	1.06
Timor-Leste	0.00	0.00	0.00	0.00	0.00	0.00
Tonga	0.65	0.03	0.00	0.00	0.65	0.03
Turkey	64.31	3.09	0.00	0.00	64.31	2.83
Turkmenistan	0.00	0.00	0.00	0.00	0.00	0.00
Tuvalu	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	12.18	0.58	25.12	13.25	37.29	1.64
United States	13.85	0.67	9.52	5.02	23.37	1.03
Uzbekistan	4.83	0.23	1.86	0.98	6.69	0.29
Vanuatu	0.00	0.00	3.03	1.60	3.03	0.13
Viet Nam	49.30	2.37	7.42	3.92	56.72	2.50
Regional	0.00	0.00	0.00	0.00	0.00	0.00
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	**2,081.79**	**100.00**	**189.61**	**100.00**	**2,271.40**	**100.00**

0.00 Data negligible.

a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

b Total may not add due to rounding.

Table 18
ESTIMATES OF PAYMENT TO SUPPLYING COUNTRIES FOR FOREIGN PROCUREMENT UNDER PROGRAM LENDING,[a] 2003

	Ordinary Capital Resources (OCR)		Asian Development Fund (ADF)		Combined OCR and ADF	
	$ Million	% Distribution	$ Million	% Distribution	$ Million	% Distribution
Afghanistan	0.50	0.06	0.00	0.00	0.50	0.05
Australia	9.17	1.06	2.40	1.18	11.58	1.08
Austria	0.71	0.08	0.20	0.10	0.91	0.08
Azerbaijan	0.01	0.00	1.05	0.51	1.06	0.10
Bangladesh	0.61	0.07	0.01	0.01	0.63	0.06
Belgium	11.25	1.30	0.29	0.14	11.54	1.08
Bhutan	0.06	0.01	0.00	0.00	0.06	0.01
Cambodia	0.03	0.00	0.04	0.02	0.07	0.01
Canada	3.25	0.38	0.12	0.06	3.37	0.31
China, People's Rep. of	16.34	1.88	11.01	5.38	27.34	2.55
Cook Islands	0.00	0.00	0.00	0.00	0.00	0.00
Denmark	0.88	0.10	0.21	0.10	1.09	0.10
Fiji Islands	0.00	0.00	0.00	0.00	0.00	0.00
Finland	1.33	0.15	0.19	0.09	1.52	0.14
France	5.62	0.65	1.22	0.60	6.83	0.64
Germany	14.20	1.64	2.61	1.27	16.81	1.57
Hong Kong, China	7.57	0.87	2.43	1.19	10.00	0.93
India	236.70	27.31	0.34	0.17	237.04	22.13
Indonesia	7.93	0.91	0.88	0.43	8.81	0.82
Italy	6.03	0.70	0.72	0.35	6.75	0.63
Japan	30.88	3.56	10.72	5.24	41.59	3.88
Kazakhstan	0.04	0.00	1.15	0.56	1.18	0.11
Kiribati	0.00	0.00	0.00	0.00	0.00	0.00
Korea, Rep. of	15.52	1.79	9.32	4.56	24.84	2.32
Kyrgyz Republic	0.00	0.00	0.11	0.05	0.11	0.01
Lao PDR	0.00	0.00	0.17	0.08	0.17	0.02
Malaysia	14.27	1.65	2.58	1.26	16.84	1.57
Maldives	0.00	0.00	0.00	0.00	0.00	0.00
Marshall Islands	0.00	0.00	0.00	0.00	0.00	0.00
Micronesia, Fed. States of	0.00	0.00	1.85	0.90	1.85	0.17
Mongolia	0.01	0.00	3.92	1.92	3.93	0.37
Myanmar	1.05	0.12	0.00	0.00	1.05	0.10
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	0.47	0.05	20.00	9.78	20.47	1.91
The Netherlands	5.43	0.63	0.27	0.13	5.69	0.53
New Zealand	0.80	0.09	0.11	0.05	0.90	0.08
Norway	0.23	0.03	0.03	0.01	0.26	0.02
Pakistan	210.32	24.27	31.70	15.51	242.02	22.59
Papua New Guinea	0.14	0.02	0.00	0.00	0.14	0.01
Philippines	60.30	6.96	0.11	0.06	60.41	5.64
Portugal	0.02	0.00	0.00	0.00	0.02	0.00
Samoa	0.00	0.00	0.00	0.00	0.00	0.00
Singapore	17.97	2.07	10.06	4.92	28.03	2.62
Solomon Islands	0.03	0.00	0.00	0.00	0.03	0.00
Spain	1.57	0.18	0.15	0.08	1.73	0.16
Sri Lanka	0.19	0.02	50.05	24.48	50.24	4.69
Sweden	1.89	0.22	0.14	0.07	2.02	0.19
Switzerland	4.94	0.57	0.25	0.12	5.19	0.48
Taipei,China	6.52	0.75	0.00	0.00	6.52	0.61
Tajikistan	0.01	0.00	0.00	0.00	0.01	0.00
Thailand	6.64	0.77	9.19	4.50	15.84	1.48
Timor-Leste	0.00	0.00	0.00	0.00	0.00	0.00
Tonga	0.00	0.00	0.00	0.00	0.00	0.00
Turkey	1.02	0.12	0.06	0.03	1.07	0.10
Turkmenistan	0.02	0.00	0.41	0.20	0.43	0.04
Tuvalu	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	13.75	1.59	0.42	0.20	14.17	1.32
United States	149.60	17.26	8.68	4.25	158.28	14.78
Uzbekistan	0.13	0.02	1.76	0.86	1.89	0.18
Vanuatu	0.00	0.00	0.00	0.00	0.00	0.00
Viet Nam	0.79	0.09	17.54	8.58	18.33	1.71
Regional	0.00	0.00	0.00	0.00	0.00	0.00
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	**866.71**	**100.00**	**204.44**	**100.00**	**1,071.15**	**100.00**

0.00 Data negligible.

Note: Total may not add due to rounding.

a Estimates are based on import data drawn from the latest information available on borrowers' trade statistics compiled by the International Monetary Fund *Direction of Trade Statistics*.

Table 19
CUMULATIVE CONTRACTS AWARDED BY COUNTRY OF ORIGIN,[a]
TECHNICAL ASSISTANCE OPERATIONS
(as of 31 December 2003; amounts in $ million)

	ADB's Own Resources	% Distribution	Administered Trust Funds	% Distribution	Japan Special Fund	% Distribution	Total Contracts Awarded	% Distribution
Afghanistan	0.20	0.02	0.54	0.19	0.02	0.00	0.76	0.04
Australia	118.37	12.77	23.51	8.40	97.50	13.03	239.39	12.25
Austria	0.79	0.09	0.00	0.00	0.01	0.00	0.81	0.04
Azerbaijan	0.17	0.02	0.00	0.00	0.00	0.00	0.17	0.01
Bangladesh	7.68	0.83	2.60	0.93	3.90	0.52	14.18	0.73
Belgium	3.25	0.35	0.91	0.32	2.24	0.30	6.39	0.33
Bhutan	0.14	0.02	0.02	0.01	0.03	0.00	0.19	0.01
Cambodia	0.75	0.08	0.72	0.26	0.17	0.02	1.63	0.08
Canada	68.31	7.37	33.26	11.88	58.61	7.83	160.17	8.19
China, People's Rep. of	6.69	0.72	1.17	0.42	6.12	0.82	13.97	0.71
Cook Islands	0.05	0.01	0.19	0.07	0.00	0.00	0.24	0.01
Denmark	10.33	1.12	2.32	0.83	15.34	2.05	27.99	1.43
Fiji Islands	0.49	0.05	0.25	0.09	0.14	0.02	0.88	0.05
Finland	5.10	0.55	5.59	2.00	6.90	0.92	17.59	0.90
France	18.24	1.97	11.28	4.03	20.26	2.71	49.79	2.55
Germany	16.92	1.83	6.13	2.19	28.60	3.82	51.64	2.64
Hong Kong, China	15.15	1.64	3.91	1.40	19.60	2.62	38.66	1.98
India	31.15	3.36	6.28	2.24	12.21	1.63	49.64	2.54
Indonesia	11.94	1.29	2.66	0.95	9.62	1.29	24.23	1.24
Italy	4.74	0.51	0.76	0.27	2.60	0.35	8.10	0.41
Japan	20.31	2.19	7.29	2.60	19.30	2.58	46.90	2.40
Kazakhstan	0.35	0.04	0.47	0.17	0.03	0.00	0.85	0.04
Kiribati	0.00	0.00	0.03	0.01	0.01	0.00	0.03	0.00
Korea, Republic of	4.48	0.48	0.99	0.35	3.57	0.48	9.05	0.46
Kyrgyz Republic	0.47	0.05	0.02	0.01	0.03	0.00	0.51	0.03
Lao PDR	2.56	0.28	0.21	0.07	0.64	0.09	3.41	0.17
Malaysia	8.14	0.88	0.22	0.08	3.13	0.42	11.48	0.59
Maldives	0.07	0.01	0.00	0.00	0.03	0.00	0.10	0.01
Marshall Islands	0.07	0.01	0.00	0.00	0.00	0.00	0.07	0.00
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia	0.82	0.09	0.07	0.03	0.43	0.06	1.32	0.07
Myanmar	0.73	0.08	0.52	0.18	0.00	0.00	1.25	0.06
Nauru	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	5.32	0.57	1.27	0.45	1.24	0.17	7.83	0.40
Netherlands	19.75	2.13	22.55	8.06	25.79	3.45	68.09	3.48
New Zealand	50.79	5.48	9.19	3.28	48.12	6.43	108.11	5.53
Norway	2.59	0.28	4.08	1.46	3.38	0.45	10.05	0.51
Pakistan	13.36	1.44	0.96	0.34	2.49	0.33	16.81	0.86
Papua New Guinea	1.25	0.14	0.04	0.02	1.04	0.14	2.33	0.12
Philippines	60.43	6.52	12.46	4.45	27.20	3.63	100.08	5.12
Portugal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Samoa	0.74	0.08	0.01	0.00	0.86	0.11	1.60	0.08
Singapore	12.49	1.35	0.05	0.02	8.36	1.12	20.90	1.07
Solomon Islands	0.44	0.05	0.02	0.01	0.27	0.04	0.72	0.04
Spain	1.43	0.15	1.75	0.62	0.81	0.11	3.99	0.20
Sri Lanka	9.95	1.07	1.94	0.69	2.68	0.36	14.57	0.75
Sweden	5.68	0.61	3.02	1.08	6.42	0.86	15.11	0.77
Switzerland	9.42	1.02	4.67	1.67	10.38	1.39	24.47	1.25
Taipei,China	1.04	0.11	0.07	0.02	2.05	0.27	3.15	0.16
Tajikistan	0.16	0.02	0.00	0.00	0.02	0.00	0.18	0.01
Thailand	10.75	1.16	2.87	1.03	9.81	1.31	23.43	1.20
Timor-Leste	1.75	0.19	0.00	0.00	0.00	0.00	1.75	0.09
Tonga	0.24	0.03	0.00	0.00	0.00	0.00	0.24	0.01
Turkey	0.22	0.02	0.08	0.03	0.00	0.00	0.30	0.02
Turkmenistan	0.02	0.00	0.00	0.00	0.00	0.00	0.03	0.00
Tuvalu	0.06	0.01	0.00	0.00	0.00	0.00	0.06	0.00
United Kingdom	136.40	14.72	46.03	16.45	117.25	15.67	299.68	15.33
United States	195.61	21.11	52.32	18.69	159.59	21.32	407.52	20.85
Uzbekistan	0.14	0.01	0.06	0.02	0.04	0.01	0.24	0.01
Vanuatu	0.74	0.08	0.01	0.00	1.20	0.16	1.94	0.10
Viet Nam	2.09	0.23	0.52	0.19	2.15	0.29	4.76	0.24
Regional	2.09	0.23	0.00	0.00	1.36	0.18	3.45	0.18
International Organizations	23.21	2.50	4.07	1.45	4.90	0.65	32.18	1.65
TOTAL	**926.61**	**100.00**	**279.90**	**100.00**	**748.40**	**100.00**	**1,954.91**	**100.00**

0.00 Data negligible.
Note: Total may not add due to rounding.
a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

Table 20
CONTRACTS AWARDED BY COUNTRY OF ORIGIN,[a] 2001–2003
TECHNICAL ASSISTANCE OPERATIONS (amounts in $ million)

	2001		2002		2003	
	Value	%	Value	%	Value	%
Afghanistan	0.00	0.00	0.16	0.12	0.56	0.36
Australia	17.99	13.94	20.38	15.79	19.32	12.35
Austria	0.67	0.52	0.01	0.01	0.00	0.00
Azerbaijan	0.05	0.03	0.05	0.04	0.04	0.02
Bangladesh	1.77	1.37	0.81	0.63	1.21	0.77
Belgium	0.86	0.67	0.60	0.46	1.10	0.70
Bhutan	0.03	0.02	0.00	0.00	0.07	0.05
Cambodia	0.14	0.11	0.36	0.28	0.71	0.45
Canada	11.01	8.53	7.65	5.93	15.91	10.17
China, People's Rep. of	0.65	0.50	1.64	1.27	2.38	1.52
Cook Islands	0.01	0.01	0.19	0.15	0.03	0.02
Denmark	0.60	0.46	0.45	0.35	2.05	1.31
Fiji Islands	0.08	0.06	0.08	0.07	0.25	0.16
Finland	0.00	0.00	0.88	0.68	1.59	1.02
France	4.00	3.10	1.55	1.20	5.77	3.69
Germany	5.66	4.38	2.12	1.64	6.59	4.21
Hong Kong, China	2.94	2.28	6.11	4.73	2.37	1.51
India	4.13	3.20	3.16	2.44	3.32	2.12
Indonesia	1.30	1.01	3.39	2.63	3.46	2.21
Italy	0.27	0.21	0.13	0.10	0.31	0.20
Japan	1.35	1.04	2.54	1.97	4.32	2.76
Kazakhstan	0.20	0.15	0.19	0.15	0.17	0.11
Kiribati	0.00	0.00	0.01	0.01	0.00	0.00
Korea, Rep. of	0.31	0.24	0.17	0.13	0.38	0.24
Kyrgyz Republic	0.06	0.04	0.04	0.03	0.17	0.11
Lao PDR	0.07	0.06	0.20	0.16	0.22	0.14
Malaysia	0.37	0.29	0.45	0.35	1.01	0.65
Maldives	0.02	0.01	0.02	0.02	0.00	0.00
Marshall Islands	0.00	0.00	0.00	0.00	0.00	0.00
Micronesia, Fed. States of	0.00	0.00	0.00	0.00	0.00	0.00
Mongolia	0.18	0.14	0.14	0.11	0.23	0.15
Myanmar	0.05	0.04	0.05	0.04	0.01	0.01
Nauru	0.00	0.00	0.00	0.00	0.00	0.00
Nepal	0.55	0.43	0.51	0.39	0.65	0.42
The Netherlands	4.46	3.46	1.89	1.46	4.08	2.61
New Zealand	9.07	7.03	8.79	6.81	6.53	4.17
Norway	0.03	0.03	0.18	0.14	1.03	0.66
Pakistan	1.28	0.99	2.51	1.95	3.97	2.54
Papua New Guinea	0.41	0.32	0.88	0.68	0.09	0.05
Philippines	8.62	6.68	7.87	6.10	12.07	7.72
Portugal	0.00	0.00	0.00	0.00	0.00	0.00
Samoa	0.11	0.09	0.05	0.04	0.03	0.02
Singapore	2.17	1.68	0.91	0.71	2.05	1.31
Solomon Islands	0.09	0.07	0.25	0.19	0.00	0.00
Spain	0.05	0.04	0.10	0.08	1.35	0.86
Sri Lanka	0.73	0.56	0.41	0.32	1.15	0.73
Sweden	0.93	0.72	0.20	0.15	1.52	0.97
Switzerland	0.90	0.70	1.98	1.53	0.40	0.26
Taipei,China	0.00	0.00	0.02	0.02	0.00	0.00
Tajikistan	0.04	0.03	0.05	0.04	0.06	0.04
Thailand	2.17	1.68	2.50	1.94	1.71	1.09
Timor-Leste	0.00	0.00	0.87	0.67	0.52	0.33
Tonga	0.00	0.00	0.00	0.00	0.06	0.04
Turkey	0.00	0.00	0.05	0.04	0.03	0.02
Turkmenistan	0.00	0.00	0.01	0.01	0.02	0.01
Tuvalu	0.00	0.00	0.03	0.02	0.00	0.00
United Kingdom	18.21	14.11	15.93	12.34	22.76	14.55
United States	32.96	25.54	28.85	22.35	22.11	14.14
Uzbekistan	0.03	0.02	0.04	0.03	0.05	0.03
Vanuatu	0.34	0.26	0.00	0.00	0.00	0.00
Viet Nam	0.30	0.24	0.03	0.02	0.00	0.00
Regional	1.12	0.87	0.65	0.51	0.65	0.42
International Organizations	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	**139.34**	**107.94**	**129.09**	**100.00**	**156.43**	**100.00**

0.00 Data negligible.
Note: Total may not add due to rounding.
a Represents the country of origin where the goods are mined, produced, grown, and manufactured, based on US dollar value equivalent of contract.

Table 21
TECHNICAL ASSISTANCE GRANTS BY COUNTRY AND REGIONAL ACTIVITIES,[a] 1967–2003, 2002, 2003
(amounts in $ thousand)

	1967–2003[b]			2002						
	No.	Amount	%	No.	OCR and TASF Financing	JSF Financing	ACCSF[c] Financing	Other Sources	Total	%
Afghanistan	26	28,151.70	1.18	2	15,000.00	–	–	136.00	15,136.00	8.45
Azerbaijan	11	5,052.00	0.21	1	–	700.00	–	–	700.00	0.39
Bangladesh	290	154,998.33	6.48	9	3,750.00	1,100.00	–	–	4,850.00	2.71
Bhutan	85	32,025.15	1.34	5	1,200.00	650.00	–	–	1,850.00	1.03
Cambodia	111	72,926.60	3.05	17	3,400.00	1,600.00	–	1,531.00	6,531.00	3.65
China, People's Rep. of	418	223,111.05	9.32	26	7,573.00	2,700.00	–	2,924.00	13,197.00	7.37
Cook Islands	27	8,645.00	0.36	–	–	–	–	–	–	–
Fiji Islands	71	22,979.80	0.96	4	1,560.00	400.00	–	–	1,960.00	1.09
India	189	99,261.86	4.15	26	4,400.00	3,000.00	–	5,840.00	13,240.00	7.40
Indonesia	452	212,542.67	8.88	27	4,280.00	3,300.00	7,325.00	4,194.00	19,099.00	10.67
Kazakhstan	50	23,367.00	0.98	8	1,486.00	600.00	–	–	2,086.00	1.17
Kiribati	33	10,610.70	0.44	2	770.70	–	–	–	770.70	0.43
Korea, Rep. of	33	5,010.15	0.21	–	–	–	–	–	–	–
Kyrgyz Republic	52	31,471.40	1.31	5	2,230.90	500.00	–	–	2,730.90	1.53
Lao PDR	198	95,757.78	4.00	7	2,200.00	1,200.00	–	300.00	3,700.00	2.07
Malaysia	92	25,202.30	1.05	–	–	–	–	–	–	–
Maldives	47	16,208.00	0.68	3	230.00	750.00	–	–	980.00	0.55
Marshall Islands	41	17,147.00	0.72	2	670.00	–	–	–	670.00	0.37
Micronesia, Fed. States of	36	21,828.00	0.91	2	360.00	650.00	–	–	1,010.00	0.56
Mongolia	111	54,570.65	2.28	9	2,500.00	600.00	–	400.00	3,500.00	1.95
Myanmar	38	10,716.00	0.45	–	–	–	–	–	–	–
Nauru	5	1,244.00	0.05	–	–	–	–	–	–	–
Nepal	236	108,654.70	4.54	9	1,500.00	2,400.00	–	–	3,900.00	2.18
Pakistan	261	109,019.40	4.55	17	5,195.00	1,250.00	–	1,225.00	7,670.00	4.28
Papua New Guinea	122	42,863.60	1.79	4	800.00	1,500.00	–	242.00	2,542.00	1.42
Philippines	299	130,939.25	5.47	12	2,970.00	1,000.00	2,250.00	375.00	6,595.00	3.68
Samoa	76	21,326.50	0.89	3	700.00	300.00	–	–	1,000.00	0.56
Singapore	2	577.42	0.02	–	–	–	–	–	–	–
Solomon Islands	51	10,900.24	0.46	–	–	–	–	–	–	–
Sri Lanka	209	84,525.60	3.53	9	1,100.00	3,435.00	–	250.00	4,785.00	2.67
Taipei,China	1	100.00	0.00	–	–	–	–	–	–	–
Tajikistan	38	18,485.00	0.77	5	120.00	2,060.00	–	480.00	2,660.00	1.49
Thailand	143	51,653.60	2.16	3	750.00	–	–	150.00	900.00	0.50
Timor-Leste	21	9,150.90	0.38	2	938.00	350.00	–	–	1,288.00	0.72
Tonga	48	13,041.50	0.54	1	700.00	–	–	–	700.00	0.39
Turkmenistan	3	565.00	0.02	2	415.00	–	–	–	415.00	0.23
Tuvalu	17	4,187.00	0.17	1	–	291.00	–	–	291.00	0.16
Uzbekistan	51	27,180.00	1.14	7	2,800.00	600.00	–	580.00	3,980.00	2.22
Vanuatu	51	13,664.76	0.57	2	450.00	–	–	–	450.00	0.25
Viet Nam	158	101,820.46	4.25	15	4,068.00	3,600.00	–	1,609.00	9,277.00	5.18
Subtotal	4,203	1,921,482.06	80.27	247	74,116.60	34,536.00	9,575.00	20,236.00	138,463.60	77.34
Regional	1,154	472,261.23	19.73	76	28,586.00	1,900.00	–	10,090.00	40,576.00	22.66
TOTAL	**5,357**	**2,393,743.30**	**100.00**	**323**	**102,702.60**	**36,436.00**	**9,575.00**	**30,326.00**	**179,039.60**	**100.00**

0.00 Data negligible.
a Excludes technical assistance financed under loans that are included in ADB's loan data.
b Cumulative data are adjusted to exclude technical assistance projects withdrawn by governments.
c Asian Currency Crisis Support Facility.

2003						
No.	TASF Financing	JSF Financing	Other Sources	Total	%	
9	10,000.00	–	450.00	10,450.00	5.92	Afghanistan
5	1,300.00	1,100.00	–	2,400.00	1.36	Azerbaijan
10	1,570.00	2,950.00	600.00	5,120.00	2.90	Bangladesh
4	1,050.00	500.00	–	1,550.00	0.88	Bhutan
13	2,562.00	2,100.00	1,645.00	6,307.00	3.57	Cambodia
26	9,650.00	450.00	4,200.00	14,300.00	8.10	China, People's Rep. of
2	650.00	–	–	650.00	0.37	Cook Islands
4	933.00	1,170.00	–	2,103.00	1.19	Fiji Islands
22	2,200.00	1,200.00	11,295.00	14,695.00	8.32	India
20	4,298.00	3,000.00	5,167.40	12,465.40	7.06	Indonesia
6	1,177.00	350.00	250.00	1,777.00	1.01	Kazakhstan
1	300.00	–	–	300.00	0.17	Kiribati
–	–	–	–	–	–	Korea, Rep. of
2	–	1,100.00	–	1,100.00	0.62	Kyrgyz Republic
7	1,420.00	1,600.00	320.00	3,340.00	1.89	Lao PDR
–	–	–	–	–	–	Malaysia
3	1,050.00	–	–	1,050.00	0.59	Maldives
2	500.00	500.00	–	1,000.00	0.57	Marshall Islands
3	900.00	–	333.00	1,233.00	0.70	Micronesia, Fed. States of
3	150.00	1,150.00	–	1,300.00	0.74	Mongolia
–	–	–	–	–	–	Myanmar
–	–	–	–	–	–	Nauru
9	2,120.00	1,350.00	715.00	4,185.00	2.37	Nepal
20	5,094.00	1,000.00	3,934.00	10,028.00	5.68	Pakistan
2	450.00	600.00	–	1,050.00	0.59	Papua New Guinea
7	3,100.00	800.00	450.00	4,350.00	2.46	Philippines
4	1,325.00	400.00	–	1,725.00	0.98	Samoa
–	–	–	–	–	–	Singapore
–	–	–	–	–	–	Solomon Islands
11	3,100.00	1,100.00	1,150.00	5,350.00	3.03	Sri Lanka
–	–	–	–	–	–	Taipei,China
9	600.00	2,540.00	220.00	3,360.00	1.90	Tajikistan
2	210.00	–	–	210.00	0.12	Thailand
1	550.00	–	–	550.00	0.31	Timor-Leste
3	915.00	–	–	915.00	0.52	Tonga
–	–	–	–	–	–	Turkmenistan
3	560.00	–	–	560.00	0.32	Tuvalu
9	950.00	1,900.00	350.00	3,200.00	1.81	Uzbekistan
2	400.00	–	–	400.00	0.23	Vanuatu
15	3,170.00	2,830.00	2,610.00	8,610.00	4.88	Viet Nam
239	62,254.00	29,690.00	33,689.40	125,633.40	71.16	Subtotal
76	24,467.58	7,200.00	19,238.03	50,905.61	28.84	Regional
315	**86,721.58**	**36,890.00**	**52,927.43**	**176,539.01**	**100.00**	**TOTAL**

Table 22
TECHNICAL ASSISTANCE GRANTS, 2003
($ thousand)

	Project Preparatory	Advisory and Operational	Sector
AFGHANISTAN			
Power Transmission and Distribution	750.00		Energy
Herat-Andkhoy Road	1,000.00		Transport and Communications
Regional Airports Rehabilitation	1,000.00		Transport and Communications
Energy Sector Review and Gas Development Master Plan		950.00	Energy
Capacity Building for Reconstruction and Development (Supplementary)		450.00[a]	Multisector
Institutional Strengthening of the Gas Sector		750.00	Energy
Support for Public Administration Reform Program		3,400.00	Others
Capacity Building in Agriculture and Natural Resource Management for Programming, and Aid Management and Coordination		400.00	Agriculture and Natural Resources
Poverty Assessment and Socioeconomic and Macroeconomic Statistical Capacity Building		1,750.00	Others
Subtotal	2,750.00	7,700.00	
AZERBAIJAN			
Early Childhood Development	600.00[b]		Multisector
Capacity Building for Medium-Term Poverty Reduction Strategy Implementation		650.00	Others
Microfinance Sector Development		400.00	Finance
Development of a Competition Policy Framework		250.00	Others
Supporting River Basin and Flood Management Planning		500.00[b]	Agriculture and Natural Resources
Subtotal	600.00	1,800.00	
BANGLADESH			
Southwest Area Integrated Water Resources Management	900.00[b]		Agriculture and Natural Resources
Social Protection for Disadvantaged Women and Children	500.00[b]		Multisector
Chittagong Port Trade Facilitation	500.00[b]		Transport and Communications
Agribusiness Development	650.00[b]		Agriculture and Natural Resources
Second Urban Primary Health Care	400.00[b]		Social Infrastructure
Financial Markets Governance Program	550.00		Finance
Assistance to the Privatization Commission		150.00	Finance
Supporting Good Governance Initiatives		1,000.00[c]	Others
Arsenic Mitigation Review and Strategy Formulation		120.00	Social Infrastructure
Strengthening Capacities for Poverty Monitoring and Evaluation		350.00[d]	Others
Subtotal	3,500.00	1,620.00	
BHUTAN			
Road Network Expansion	500.00[b]		Transport and Communications
Strengthening Environmental Sector Capacity		150.00	Others
Capacity Building of the Bhutan Electricity Authority		400.00	Energy
Establishing the Druk Hydropower Corporation		500.00	Energy
Subtotal	500.00	1,050.00	
CAMBODIA			
Power Distribution and Greater Mekong Subregion Transmission	730.00		Energy
Small- and Medium-Sized Enterprise Sector Development Program	500.00[b]		Industry and Nonfuel Minerals
Tonle Sap Sustainable Livelihoods Project	1,260.00[e]		Multisector
Second Education Sector Development Program	600.00[b]		Social Infrastructure
Preventing Poverty and Empowering Female Garment Workers Affected by the Changing International Trade Environment		500.00[d]	Industry and Nonfuel Minerals

a To be financed by the Government of Denmark with ADB acting as executing agency.
b To be financed from the Japan Special Fund (JSF).
c Of this amount, $750,000 is to be financed from the Technical Assistance Special Fund (TASF) and $250,000 from the Governance Cooperation Fund (GCF).
d To be financed from the Poverty Reduction Cooperation Fund (PRF).
e Of this amount, $700,000 is to be financed from the TASF and $560,000 by the Government of Finland with ADB acting as executing agency.

CONTINUED

	Project Preparatory	Advisory and Operational	Sector
CAMBODIA			
Capacity Building of Electricity Authority of Cambodia		240.00[a]	Energy
Implementation of Land Legislation—Phase 2		600.00	Others
Establishment of the Tonle Sap Basin Management Organization		135.00	Others
Policy and Institutional Reforms in the Agriculture Sector		1,000.00[b]	Agriculture and Natural Resources
Engagement of a Poverty Consultant at the Cambodia Resident Mission (Supplementary)		113.00[c]	Others
Participatory Poverty Assessment of the Tonle Sap		250.00[d]	Others
Supporting the Implementation of the Uniform Chart of Accounts for Commercial Banks		79.00	Finance
Formulating a Master Plan for National Agricultural Research		300.00	Agriculture and Natural Resources
Subtotal	3,090.00	3,217.00	
CHINA, PEOPLE'S REPUBLIC OF			
Guangxi Roads Development II	500.00		Transport and Communications
Dali-Lijiang Railway	500.00		Transport and Communications
Jiangsu Urban Environment Improvement	500.00		Energy
Gansu Roads Development	500.00		Transport and Communications
Shandong Hai River Basin Pollution Control	600.00		Social Infrastructure
Jilin Water Supply and Sewerage Development	650.00		Social Infrastructure
Henan Wastewater Management	800.00		Social Infrastructure
Central Sichuan Roads Development	700.00		Transport and Communications
Policy Reform Support		150.00	Others
Power Pricing Strategy: Tariff Setting and Regulation		500.00	Energy
Combating Severe Acute Respiratory Syndrome in the Western Region		2,000.00	Social Infrastructure
Improving Services Sector Statistics		450.00[b]	Others
Preventing HIV/AIDS on Road Projects in Yunnan Province		800.00[d]	Social Infrastructure
Participatory Poverty Reduction Planning for Small Minorities		840.00[e]	Others
A Fund for Strategic Policy Conferences and Studies for Poverty Reduction		400.00[d]	Others
Policy and Institutional Support for Social Insurance Administration		700.00	Others
Advisory Support for the National Council for the Social Security Fund		500.00	Others
Safe Drinking Water and Sanitation for the Rural Poor		400.00[d]	Social Infrastructure
Policy Study on the Poverty Reduction Program of the People's Republic of China—Trends, Challenges, and Future Directions		150.00[d]	Others
Support to the Review and Planning for Development of the Legal and Judicial System		350.00	Others
Foreign Bank Rating and Risk Management System		400.00	Finance
Ensuring Safeguard Practices		150.00	Transport and Communications
Capacity Strengthening of PRC's National Development Planning Process		360.00[d]	Others
Poverty Reduction in Key Forestry Conservation Programs		400.00[d]	Agriculture and Natural Resources
Poverty Reduction in Grassland Improvement Program		400.00[d]	Agriculture and Natural Resources
Renewable Energy for Poverty Reduction		600.00[f]	Energy
Subtotal	4,750.00	9,550.00	

a To be financed from the GCF.
b To be financed from the JSF.
c Of this amount, $18,000 is to be financed from the TASF, $31,500 from the Cooperation Fund for National Poverty Reduction Strategies (CFNPRS), and $63,500 from the PRF.
d To be financed from the PRF.
e To be financed from the CFNPRS.
f Of this amount, $150,000 is to be financed from the TASF and $450,000 by the Government of Denmark with ADB acting as executing agency.

CONTINUED

	Project Preparatory	Advisory and Operational	Sector
COOK ISLANDS			
Strengthening Economic and Development Planning Capacity		300.00	Others
Legal and Institutional Strengthening of Environmental Management		350.00	Others
Subtotal		650.00	
FIJI ISLANDS			
Civil Aviation and Airports Improvement	710.00[a]		Transport and Communications
Implementation of the Information and Communication Technology Strategy		150.00	Others
Strengthening Public Sector Financial Governance		460.00[a]	Others
Capacity Building in Water and Sewerage Services		783.00	Social Infrastructure
Subtotal	710.00	1,393.00	
INDIA			
Kerala Sustainable Urban Development	1,000.00[b]		Social Infrastructure
Assam Governance and Public Resource Management Program	800.00[c]		Others
National Highways Sector II	300.00		Transport and Communications
Urban Clean Fuel	995.00[b]		Energy
Chhattisgarh Irrigation Development Sector	900.00[b]		Agriculture and Natural Resources
Rural Roads Sector II	1,000.00[b]		Transport and Communications
Rural Finance Sector Restructuring and Development	1,000.00[b]		Finance
Building the Capacity of Assam Electricity Regulatory Commission		500.00[a]	Energy
Capacity Building for Project Management and Community Mobilization in Madhya Pradesh		520.00	Social Infrastructure
Budget Procedure Reform, Computerization, and Expenditure Management (Assam)		1,000.00[b]	Others
Administration of Justice		500.00[b]	Others
Urban Sector Review and Strategy		480.00	Social Infrastructure
Agribusiness and Commercial Agriculture Assessment		600.00[b]	Agriculture and Natural Resources
Demutualization and Consolidation of Indian Stock Exchanges		150.00	Finance
Regulation and Supervision of Derivative Instruments		150.00	Finance
Pension Reforms for the Unorganized Sector		1,000.00[b]	Others
Reorganization of Assam State Electricity Board		1,000.00[b]	Energy
Institutional Development for Rural Electrification		400.00[b]	Energy
Policy and Legal Support for Power Sector Reforms		100.00[b]	Energy
Capacity Building for Tax Administration		1,000.00[d]	Others
Development of High Density Corridors under the Public-Private Partnership		700.00[a]	Transport and Communications
Capacity Building for Fiscal Reforms in Sikkim		600.00[b]	Others
Subtotal	5,995.00	8,700.00	
INDONESIA			
Support to State Audit Reform	700.00[a]		Others
Sustainable Social Protection	800.00[e]		Others
Sustainable Aquaculture Development for Food Security and Poverty Reduction	800.00[b]		Agriculture and Natural Resources
Second Decentralized Health Services: Adapting the Project to New Regulations	100.00		Social Infrastructure
Flood Management in Selected River Basins	1,250.00[f]		Agriculture and Natural Resources

a To be financed from the JSF.
b To be financed by the Government of the United Kingdom with ADB acting as executing agency.
c Of this amount, $100,000 is to be financed from the TASF and $700,000 by the Government of the United Kingdom with ADB acting as executing agency.
d Of this amount, $500,000 is to be financed from the TASF and $500,000 by the Government of the United Kingdom with ADB acting as executing agency.
e Of this amount, $400,000 is to be financed from the TASF and $400,000 by the Government of the United Kingdom with ADB acting as executing agency.
f Of this amount, $250,000 is to be financed from the TASF and $1,000,000 by the Government of the Netherlands with ADB acting as executing agency.

CONTINUED

	Project Preparatory	Advisory and Operational	Sector
INDONESIA			
Productivity Enhancement for Tree Crops	800.00[a]		Agriculture and Natural Resources
Decentralized Senior Secondary Education	1,000.00		Social Infrastructure
Provincial Small and Medium Industrial Sector Development Program	800.00[b]		Industry and Nonfuel Minerals
Local Government Financing		600.00[a]	Others
Local Grids Development	993.00[c]		Energy
Support for Health Sector Policy Reform (Supplementary)		857.40[d]	Social Infrastructure
Public Health and Nutrition		500.00	Social Infrastructure
Carbon Sequestration through the Clean Development Mechanism		700.00[e]	Others
Facilitating Private Sector Participation in Ports Infrastructure under Decentralization		315.00	Transport and Communications
Strengthening Civil Society Participation in the Design, Implementation, and Monitoring of Asian Development Bank Projects		300.00[f]	Others
Support for the Development of a Poverty Reduction Strategy Towards Achieving the Millennium Development Goals		150.00[g]	Others
Subregional Transport Cooperation Initiative		400.00	Multisector
Unified Registration System		300.00[a]	Others
Improvement of the Administration of the Supreme Court		500.00	Others
State-Owned Enterprise Restructuring		600.00[a]	Finance
Subtotal	7,243.00	5,222.40	
KAZAKHSTAN			
Feasibility Study of Aktau-Atyrau Road Improvement	150.00		Transport and Communications
Regional Rural Development	677.00		Agriculture and Natural Resources
Formulation of Rural Road Development Plan		150.00	Transport and Communications
Institutional Strengthening for Rural Water Supply and Sanitation Services		350.00[a]	Social Infrastructure
Supporting Local Government Reforms		250.00[h]	Others
Strengthening Government Program Performance		200.00[i]	Others
Subtotal	827.00	950.00	
KIRIBATI			
Supporting Land Use Management on Kiritimati (Christmas) Island		300.00	Others
Subtotal		300.00	
KYRGYZ REPUBLIC			
Education Development	600.00[a]		Social Infrastructure
Institutional Strengthening for Community-Based Early Childhood Development		500.00[a]	Multisector
Subtotal	600.00	500.00	
LAO PEOPLE'S DEMOCRATIC REPUBLIC			
Rural Finance Development	150.00[a]		Finance
Greater Mekong Subregion: Nam Theun 2 Hydropower Development	700.00		Energy
Participatory Livestock Development	900.00[a]		Agriculture and Natural Resources
Integrating the Poor in Regional Trade through Standard-Setting for Private Sector Development		150.00[j]	Industry and Nonfuel Minerals

a To be financed from the JSF.
b To be financed by the Government of the United Kingdom with ADB acting as executing agency.
c Of this amount, $593,000 is to be financed from the TASF and $400,000 by the Government of the United Kingdom with ADB acting as executing agency.
d To be financed by the Government of Australia with ADB acting as executing agency.
e To be financed by the Government of Canada with ADB acting as executing agency.
f Of this amount, $200,000 is to be financed from the TASF and $100,000 by the Government of the United Kingdom with ADB acting as executing agency.
g Of this amount, $40,000 is to be financed from the TASF and $110,000 by the Government of the United Kingdom with ADB acting as executing agency.
h Of this amount, $150,000 is to be financed from the TASF and $100,000 from the GCF.
i Of this amount, $50,000 is to be financed from the TASF and $150,000 from the GCF.
j To be financed from the PRF.

CONTINUED

	Project Preparatory	Advisory and Operational	Sector
LAO PEOPLE'S DEMOCRATIC REPUBLIC			
Enhancing Government Accounting Regulations and Procedures Phase II		620.00[a]	Others
Investment Climate and Productivity Study		150.00	Finance
Advisory Assistance on Small- and Medium-Sized Enterprise and Private Sector Development		670.00[b]	Finance
Subtotal	1,750.00	1,590.00	
MALDIVES			
Capacity Building for the National Statistical System		350.00	Others
Strengthening of Debt Management		350.00	Others
Capacity Building for Regional Development		350.00	Others
Subtotal		1,050.00	
MARSHALL ISLANDS			
Youth Social Services	500.00[c]		Others
Strengthening the Economic Policy, Planning, and Statistics Office		500.00	Others
Subtotal	500.00	500.00	
MICRONESIA, FEDERATED STATES OF			
National Strategic Development Plan		150.00	Others
Strengthening of Public Sector Management and Administration		833.00[d]	Others
Preparation of a Country Economic Report		250.00	Others
Subtotal		1,233.00	
MONGOLIA			
Third Financial Sector Program	500.00[c]		Finance
Health Sector Reform		650.00[c]	Social Infrastructure
Procurement Management Capacity Building		150.00	Others
Subtotal	500.00	800.00	
NEPAL			
Kathmandu Valley Water Management Support	1,400.00[e]		Social Infrastructure
Market Access and Productivity Growth for the Private Sector	400.00[c]		Finance
Skills for Employment (Supplementary)	120.00		Social Infrastructure
Social Protection Study		250.00[c]	Multisector
Supporting Government Disengagement from Public Enterprises		425.00	Finance
Strengthening Performance-Based Management		275.00	Others
Strengthening Selected Rural Financial Institutions		515.00[f]	Finance
Strengthening Project Implementation and Quality Assurance		600.00	Others
Establishing Economic Policy Network		200.00	Others
Subtotal	1,920.00	2,265.00	
PAKISTAN			
Rawalpindi Environmental Improvement	350.00		Social Infrastructure
North-West Frontier Road Development Sector	490.00		Transport and Communications
Skills Development Reform	150.00		Social Infrastructure
Public-Private Infrastructure Financing Facility	400.00		Finance
Sustainable Livelihood in Barani Areas (Punjab)	400.00[c]		Agriculture and Natural Resources
Punjab Devolved Social Services Sector Development Program	300.00		Multisector
Balochistan Resource Management Program	700.00[g]		Multisector

a Of this amount, $70,000 is to be financed from the TASF and $550,000 from the JSF.
b Of this amount, $500,000 is to be financed from the TASF and $170,000 from the GCF.
c To be financed from the JSF.
d Of this amount, $500,000 is to be financed from the TASF and $333,000 by the Government of the United States with ADB acting as executing agency.
e Of this amount, $700,000 is to be financed from the JSF and $700,000 by the Government of Norway with ADB acting as executing agency.
f Of this amount, $500,000 is to be financed from the TASF and $15,000 by the Government of Germany with ADB acting as executing agency.
g Of this amount, $450,000 is to be financed from the TASF and $250,000 by the Government of the Netherlands with ADB acting as executing agency.

CONTINUED

	Project Preparatory	Advisory and Operational	Sector
PAKISTAN			
Rural Livelihood Enhancement through Participatory Resettlement in Irrigation Development		150.00	Agriculture and Natural Resources
Institutional Capacity Building of the National Transmission and Despatch Company Limited		600.00[a]	Energy
Social Protection Strategy Development Study		350.00	Others
Supporting and Monitoring Progress under the Access to Justice Program (Supplementary)		440.00[b]	Others
Industrial Environmental Management Capacity Buildling		1,000.00[c]	Industry and Nonfuel Minerals
Support to Implementation of Decentralization II		2,549.00[d]	Others
Cross-Border Development		500.00	Transport and Communications
Strengthening of Financial Management Capacity of Project Management Units		150.00	Others
Strengthening Secured Transactions		500.00	Others
Support for Poverty Reduction Initiatives in Pakistan		134.00[e]	Others
Support for Networking for Policy-Based Research in Pakistan		150.00	Others
Capacity Building for Rural Development of the Federally Administered Tribal Areas		465.00	Agriculture and Natural Resources
Supporting Coordination of the Small and Medium Enterprise Sector Development Program		250.00	Finance
Subtotal	2,790.00	7,238.00	
PAPUA NEW GUINEA			
Literacy is for Everyone	600.00[a]		Social Infrastructure
Establishment of Pilot HIV/AIDS Care Centers		450.00	Social Infrastructure
Subtotal	600.00	450.00	
PHILIPPINES			
Preparation of Cadastral Surveys for the Rural Roads Development Project	150.00		Transport and Communications
Promoting Good Governance in the Restructured Power Sector		800.00	Energy
Support for the Nonbank Financial Sector		500.00	Finance
Rehabilitation of Renewable Energy Projects for Rural Electrification and Livelihood Development		450.00[f]	Energy
Enhancing the Efficiency of Overseas Workers' Remittances		150.00	Finance
Institutional Strengthening for the Development of the Natural Gas Industry		800.00[a]	Energy
Capacity Building for Housing Microfinance		1,500.00	Social Infrastructure
Subtotal	150.00	4,200.00	
SAMOA			
Education Sector Project II	350.00		Social Infrastructure
Implementation of the Public Finance Management Act of 2001		375.00	Others
Institutional Strengthening for Drainage and Wastewater Management		400.00[a]	Social Infrastructure
Supporting the Samoa SchoolNet and Community Access Pilot Project		600.00	Social Infrastructure
Subtotal	350.00	1,375.00	

a To be financed from the JSF.
b To be financed by the Government of the Netherlands with ADB acting as executing agency.
c To be financed by the Government of Norway with ADB acting as executing agency.
d Of this amount, $400,000 is to be financed from the TASF and $1,440,000 by the Government of the United Kingdom, $159,000 by the Government of Canada, and $550,000 by the Government of the Netherlands with ADB acting as executing agency.
e Of this amount, $39,000 is to be financed from the TASF, $31,500 from the CFNPRS, and $63,500 from the PRF.
f To be financed by the Government of Denmark with ADB acting as executing agency.

CONTINUED

	Project Preparatory	Advisory and Operational	Sector
SRI LANKA			
Human Resource Investment	600.00[a]		Social Infrastructure
Public-Private Partnership Expressway	800.00		Transport and Communications
Private Sector Development Program (Subprogram II)	800.00		Finance
Rural Electrification and Network Expansion	600.00		Energy
Basic Social Infrastructure Development	500.00[a]		Social Infrastructure
Community Information Services for the Poor		800.00[b]	Social Infrastructure
Energy Sector Master Plan		500.00	Energy
Port Sector Master Plan		150.00	Transport and Communications
Greater Colombo Wastewater Management Sector Review		150.00	Social Infrastructure
Implementing the National Involuntary Resettlement Policy		100.00	Others
Poverty Assessment and Information Management		350.00[c]	Others
Subtotal	3,300.00	2,050.00	
TAJIKISTAN			
Water Resources Development and Rehabilitation	600.00[a]		Agriculture and Natural Resources
Institutional Strengthening of Microfinance Systems		640.00[a]	Finance
Institutional Development for Improved Environmental Strategic Planning and Policy		220.00[d]	Others
Improving the Accounting and Financial Management System of the Subsidiaries of Barki Tajik		400.00[a]	Energy
Strengthening Planning and Policy Dialogue for Education Sector Reform		300.00[a]	Social Infrastructure
Planning and Policy Dialogue for Health Reform		300.00[a]	Social Infrastructure
Drug Procurement and Distribution Strategy		150.00[a]	Social Infrastructure
Strengthening Implementation of Road Maintenance		600.00	Transport and Communications
Strengthening Education Planning and Financial Management		150.00[a]	Social Infrastructure
Subtotal	600.00	2,760.00	
THAILAND			
Institutional Support for the International Institute for Trade and Development		150.00	Others
Capacity Building for Pollution Taxation and Resource Mobilization for Environment and Natural Resource Sectors		60.00	Others
Subtotal		210.00	
TIMOR-LESTE			
Capacity Building to Strengthen Public Sector Management and Governance Skills (Phase II)		550.00	Others
Subtotal		550.00	
TONGA			
Rationalization of Public Enterprises	515.00		Others
Agriculture Sector Review		150.00	Agriculture and Natural Resources
Business Development Services		250.00	Multisector
Subtotal	515.00	400.00	
TUVALU			
Effective Waste Management and Recycling		150.00	Social Infrastructure
Improving Public Expenditure Management and Accountability		300.00	Others
Education Sector Master Plan		110.00	Social Infrastructure
Subtotal		560.00	

a To be financed from the JSF.
b To be financed from the PRF.
c To be financed from the CFNPRS.
d To be financed by the Government of Finland with ADB acting as executing agency.

CONTINUED

	Project Preparatory	Advisory and Operational	Sector
UZBEKISTAN			
Second Textbook Development	150.00		Social Infrastructure
Woman and Child Health Development	500.00[a]		Social Infrastructure
Development of the Capital Market		200.00	Finance
Institutional Strengthening of the State Committee on Demonopolization and Competition Development		300.00	Others
Off-Grid Renewable Energy Development		350.00[b]	Energy
Furthering Reforms in the Grain Sector		400.00[a]	Agriculture and Natural Resources
Developing an Integrated Cadastre System for Land Resources Management and Property Right Registration		500.00[a]	Others
Strengthening the Policy and Legal Framework for Foreign Direct Investment		300.00	Finance
Support to Policy and Institutional Reforms in Water Sector		500.00[a]	Agriculture and Natural Resources
Subtotal	650.00	2,550.00	
VANUATU			
Diagnostic Study for Improving Access to Affordable Credit		150.00	Finance
Rural and Microfinance Outreach		250.00	Finance
Subtotal		400.00	
VIET NAM			
Health Care for the Poor in the Central Highlands	150.00		Social Infrastructure
Strengthening of Preventive Health Services	500.00[a]		Social Infrastructure
Agriculture Science and Technology	900.00[a]		Agriculture and Natural Resources
Livelihood Improvement in the Central Coastal Provinces	650.00[a]		Agriculture and Natural Resources
Support to the Office of the Government in the Implementation of Administrative Modernization, including Computerization and E-Government Initiatives		1,270.00	Others
Institutional and Capacity Building Support to the Ministry of Home Affairs		920.00[c]	Others
Policy Coordination Support to the Office of the Government		815.00[d]	Others
Agriculture Sector Development Support		600.00[b]	Agriculture and Natural Resources
Capacity Building for Upper Secondary Education		400.00	Social Infrastructure
Provincial Development Planning in the Central Highlands		150.00[e]	Others
Early Childhood Development for the Poor		450.00[f]	Social Infrastructure
Support to Poverty Reduction Activities in Viet Nam		125.00[g]	Others
Developing the Social Security System		750.00[f]	Others
Capacity Building for the Financial Sector and Capital Markets		780.00[a]	Finance
Capacity Building for Ministry of Finance to Support Tariff, Industry and Subsidy Analysis for the Purpose of World Trade Organization Accession		150.00	Others
Subtotal	2,200.00	6,410.00	
TOTAL	**46,390.00**	**79,243.40**	

a To be financed from the JSF.
b To be financed by the Government of Denmark with ADB acting as executing agency.
c Of this amount, $770,000 is to be financed from the TASF and $150,000 by the Government of France with ADB acting as executing agency.
d Of this amount, $415,000 is to be financed from the TASF and $400,000 by the Government of New Zealand with ADB acting as executing agency.
e To be financed from the GCF.
f To be financed from the PRF.
g Of this amount, $15,000 is to be financed from the TASF, $37,000 from the CFNPRS, and $73,000 from the PRF.

Table 23
TECHNICAL ASSISTANCE GRANTS BY SECTOR,[a] 1967–2003, 2002, 2003

	1967–2003[b]			2002			2003		
	No.	$ Thousand	%	No.	$ Thousand	%	No.	$ Thousand	%
Agriculture and Natural Resources	1,078	496,716.14	25.85	24	15,790.00	11.40	25	15,292.00	12.17
Energy	442	193,458.05	10.07	21	11,493.00	8.30	25	15,108.00	12.03
Finance	373	159,607.36	8.31	31	17,480.00	12.62	27	10,709.00	8.52
Industry and Nonfuel Minerals	137	54,069.70	2.81	10	6,325.00	4.57	5	2,950.00	2.35
Social Infrastructure	785	349,559.07	18.19	47	22,061.70	15.93	46	24,490.40	19.49
Transport and Communications	531	236,470.95	12.31	36	16,240.00	11.73	22	11,365.00	9.05
Multisector	57	55,163.90	2.87	11	20,253.00	14.63	10	5,210.00	4.15
Others	800	376,436.90	19.59	67	28,820.90	20.81	79	40,509.00	32.24
TOTAL[c]	**4,203**	**1,921,482.06**	**100.00**	**247**	**138,463.60**	**100.00**	**239**	**125,633.40**	**100.00**

a Excludes loan-financed technical assistance (included in loan data) and regional activities.
b Cumulative data adjusted to exclude technical assistance grants withdrawn by governments.
c Total may not add due to rounding.

Table 24
TECHNICAL ASSISTANCE LOANS AND GRANTS BY SECTOR, 2003
(amounts in $ million)

	Loan	Grant[a]	Total	%
Agriculture and Natural Resources	37.46	15.29	52.75	13.7
Energy	10.62	15.11	25.73	6.7
Finance	10.43	10.71	21.22	5.5
Industry and Nonfuel Minerals	0.00	2.95	2.95	0.8
Social Infrastructure	85.40	24.49	109.89	28.5
Transport and Communications	87.41	11.36	98.77	25.6
Multisector	22.46	5.21	27.67	7.2
Others	6.00	40.51	46.51	12.1
TOTAL[b]	**259.78**	**125.63**	**385.49**	**100.0**

0.00 Data negligible.

a Excludes regional technical assistance grants.
b Total may not add due to rounding.

Table 25
REGIONAL TECHNICAL ASSISTANCE ACTIVITIES, 2003

	$ Thousand
CONFERENCE	
ADB Participation in Boao Forum for Asia 2003	120.00
Thirteenth Tax Conference	150.00[a]
Capacity Building on Selected World Trade Organization (WTO) Issues	450.00[a]
Subregional Economic Cooperation in South and Central Asia	600.00
Third Asia Pacific Roundtable Meeting	50.00
Subtotal	1,370.00
RESEARCH	
Fifth Agriculture and Natural Resources Research at Consultative Group on International Agricultural Research (CGIAR) Centers—Breeding Iron-Rich Rice to Reduce Iron-Deficiency Anemia in Asia (Supplementary)	905.00[b]
Strengthening and Collection of Purchasing Power Parity Data in Selected Developing Member Countries (DMCs) (Supplementary)	400.00
Making Markets Work Better for the Poor	2,200.00[c]
Social Protection Index for Committed Poverty Reduction	600.00[d]
Eighth Agriculture and Natural Resources Research at International Agricultural Research Centers	3,000.00
Better Air Quality Management in Asia	300.00[a]
Regional Air Quality Management	400.00[a]
Subtotal	7,805.00
STUDY	
Thematic Evaluation Studies for 2003	1,400.00
Integrating Environmental Considerations into Development Policies, Plans, and Programs	550.00[a]
Assessment of Subregional Water Resources Management Issues in Central Asia	150.00
Study for a Regional Power Trade Operating Agreement in the Greater Mekong Subregion	850.00
Renewable Energy and Energy Efficiency Program for the Pacific	600.00[e]
A Review of the ADB's Poverty Reduction Strategy	300.00
Preparing a Pro-Poor Subregional E-Government Project for Providing Basic Service Delivery to Remote Communities in the Pacific	290.00
Subregional Corridor Operational Efficiency Study in the South Asia Subregion	250.00
Poverty Reduction in Upland Communities in the Mekong Region through Improved Community and Industrial Forestry	800.00[b]
Promoting Knowledge Transfer through Diaspora Networks	150.00[f]
Regional Civil Aviation Safety and Security	150.00
Rural, Urban and Subregional Linkages in the Mekong Region: A Holistic Approach to Development and Poverty Reduction	400.00
Association of Southeast Asian Nations (ASEAN)+3 Regional Guarantee Mechanism	500.00
Alternative Negotiating Arrangements to Increase Fisheries Revenues in the Pacific	300.00
Study of Urban Violence in Asia: Towards More Effective Urban Upgrading	150.00[b]
South Asia Subregional Economic Cooperation Tourism Development Plan	450.00
Private Sector Cooperation in the South Asia Subregional Economic Cooperation (SASEC) Subregion (Phase II)	150.00
Greater Mekong Subregion (GMS): Southern Coastal Corridor	150.00
Regional Financial Sector Development	800.00
Subregional Transport Facilitation	600.00[a]
Infrastructure Development in East Asia	500.00[a]
Assessing Private Sector Development Outcomes in Projects	400.00

a To be financed from the Japan Special Fund (JSF).
b To be financed from the Poverty Reduction Cooperation Fund (PRF).
c Of this amount, $200,000 is to be financed from the Technical Assistance Special Fund (TASF) and $2 million by the Government of the United Kingdom with ADB acting as executing agency.
d Of this amount, $300,000 is to be financed from the PRF and $300,000 from the Cooperation Fund for National Poverty Reduction Strategies (CFNPRS).
e To be financed by the Government of Denmark with ADB acting as executing agency.
f To be financed from the Governance Cooperation Fund (GCF).

CONTINUED

	$ Thousand
STUDY	
GMS Power Interconnection Project Phase I	800.00
Support for the Mekong River Commission Flood Management and Mitigation Program	1,000.00
Poverty and Environment Program	3,920.00[a]
Turkmenistan-Afghanistan-Pakistan Natural Gas Pipeline (Phase II)	700.00
Subregional Transport Connectivity (India)	800.00
Strengthening Poverty Analysis and Strategies in the Pacific	1,000.00[b]
ASEAN+3 Regional Settlement Linkage	300.00[c]
Improving the Legal Business Environment in the Pacific Region	800.00
Improved Management of Shared Water Resources in Central Asia	700.00
Subtotal	19,910.00
TRAINING	
Third Asia-Europe Meeting Seminar on Simplification and Harmonization of Customs Procedures	150.00[c]
External Forum on Gender and Development—Phase 2	150.00
Financing Needs for HIV/AIDS Prevention and Care in Asia and the Pacific	150.00
2003/04 Seminars on Capacity Building for Project Implementation and Administration	600.00
Capacity Building of Selected Credit Rating Agencies in Asia, Phase II	100.00[c]
Capacity Building of Executing Agencies for Financial Management of Projects in East and Central Asia	450.00
Regional Workshop on Forests and Climate Change: Preparing for Decisions on Land Use and Forestry at 9th Conference of Parties	20.00[d]
Civil Society Participation in Budget Formulation in the Pacific	250.00[e]
The Pacific Financial Technical Assistance Centre 2003	433.00
Disbursement Training Seminars for DMCs, 2004–2005	150.00
Training and Enhancing Loan Accounting System of Ordinary Capital Resources (OCR) Public Sector Borrowers and Executing Agencies	150.00
Strengthening the Capacity of Financial Sector Regulators and Supervisors	400.00
Development of Domestic Consultant Services in DMCs	180.00
Institutional Strengthening and Building Capacity to Handle Public Procurement	150.00
Subtotal	3,333.00
OTHERS	
Promoting Effective Water Management Policies and Practices—Phase 2	1,000.00[f]
Supporting the Sector Approach and Results-Based Management in ADB Operations	300.00[g]
Implementing the Agreement for Facilitation of the Cross-Border Transport of Goods and People in the Greater Mekong Subregion—Phase 1	800.00
Clean Air Initiative for Asian Cities (Supplementary)	412.02[h]
Key Indicators of Developing Asian and Pacific Countries 2003 and 2004	90.00
Emergency Regional Support to Address the Outbreak of Severe Acute Respiratory Syndrome	5,000.00[i]
Nongovernment Organization (NGO) Partnerships for Poverty Reduction	500.00[j]
Promoting Partnerships to Accelerate Agriculture Development and Poverty Reduction in the Greater Mekong Subregion	300.00
Promoting NGO Support for Poverty Reduction in the Greater Mekong Subregion	150.00[j]
Promoting Effective Water Management Policies and Practices—Phase 3	4,300.00[f]
The ADB-Open Society Institute Central Asia Education Cooperation Network	200.00[e]

a Of this amount, $500,000 is to be financed from the TASF and $3.42 million from the Poverty and Environment Fund.
b Of this amount, $200,000 is to be financed from the TASF, $400,000 from the PRF and $400,000 from the CFNPRS.
c To be financed from the JSF.
d To be financed by the Government of Canada with ADB acting as executing agency.
e To be financed from the GCF.
f To be financed from the Cooperation Fund for the Water Sector.
g To be financed by the Government of the United Kingdom with ADB acting as executing agency.
h To be financed from private sector contributions.
i Of this amount, $2 million is to be financed from the TASF and $3 million from the JSF.
j To be financed from the PRF.

CONTINUED

	$ Thousand
OTHERS	
Social Protection Assessments	150.00
Asian Development Outlook 2004	200.00
Asia Recovery Information Center Phase III	785.59[a]
Promoting Gender Equality and Women's Empowerment	1,500.00[b]
Strengthening Regional Networking for Small- and Medium-Sized Enterprises in Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area	700.00[c]
ADB's Participation in the Cities Alliance	350.00
Capacity Building in Environmental Information Management Systems in Central Asia	800.00[d]
Capacity Building for Regional Cooperation in Central Asia	950.00
Subtotal	18,487.61
TOTAL	**50,905.61**

a Of this amount $404,580 is to be financed from the TASF and $381,010 by the Government of Australia with ADB acting as executing agency.
b To be financed from the Gender and Development Cooperation Fund.
c To be financed from the JSF.
d To be financed by the Government of Finland with ADB acting as executing agency.

Table 26
NET TRANSFER OF RESOURCES
(ORDINARY CAPITAL RESOURCES AND ASIAN DEVELOPMENT FUND),[a,b] 2001–2003
($ million)

	OCR			ADF		
	2001	**2002**	**2003**	**2001**	**2002**	**2003**
Afghanistan	–	–	–	–	82.99	54.54
Azerbaijan	–	–	–	–	–	–
Bangladesh	19.39	21.71	20.19	84.94	50.25	47.69
Bhutan	(0.13)	(0.11)	(0.06)	5.69	12.82	3.34
Cambodia	–	–	–	46.42	76.40	68.40
China, People's Rep. of	555.26	(246.41)	(1,977.89)	–	–	–
Cook Islands	–	–	–	0.21	(0.33)	(0.02)
Fiji Islands	(2.74)	(2.98)	0.92	–	–	–
Hong Kong, China	–	–	–	–	–	–
India	(218.21)	(122.96)	(1,197.14)	–	–	–
Indonesia	(48.62)	114.76	(432.15)	4.36	1.02	30.08
Kazakhstan	(17.26)	(27.01)	(19.73)	2.16	0.51	0.16
Kiribati	–	–	–	1.32	0.72	2.27
Korea, Rep. of	(268.83)	(136.36)	(2,122.84)	–	–	–
Kyrgyz Republic	–	–	–	55.83	24.17	22.18
Lao PDR	–	–	–	34.61	37.65	40.53
Malaysia	(49.30)	(49.42)	(69.04)	–	–	–
Maldives	–	–	–	2.16	5.59	3.91
Marshall Islands	2.00	1.30	0.22	5.87	6.30	3.98
Micronesia, Fed. States of	–	–	–	2.25	1.08	2.42
Mongolia	–	–	–	27.46	22.67	34.52
Myanmar	–	–	(1.44)	–	–	–
Nauru	(0.07)	–	–	–	–	–
Nepal	(5.08)	(6.62)	(6.08)	30.63	(2.64)	(0.43)
Pakistan	(48.58)	(59.27)	10.86	121.19	117.48	(14.18)
Papua New Guinea	19.02	(12.96)	(13.09)	(5.73)	(3.99)	(4.63)
Philippines	(91.13)	(188.81)	(54.82)	10.56	(7.90)	(17.43)
Samoa	–	–	–	1.61	(1.22)	(0.81)
Singapore	–	–	–	–	–	–
Solomon Islands	–	–	–	(0.80)	–	(2.98)
Sri Lanka	10.96	54.15	36.37	54.07	71.11	129.37
Taipei,China	–	–	–	–	–	–
Tajikistan	–	–	–	2.75	13.81	14.24
Thailand	(69.30)	(1,459.34)	(223.22)	(2.74)	(3.08)	(3.56)
Timor-Leste	–	–	–	–	–	–
Tonga	–	–	–	(0.61)	4.14	5.02
Turkmenistan	–	–	–	–	–	–
Tuvalu	–	–	–	1.14	(0.04)	0.09
Uzbekistan	26.03	9.65	29.01	4.44	6.70	3.22
Vanuatu	–	–	–	2.13	(0.24)	(0.84)
Viet Nam	(5.00)	21.24	60.62	166.54	201.79	219.69
Regional	(2.54)	(8.23)	(2.58)	–	–	–
TOTAL	**(194.12)**	**(2,097.67)**	**(5,961.86)**	**658.44**	**717.75**	**640.76**

– Data not applicable.
( ) Negative.
Note: Figures may not add due to rounding.
a Net transfer of resources for OCR defined as loan disbursements less principal repayments/prepayments and interest/charges received. Includes private sector loans and net equity investments.
b Net transfer of resources for the ADF defined as loan disbursements less principal repayments and interest/charges received. Includes private sector loans.

Table 27
NET TRANSFER OF RESOURCES
(ORDINARY CAPITAL RESOURCES AND ASIAN DEVELOPMENT FUND COMBINED),[a] 1994–2003
($ million)

	1994–1998 Average	1999	2000	2001	2002	2003
Afghanistan	–	–	–	–	82.99	54.54
Azerbaijan	–	–	–	–	–	–
Bangladesh	203.07	184.31	160.73	104.33	71.96	67.88
Bhutan	3.35	1.63	5.76	5.57	12.71	3.28
Cambodia	23.47	24.86	49.29	46.42	76.40	68.40
China, People's Rep. of	445.71	444.18	400.53	555.26	(246.41)	(1,977.89)
Cook Islands	1.78	0.55	0.11	0.21	(0.33)	(0.02)
Fiji Islands	(5.38)	(5.39)	(2.90)	(2.74)	(2.98)	0.92
Hong Kong, China	–	–	–	–	–	–
India	296.82	216.73	(137.91)	(218.21)	(122.96)	(1,197.14)
Indonesia	(241.83)	677.90	29.39	(44.26)	115.78	(402.07)
Kazakhstan	53.58	(4.76)	4.66	(15.10)	(26.50)	(19.57)
Kiribati	0.01	(0.08)	0.97	1.32	0.72	2.27
Korea, Rep. of	622.34	(257.35)	(320.69)	(268.83)	(136.36)	(2,122.84)
Kyrgyz Republic	30.62	77.82	19.02	55.83	24.17	22.18
Lao PDR	58.85	38.53	41.75	34.61	37.65	40.53
Malaysia	(39.72)	(47.93)	(20.05)	(49.30)	(49.42)	(69.04)
Maldives	2.70	(0.02)	0.70	2.16	5.59	3.91
Marshall Islands	4.94	3.57	9.53	7.87	7.59	4.20
Micronesia, Fed. States of	3.58	4.76	4.14	2.25	1.08	2.42
Mongolia	39.79	44.47	29.94	27.46	22.67	34.52
Myanmar	(13.61)	(0.05)	–	–	–	(1.44)
Nauru	–	2.25	(0.07)	(0.07)	–	–
Nepal	65.18	50.85	67.58	25.56	(9.26)	(6.51)
Pakistan	178.35	13.31	78.13	72.61	58.21	(3.32)
Papua New Guinea	(5.45)	5.67	(17.59)	13.29	(16.95)	(17.72)
Philippines	(78.00)	(277.07)	(177.85)	(80.57)	(196.71)	(72.25)
Samoa	1.01	(2.05)	(2.09)	1.61	(1.22)	(0.81)
Singapore	–	–	–	–	–	–
Solomon Islands	2.44	(0.98)	(0.46)	(0.80)	–	(2.98)
Sri Lanka	86.13	71.34	46.50	65.03	125.26	165.74
Taipei,China	–	–	–	–	–	–
Tajikistan	–	9.79	12.22	2.75	13.81	14.24
Thailand	154.34	206.61	(577.63)	(72.05)	(1,462.42)	(226.78)
Timor-Leste	–	–	–	–	–	–
Tonga	3.64	1.52	2.16	(0.61)	4.14	5.02
Turkmenistan	–	–	–	–	–	–
Tuvalu	–	2.80	(0.02)	1.14	(0.04)	0.09
Uzbekistan	0.36	15.67	56.60	30.47	16.35	32.23
Vanuatu	2.57	5.85	9.94	2.13	(0.24)	(0.84)
Viet Nam	68.19	188.27	231.23	161.54	223.03	280.31
Regional	14.10	21.46	0.06	(2.54)	(8.23)	(2.58)
TOTAL	**1,982.94**	**1,719.02**	**3.66**	**464.32**	**(1,379.92)**	**(5,321.09)**

– Data not applicable.
( ) Negative.

Note: Figures may not add due to rounding.

a Net transfer of resources defined as loan disbursements less principal repayments/prepayments and interest/charges received. Includes private sector loans and net equity investments.

FINANCIAL RESOURCES

Table 28
ASIAN DEVELOPMENT FUND (ADF) RESOURCES AND COMMITMENT AUTHORITY

ADF-CONTRIBUTED RESOURCES
($ million; as of 31 December 2003)

	Valued as of 31 December 2002 (US$ equiv.)	Change in 2003			Valued as of 31 December 2003	
		Addition (US$ equiv.)	Exchange Rate Adjustment (US$ equiv.)	Net Change (US$ equiv.)	(US$ equiv.)	(SDR[a] equiv.)
Australia	840.32	47.50	277.66	325.16	1,165.48	784.32
Austria	164.22	–	32.60	32.60	196.82	132.45
Belgium	144.87	5.81	29.33	35.14	180.01	121.14
Canada	1,063.02	32.79	236.89	269.68	1,332.70	896.86
Denmark	159.73	7.48	31.65	39.13	198.86	133.83
Finland	87.99	4.20	17.70	21.90	109.89	73.95
France	820.34	35.59	166.34	201.93	1,022.27	687.95
Germany	1,273.07	48.00	255.93	303.93	1,577.00	1,061.26
Hong Kong, China	28.41	4.07	–	4.07	32.48	21.86
Indonesia	14.96	–	–	–	14.96	10.07
Italy	483.23	–	95.91	95.91	579.14	389.74
Japan	10,543.34	234.41	1,155.17	1,389.58	11,932.92	8,030.39
Korea, Rep. of	98.11	19.62	(0.46)	19.16	117.28	78.92
Malaysia	6.20	–	–	–	6.20	4.17
Nauru	1.93	–	–	–	1.93	1.30
The Netherlands	473.81	23.40	96.36	119.76	593.57	399.45
New Zealand	63.04	5.83	15.99	21.82	84.86	57.11
Norway	138.87	7.53	5.77	13.30	152.16	102.40
Portugal	44.76	4.84	9.37	14.21	58.97	39.68
Singapore	1.94	0.95	0.08	1.03	2.97	2.00
Spain	98.61	75.11	24.55	99.66	198.28	133.43
Sweden	190.95	10.31	40.92	51.23	242.18	162.98
Switzerland	284.06	10.23	34.19	44.42	328.48	221.05
Taipei,China	35.95	3.47	–	3.47	39.42	26.53
Thailand	3.50	0.61	0.35	0.96	4.46	3.00
Turkey	102.89	1.25	–	1.25	104.14	70.08
United Kingdom	727.35	35.01	82.29	117.30	844.65	568.42
United States	2,894.77	–	–	–	2,894.77	1,948.07
TOTAL	**20,790.25**	**618.01**	**2,608.57**	**3,226.58**	**24,016.83**	**16,162.41**

ADF COMMITMENT AUTHORITY
($ million; as of 31 December 2003)

	2002	2003
ADF VIII Contributions	1,072.94	1,911.86
ADF VII Contributions[b]	310.01	341.65
ADF VI Contributions[c]	0.02	0.02
OCR Net Income Transfer[d]	–	200.00
Loan Savings and Cancellation[e]	–	243.29
Expanded Advance Commitment Authority	1,600.00	2,400.00
Total ADF Resources[f]	2,982.97	5,096.82
Less: Loans Committed	2,229.47[g]	4,184.40[h]
Carryover of Conditional Loans Committed[i]	630.91	692.11
Provision for Disbursement Risk	89.89	175.29
TOTAL	**32.70**	**45.02**

– Data not applicable.
( ) Negative.
Note: Total may not add due to rounding.

a Refers to special drawing rights (SDR) valued at the rate of $1.48597 per SDR as of 31 December 2003.
b ADF VII contributions released for operational commitments during the ADF VIII period.
c ADF VI contributions released for operational commitments during the ADF VIII period.
d ADB. 2003. *Review of the Asian Development Bank's Income Outlook and Allocation of 2002 Net Income.* Manila.
e ADB. 2003. *Treatment of Loan Savings and Cancellations to Increase ADF VIII Commitment Authority.* Manila.
f Excludes commitment authority prior to ADF VIII, which was fully committed.
g Excludes loans that were conditionally approved in October–December 2002.
h Excludes loans that were conditionally approved in November–December 2003.
i Loans that were conditionally approved in the previous year.

Table 29
TECHNICAL ASSISTANCE SPECIAL FUND
($ thousand equivalent; as of 31 December 2003)[a]

	Total Contributions	Amount Utilized
Direct Voluntary Contributions		
Australia	2,484	2,484
Austria	159	159
Bangladesh	47	47
Belgium	1,394	1,394
Canada	3,346	3,346
China, People's Rep. of	1,600	1,267
Denmark	1,963	1,963
Finland	237	237
France	1,697	1,697
Germany	3,315	3,315
Hong Kong, China	100	100
India	2,857	2,857
Indonesia	250	250
Italy	774	774
Japan	47,710	47,710
Korea, Rep. of	1,900	1,900
Malaysia	909	909
Nauru	–	–
The Netherlands	1,338	1,338
New Zealand	1,096	1,096
Norway	3,279	3,279
Pakistan	1,596	1,596
Singapore	1,100	1,100
Spain	190	190
Sri Lanka	6	6
Sweden	861	861
Switzerland	1,035	1,035
Taipei,China	200	200
Turkey	–	–
United Kingdom	5,617	5,617
United States	1,500	1,500
Subtotal	88,560	88,227
Regularized Replenishment Contributions	213,083	213,083
Transfer to Asian Development Fund	(3,472)	(3,472)
Allocation from OCR Net Income[b]	707,353	603,574
Subtotal	916,964	813,185
TOTAL	**1,005,524**	**901,412**

– Data not applicable.
( ) Negative.

a Represents Technical Assistance Special Fund (TASF) portion of contributions to the replenishment of the Asian Development Fund and the TASF authorized by Governors' Resolution Nos. 182 and 214.
b Represents income, repayments, and reimbursements to the TASF since 1980, including unrealized investment holding gains (losses).

Table 30
JAPAN SPECIAL FUND—REGULAR AND SUPPLEMENTARY CONTRIBUTIONS
Statement of Activities and Change in Net Assets
($ million)

	1988–1997[a]	1998	1999	2000	2001	2002	2003	Total
Contributions Committed	633.9	62.5	48.6	37.6	30.9	22.5	16.7	852.7
Revenue	55.6	16.5	17.2	19.6	14.2	5.9	3.3	132.3
Total	689.5	79.0	65.8	57.2	45.1	28.4	20.0	985.0
Expenses	450.6	96.8	57.2	60.8	65.9	35.9	39.6	806.8
Exchange Gain (loss)	(22.4)	(1.6)	0.5	(0.1)	(1.0)	(0.6)	(0.3)	(25.5)
Translation Adjustments	(12.1)	(1.8)	(0.1)	1.5	–	–	–	(12.5)
Change in Net Assets	204.4	(21.2)	9.0	(2.2)	(21.8)	(8.1)	(19.9)	140.2

– Data not applicable.
( ) Negative.
a Prior years' amounts have been restated to conform with the 1995 presentation.

Table 31
JAPAN SPECIAL FUND—ASIAN CURRENCY CRISIS SUPPORT FACILITY
Statement of Activities and Change in Net Assets
($ million)

	1999	2000	2001	2002	2003	Total
Contributions Committed	104.4[a]	136.6[a]	–	–	–	241.0
Revenue	–	0.4	0.3	1.4	0.7	2.8
Total	104.4	137.0	0.3	1.4	0.7	243.8
Transfer to Japan Fund for Poverty Reduction	–	–	–	(90.0)	–	(90.0)
Interest Payment Assistance written back	–	–	–	33.2	–	33.2
Expenses	95.7	9.6	8.8	16.2	1.2	131.5
Exchange Gain (loss)	–	–	(0.2)	(1.5)	–	(1.7)
Translation Adjustments	17.4	(16.5)	(28.4)	1.2	–	(26.3)
Change in Net Assets	26.1	110.9	(37.1)	(71.9)	(0.5)	27.5

– Data not applicable.
( ) Negative.
a A guarantee facility is provided under the ACCSF for which the Government of Japan (GOJ) has made available noninterest-bearing, nonnegotiable notes in the amount of 360 billion yen, encashable by ADB at any time to meet a call on any guarantee. In the absence of any concluded guarantee, the note was returned to GOJ on 25 March 2002.

Table 32
JAPAN FUND FOR POVERTY REDUCTION, 2003

	$ Thousand
AFGHANISTAN	
Emergency Infrastructure Rehabilitation and Reconstruction	20,000
Integrated Community Development in Northern Afghanistan	3,000
Rural Recovery through Community-Based Irrigation Rehabilitation	5,000
LAO PEOPLE'S DEMOCRATIC REPUBLIC	
Reducing Poverty Among Ethnic Minority Women in Nam Ngum River Basin	530
Solid Waste Management and Income Generation for Vientiane's Poor	1,000
NEPAL	
Optimizing Productivity of Poor Water User Associations	1,000
PAKISTAN	
Mobilizing the Poor for Better Access to Health	3,400
VIET NAM	
Promoting Silk Income for the Rural Poor in Central Highlands	620
REGIONAL (CAMBODIA AND VIET NAM)	
Improving Poor Farmers' Livelihoods through Post Harvest Technology	750
TOTAL	**35,300**

Note: In 2003, the Kuwait Fund for Arab Economic Development provided a grant of $15.0 million in support of the JFPR-funded Road Employment Project for Settlement and Integration of Returning Refugees and Displaced Person in Afghanistan which was approved in 2002.

Table 33
PROJECTS FINANCED BY THEMATIC FUNDS, 2003

	$ Thousand
CANADIAN COOPERATION FUND ON CLIMATE CHANGE	
Indonesia	
Carbon Sequestration through the Clean Development Mechanism	700.00
Regional	
Regional Workshop on Forests and Climate Change: Preparing for Decisions on Land Use and Forestry at 9th Conference of Parties	20.00
Subtotal	720.00
COOPERATION FUND FOR NATIONAL POVERTY REDUCTION STRATEGIES	
Cambodia	
Engagement of a Poverty Consultant at the Cambodia Resident Mission	31.50
China, People's Republic of	
Participatory Poverty Reduction Planning for Small Minorities	840.00
Pakistan	
Support for Poverty Reduction Initiatives in Pakistan	31.50
Sri Lanka	
Poverty Assessment and Information Management	350.00
Viet Nam	
Support to Poverty Reduction Activities in Viet Nam	37.00
Regional	
Social Protection Index for Committed Poverty Reduction	300.00
Strengthening Poverty Analysis and Strategies in the Pacific	400.00
Subtotal	1,990.00

CONTINUED

	$ Thousand
COOPERATION FUND FOR THE WATER SECTOR	
Regional	
Promoting Effective Water Management Policies and Practices—Phase 2	1,000.00
Promoting Effective Water Management Policies and Practices—Phase 3	4,300.00
Subtotal	5,300.00
DANISH COOPERATION FUND FOR RENEWABLE ENERGY AND ENERGY EFFICIENCY IN RURAL AREAS	
Afghanistan	
Capacity Building for Reconstruction and Development (Technical Assistance Cluster)	450.00
China, People's Republic of	
Renewable Energy for Poverty Reduction	450.00
Philippines	
Rehabilitation of Renewable Energy Projects for Rural Electrification and Livelihood Development	450.00
Uzbekistan	
Off-Grid Renewable Energy Development	350.00
Regional	
Renewable Energy and Energy Efficiency Program for the Pacific	600.00
Subtotal	2,300.00
GENDER AND DEVELOPMENT COOPERATION FUND	
Regional	
Promoting Gender Equality and Women's Empowerment	1,500.00
Subtotal	1,500.00
GOVERNANCE COOPERATION FUND	
Bangladesh	
Supporting Good Governance Initiatives	250.00
Cambodia	
Capacity Building of Electricity Authority of Cambodia	240.00
Kazakhstan	
Strengthening Government Program Performance	150.00
Supporting Local Government Reforms	100.00
Lao People's Democratic Republic	
Advisory Assistance on Small- and Medium-Sized Enterprise and Private Sector Development	170.00
Viet Nam	
Provincial Development Planning in the Central Highlands	150.00
Regional	
Promoting Knowledge Transfer through Diaspora Networks	150.00
ADB-Open Society Institute Central Asia Education Cooperation Network	200.00
Civil Society Participation in Budget Formulation in the Pacific	250.00
Subtotal	1,660.00
POVERTY ENVIRONMENT FUND	
Regional	
Poverty and Environment Program	3,420.00
Subtotal	3,420.00
POVERTY REDUCTION COOPERATION FUND	
Bangladesh	
Strengthening Capacities for Poverty Monitoring and Evaluation	350.00
Cambodia	
Preventing Poverty and Empowering Female Garment Workers Affected by the Changing International Trade Environment	500.00
Engagement of a Poverty Consultant at Cambodia Resident Mission	63.50
Participatory Poverty Assessment of the Tonle Sap	250.00

CONTINUED

	$ Thousand
POVERTY REDUCTION COOPERATION FUND	
China, People's Republic of	
Preventing HIV/AIDS on Road Projects in Yunnan Province	800.00
A Fund for Strategic Policy Conferences and Studies for Poverty Reduction	400.00
Safe Drinking Water and Sanitation for the Rural Poor	400.00
Policy Study on the Poverty Reduction Program of the PRC—Trends, Challenges, and Future Directions	150.00
Capacity Strengthening of the PRC's National Development Planning Process	360.00
Poverty Reduction in Key Forestry Conservation Programs	400.00
Poverty Reduction in Grassland Improvement Program	400.00
Lao People's Democratic Republic	
Integrating the Poor in Regional Trade through Standard-Setting for Private Sector Development	150.00
Pakistan	
Support for Poverty Reduction Initiatives in Pakistan	63.50
Sri Lanka	
Community Information Services for the Poor	800.00
Viet Nam	
Early Childhood Development for the Poor	450.00
Support to Poverty Reduction Activities in Viet Nam	73.00
Developing the Social Security System	750.00
Regional	
Fifth Agricultural and Natural Resources Research at Consultative Group on International Agricultural Research (CGIAR) Centers—Breeding Iron-Rich Rice to Reduce Iron-Deficiency Anemia in Asia	905.00
Nongovernment Organization (NGO) Partnerships for Poverty Reduction	500.00
Poverty Reduction in Upland Communities in the Mekong Region through Improved Community and Industrial Forestry	800.00
Promoting NGO Support for Poverty Reduction in the Greater Mekong Subregion	150.00
Social Protection Index for Committed Poverty Reduction	300.00
Study of Urban Violence in Asia: Towards More Effective Urban Upgrading	150.00
Strengthening Poverty Analysis and Strategies in the Pacific	400.00
Subtotal	6,360.00
TOTAL	**23,250.00**

Table 34
EXTERNAL ADB-ADMINISTERED GRANT COMPONENTS OF LOAN PROJECTS, 2003

	$ Thousand	Source
BANGLADESH		
Second Primary Education Development Program	20,000	Canada
	100,000	European Community
	50,000	The Netherlands
	40,000	Norway
	29,000	Sweden
	150,000	United Kingdom
INDONESIA		
Participatory Irrigation Sector	15,000	The Netherlands
TOTAL	**404,000**	

Appendixes

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Appendix 1

RESOLUTIONS OF THE BOARD OF GOVERNORS ADOPTED IN 2003

RESOLUTION NO.	SUBJECT	DATE ADOPTED
292	Procedures for the Election of Directors	13 June
293	Financial Statements and Independent Auditors' Report	30 June
294	Allocation of Net Income	30 June
295	Place and Date of the Thirty-Eighth Annual Meeting	30 June
296	Amendment to Section 7(B)(a) of the By-Laws	16 November

Appendix 2

BOARD OF GOVERNORS

(as of 31 March 2004)

HUN-JAI LEE
(Republic of Korea)
(Chairperson)

BRENSON S. WASE
(Marshall Islands)
(Vice-Chairperson)

MARIA MANUELA DIAS FERREIRA LEITE
(Portugal)
(Vice-Chairperson)

MEMBER	GOVERNOR	ALTERNATE GOVERNOR
AFGHANISTAN	Ashraf Ghani	(vacant)
AUSTRALIA	Peter Costello	Chris Gallus
AUSTRIA	Karl-Heinz Grasser	Thomas Wieser
AZERBAIJAN	Farhad Aliyev	Avaz Alekperov
BANGLADESH	M. Saifur Rahman	Mirza Tasadduq Hussain Beg[1]
BELGIUM	Didier Reynders	Gino Alzetta
BHUTAN	Lyonpo Wangdi Norbu[2]	Daw Tenzin[3]
CAMBODIA	Keat Chhon	Ouk Rabun
CANADA	William Graham	Alister M. Smith[4]
CHINA, PEOPLE'S REPUBLIC OF	Jin Renqing	Li Yong[5]
COOK ISLANDS	Teremoana Taio[6]	Kevin Carr
DENMARK	Ole E. Moesby[7]	Nanna Hvidt[8]
FIJI ISLANDS	Jone Yavala Kubuabola	Savenaca Narube
FINLAND	Pertti Majanen[9]	Taisto Huimasalo[10]
FRANCE	Francis Mer	Jean-Pierre Jouyet
GERMANY	Uschi Eid	Rolf Wenzel
HONG KONG, CHINA	Henry Tang[11]	Joseph Yam
INDIA	Jaswant Singh	D. C. Gupta[12]
INDONESIA	Dr. Boediono	Burhanuddin Abdullah[13]
ITALY	Antonio Fazio	Lorenzo Bini Smaghi
JAPAN	Sadakazu Tanigaki[14]	Toshihiko Fukui
KAZAKHSTAN	Yerbolat Askarbekovich Dossayev[15]	Batyrkhan Arysbekovich Issayev[16]
KIRIBATI	Nabuti Mwemwenikarawa[17]	Tebwe Ietaake
KOREA, REPUBLIC OF	Hun-Jai Lee[18]	Seung Park
KYRGYZ REPUBLIC	Bolot Abildaev	Sabyrbek Moldokulov
LAO PEOPLE'S DEMOCRATIC REPUBLIC	Chansy Phosykham	Phoupheth Khamphounvong
LUXEMBOURG	Luc Frieden[19]	Georges Heinen[20]
MALAYSIA	Dato' Seri Abdullah Haji Ahmad Badawi[21]	Tan Sri Dr. Samsudin bin Hitam
MALDIVES	Ismail Shafeeu	Riluwan Shareef
MARSHALL ISLANDS	Brenson S. Wase	Amon Tibon

1 Succeeded Anisul Huq Chowdhury in June 2003.
2 Succeeded Lyonpo Yeshey Zimba in August 2003.
3 Succeeded Sonam Wangchuk in December 2003.
4 Succeeded Bruce Montador in February 2004.
5 Appointed in October 2003.
6 Succeeded Terepai Maoate in February 2004.
7 Succeeded Carsten Staur in February 2004.
8 Succeeded Ole E. Moesby in February 2004.
9 Succeeded Suvi-Anne Siimes in September 2003.
10 Succeeded Pertti Majanen in September 2003.
11 Succeeded Antony Leung Kam Chung in August 2003.
12 Succeeded S. Narayan in November 2003.
13 Succeeded Syahril Sabirin in May 2003.
14 Succeeded Masajuro Shiokawa in September 2003.
15 Succeeded Zeynulla Khalidollovich Kakimzhanov in July 2003.
16 Succeeded Arman Galiaskarovich Dunayev in March 2004.
17 Succeeded Beniamina Tinga in August 2003.
18 Succeeded Jin-Pyo Kim in February 2004.
19 Appointed in October 2003.
20 Appointed in October 2003.
21 Succeeded Dato Seri Dr. Mahathir bin Mohamad in November 2003.

CONTINUED

MEMBER	GOVERNOR	ALTERNATE GOVERNOR
MICRONESIA, FEDERATED STATES OF	Nick L. Andon[22]	Lorin Robert
MONGOLIA	Chultemiin Ulaan	Ochirbat Chuluunbat
MYANMAR	Hla Tun	Daw Than Nwe
NAURU	David Adeang[23]	Ruston Kun[24]
NEPAL	Prakash Chandra Lohani[25]	Bhanu Prasad Acharya
THE NETHERLANDS	Gerrit Zalm[26]	Agnes van Ardenne-van der Hoeven
NEW ZEALAND	Michael Cullen	John Whitehead
NORWAY	Olav Kjorven	Age Grutle
PAKISTAN	Shaukat Aziz	Waqar Masood Khan
PALAU	Elbuchel Sadang[27]	Marino Rechesengel[28]
PAPUA NEW GUINEA	Bart Philemon	Koiari Tarata
PHILIPPINES	Juanita D. Amatong[29]	Rafael Buenaventura
PORTUGAL	Maria Manuela Dias Ferreira Leite	Francisco Adelino Gusmao Esteves de Carvalho
SAMOA	Misa Telefoni Retzlaff	Hinauri Petana
SINGAPORE	BG Lee Hsien Loong	Lim Siong Guan
SOLOMON ISLANDS	Francis John Zama[30]	Shadrach Fanega[31]
SPAIN	Rodrigo de Rato y Figaredo	Francisco Utrera[32]
SRI LANKA	K. N. Choksy	Charitha Ratwatte
SWEDEN	Annika Soder	Anders Oljelund[33]
SWITZERLAND	Oscar Knapp	Adrian Schlaepfer
TAIPEI,CHINA	Fai-nan Perng	Susan S. Chang
TAJIKISTAN	F. S. Kholboboev[34]	H. K. Buriev
THAILAND	Somkid Jatusripitak[35]	Somchainuk Engtrakul
TIMOR-LESTE	Maria Madalena Brites Boavida	Aicha Bassarewan
TONGA	Siosiua T.T. 'Utoikamanu	Aisake Eke
TURKEY	Ibrahim H. Çanakci	Cavit Dagdas[36]
TURKMENISTAN	Yazguly Kakalyev	Seitbay Kandymov
TUVALU	Bikenibeu Paeniu	Seve Paeniu[37]
UNITED KINGDOM	Hilary Benn[38]	Gareth Thomas[39]
UNITED STATES	John W. Snow	Alan P. Larson
UZBEKISTAN	Rustam S. Azimov	Mamarizo Nurmuratov
VANUATU	Jimmy Nicklam[40]	Simeon Athy[41]
VIET NAM	Le Duc Thuy	Phung Khac Ke

22 Succeeded John Ehsa in January 2004.
23 Succeeded Aloysius Amwano in June 2003.
24 Succeeded Alexander Deiye in June 2003.
25 Succeeded Badri Prasad Shrestha in June 2003.
26 Succeeded Hans Hoogervorst in July 2003.
27 Appointed in December 2003.
28 Appointed in December 2003.
29 Succeeded Jose Isidro N. Camacho in February 2004.
30 Succeeded Snyder Rini in July 2003. Snyder Rini succeeded Laurie Chan in June 2003.
31 Succeeded Lloyd Powell in June 2003.
32 Succeeded Juan Costa Climent in September 2003.
33 Succeeded Gunilla Olsson in October 2003.
34 Succeeded G. D. Boboev in January 2004.
35 Succeeded Suchart Jaovisidha in April 2004.
36 Succeeded Aydin Karaoz in March 2004.
37 Succeeded Solofa Uota in September 2003.
38 Succeeded Valerie Amos in October 2003.
39 Succeeded Hilary Benn in October 2003. Hilary Benn succeeded Sally Keeble in May 2003.
40 Succeeded Sela Molisa in March 2004.
41 Succeeded George Andrews in March 2004.

Appendix 3

BOARD OF DIRECTORS AND VOTING GROUPS

(as of 31 March 2004)

DIRECTOR	ALTERNATE DIRECTOR	MEMBERS REPRESENTED
Jusuf Anwar	Richard Stanley	Cook Islands, Fiji Islands, Indonesia, Kyrgyz Republic, New Zealand, Samoa, Tonga
Dante B. Canlas[1]	M. Akram Malik[2]	Kazakhstan, Maldives, Marshall Islands, Mongolia, Pakistan, Philippines
Rolf Eckermann[3]	Nicola Jenns[4]	Austria, Germany, Luxembourg, Turkey, United Kingdom
Emile Gauvreau[5]	Tryggve Gjesdal	Canada, Denmark, Finland, The Netherlands, Norway, Sweden
Kuilin Ju	Shaolin Yang	People's Republic of China
P. G. Mankad	M. Saiful Islam	Bangladesh, Bhutan, India, Lao People's Democratic Republic, Tajikistan
Michele Miari Fulcis	Pascal Gregoire	Belgium, France, Italy, Portugal, Spain, Switzerland
Stephen Sedgwick	Richard Moore[6]	Australia; Azerbaijan; Cambodia; Hong Kong, China; Kiribati; Federated States of Micronesia; Nauru; Solomon Islands; Tuvalu
Paul W. Speltz	Troy Wray[7]	United States
Chaiyuth Sudthitanakorn[8]	Sein Tin[9]	Malaysia, Myanmar, Nepal, Singapore, Thailand
Osamu Tsukahara	Masaichiro Yamanishi	Japan
Jeung-Hyun Yoon	Batir Mirbabayev	Republic of Korea; Papua New Guinea; Sri Lanka; Taipei,China; Uzbekistan; Vanuatu; Viet Nam

1 Succeeded M. Akram Malik on 1 July 2003.
2 Succeeded Dante B. Canlas on 1 July 2003.
3 Succeeded Frank Black on 1 July 2003.
4 Succeeded Marcus Heinz on 1 February 2004.
5 Succeeded Julian Payne on 1 August 2003.
6 Succeeded Miranda Rawlinson on 12 March 2004.
7 Succeeded Lori A. Forman on 1 August 2003.
8 Succeeded Othman Jusoh on 1 August 2003.
9 Succeeded Ram Binod Bhattarai on 16 July 2003.

Appendix 4

COMMITTEES OF THE BOARD OF DIRECTORS

(as of 31 December 2003)

STANDING COMMITTEES

AUDIT COMMITTEE

Michele Miari Fulcis *(Chairperson)*
Batir Mirbabayev
Miranda Rawlinson
Paul Speltz
Richard Stanley
Chaiyuth Sudthitanakorn

BUDGET REVIEW COMMITTEE

P.G. Mankad *(Chairperson)*
Rolf Eckermann
M. Akram Malik
Michele Miari Fulcis
Osamu Tsukahara
Jeung-Hyun Yoon

DEVELOPMENT EFFECTIVENESS COMMITTEE

Jusuf Anwar *(Chairperson)*
Emile Gauvreau
P.G. Mankad
Osamu Tsukahara
Troy Wray
Shaolin Yang

INSPECTION COMMITTEE

Stephen Sedgwick *(Chairperson)*
Dante Canlas
Tryggve Gjesdal
Pascal Gregoire
Kuilin Ju
Sein Tin

WORKING COMMITTEE

WORKING GROUP ON THE ANNUAL REPORT FOR 2003

Pascal Gregoire *(Chairperson)*
Jusuf Anwar
Dante Canlas
Nicola Jenns
Shaolin Yang
Masaichiro Yamanishi

Appendix 5

ADB INSTITUTE ADVISORY COUNCIL

(as of 31 December 2003)

Magnus Blomström	Sweden
Ronald Duncan	Australia
William P. Fuller	United States
Yujiro Hayami	Japan
N. C. Saxena	India
Zhang Xiaoqiang	People's Republic of China
Ifzal Ali	Asian Development Bank

ADB INSTITUTE DEAN

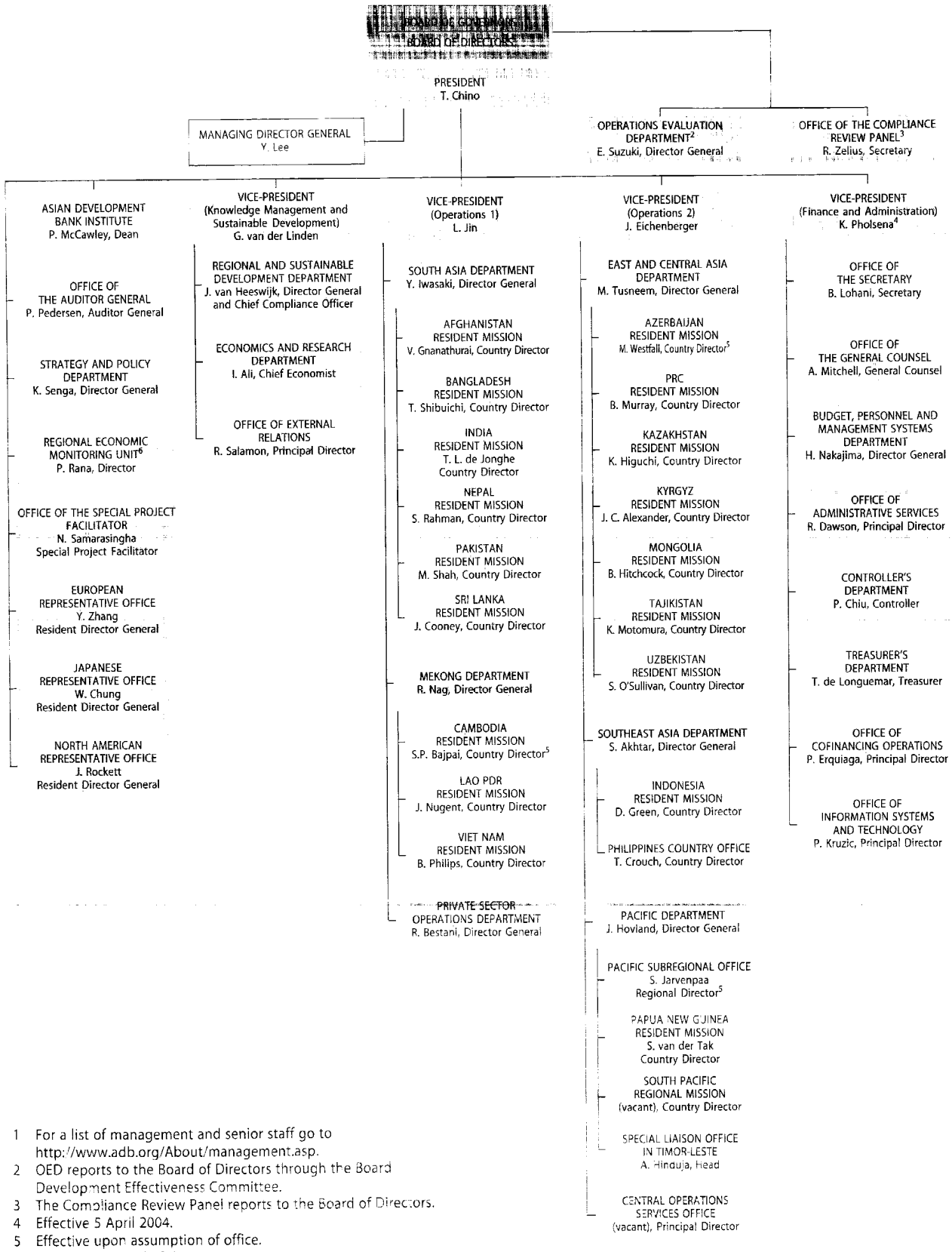
(as of 31 December 2003)

Peter McCawley

Appendix 6

ORGANIZATIONAL STRUCTURE[1]

(as of 31 March 2004)



1 For a list of management and senior staff go to http://www.adb.org/About/management.asp.
2 OED reports to the Board of Directors through the Board Development Effectiveness Committee.
3 The Compliance Review Panel reports to the Board of Directors.
4 Effective 5 April 2004.
5 Effective upon assumption of office.
6 Y. Iwasaki is Head of the Unit.

Appendix 7

FORMER ADB PRESIDENTS AND VICE-PRESIDENTS

(as of 31 March 2004)

PRESIDENTS

Takeshi Watanabe	24 November 1966–24 November 1972
Shiro Inoue	25 November 1972–23 November 1976
Taroichi Yoshida	24 November 1976–23 November 1981
Masao Fujioka	24 November 1981–23 November 1989
Kimimasa Tarumizu	24 November 1989–23 November 1993
Mitsuo Sato†	24 November 1993–15 January 1999

VICE-PRESIDENTS

C. S. Krishna Moorthi	19 December 1966–31 March 1978
A. T. Bambawale	1 April 1978–28 October 1985
M. Narasimham	1 November 1985–31 July 1988
S. Stanley Katz	1 April 1978–28 September 1990
In Yong Chung	1 August 1988–31 July 1993
William R. Thomson	1 October 1990–30 June 1994
Günther G. Schulz	1 April 1983–30 June 1995
Bong-Suh Lee	1 August 1993–31 July 1998
Pierre Uhel	1 July 1995–24 November 1998
Peter H. Sullivan	6 July 1994–20 September 2000
Myoung-Ho Shin	1 August 1998–31 July 2003
John Lintjer	18 January 1999–16 January 2004

† Mr. Mitsuo Sato died in Tokyo on 20 October 2002. He was 69.

Appendix 8

SUMMARY OF BUDGET FOR 2004
Internal Administrative Expenses

($ thousand)

	2003			2004
	Budget	After Transfers[a]	Actual	Budget
I. **BOARD OF GOVERNORS**[b]	959	959	94	800
II. **BOARD OF DIRECTORS**	10,530	10,530	10,469	11,940
III. **OPERATIONAL EXPENSES**	198,918	198,918	197,899	214,078
Salaries	105,297	104,247	103,842	112,061
Benefits	53,061	53,764	53,764	58,401
Staff Development	2,350	2,350	2,269	2,750
Relocation	3,500	3,847	3,847	3,534
Consultants	16,074	16,809	16,809	17,553
Business Travel	18,286	17,551	17,065	19,409
Representation	350	350	303	370
IV. **ADMINISTRATIVE EXPENSES**	45,771	45,771	44,174	49,953
Communications	7,058	7,058	6,645	6,932
Office Occupancy	9,416	10,468	10,468	11,441
Library	914	958	958	904
Office Supplies	1,896	1,896	1,594	2,004
Office Equipment	4,699	5,186	5,142	5,215
Contractual Services	7,665	7,665	7,193	9,024
Insurance	569	620	620	787
Depreciation	13,155	11,521	11,208	13,233
Miscellaneous	399	399	346	413
V. **TOTAL BEFORE GENERAL CONTINGENCY**	256,178	256,178	252,636	276,771
VI. **GENERAL CONTINGENCY**	2,562	2,562	–	2,768
TOTAL	**258,740**	**258,740**	**252,636**[c]	**279,539**

a Transfers were made between budget items within each budget category without exceeding the original amount of each category.

b Annual Meeting expenses.

c Excludes the following items reconciling with financial statements in compliance with generally accepted accounting principles: (i) provisions for future liabilities with respect to severance pay ($1,902,000), accumulated compensated absences ($361,000), and accrued resettlement/repatriation allowances ($1,000); (ii) adjustments of actuarially determined assessment of benefit obligations with respect to pension costs ($14,976,000) and postretirement medical benefits ($17,274,000); and (iii) charges pertaining directly to the Asian Development Fund (ADF) ($3,000). Total administrative expenses, as shown in the financial statements, amounted to $287,153,000. This amount, after deducting $753,000 directly charged to the Trust Fund for East Timor (now Timor-Leste) ($465,000), and Japan Scholarship Program ($74,000), Japan Fund for Poverty Reduction ($214,000), has been distributed as follows: ordinary capital resources (OCR)—$118,440,000 (Ref. OCR-2) net of $13,678,000 as a front-end fee offset against loan origination costs and recognized as a reduction in administrative expenses; ADF—$153,021,000 (Ref. ADF-2); and JSF—$1,261,000 (Ref. JSF-2).

Glossary

accountability: the obligation to demonstrate that work has been conducted in compliance with agreed rules and standards or to report fairly and accurately on performance results vis à vis mandated roles and/or plans. This may require a careful, even legally defensible, demonstration that the work is consistent with the contract terms

anticorruption: against corruption, which is the abuse of public or private office for personal gain

Asian Development Fund (ADF): ADB's soft-lending window for developing member countries with low per capita gross national product and weak debt repayment capacity

business processes: the tools through which poverty reduction is implemented at ADB. The processes were substantially revised in ADB's reorganization to improve the quality and efficiency of operations.

civil society: a wide array of nongovernment organizations that have a presence in public life, expressing the interests and values of their members, often exist outside of the state and the market

contract award ratio: the ratio of contracts awarded during the year over the value available for contract awards at the beginning of the year

country strategy and program (CSP): ADB's most important planning and programming document at the country level, prepared every 5 years to identify the country's development needs, priorities, and strategies

developing member country (DMC): a member of ADB, does not imply any view on the part of ADB as to the member's sovereignty or independent status

development effectiveness: the extent to which the development intervention's objectives were achieved, or are expected to be achieved

development impact: positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended

disbursement ratio: the ratio of total disbursements during the year over the net loan amount available at the beginning of the year plus the loan amounts of newly approved loans that have become effective during the year, excludes private sector loans

donor: an entity that provides loans and assistance at no cost or at concessional rates

empowerment: the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable, institutions that affect their lives

financing terrorism: an act of providing or collecting funds to carry out an act intended to cause death or harm any civilian to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act

gender and development: a shift in ADB's approach to women from targeted interventions mainly in the social sectors to mainstreaming gender in all ADB operations

governance: the manner in which power is exercised in managing a country's social and economic resources for development

grant: financing for a project or program made without expectation of goods or services in return

guarantee: a written undertaking by a guarantor to pay a stated amount if the borrower fails to meet certain commitments, such as the payment of principal or interest; ADB offers two types of guarantees: a partial credit guarantee and a political risk guarantee

knowledge management: the way organizations create, capture, and reuse knowledge to achieve organizational objectives

Long-Term Strategic Framework (LTSF): provides an agenda for ADB's poverty reduction and growth-financing activities to 2015; implemented through medium-term strategies, each covering a 5-year period; core areas of the long-term intervention include sustainable economic growth, inclusive social development, and governance for effective policies and institutions

Medium-Term Strategy (MTS): the bridge between the Long-Term Strategic Framework and the activities that ADB undertakes in its developing member countries; a plan to help ADB achieve its vision of an Asia and Pacific region free of poverty; an integral part of ADB's operational planning framework; geared to the most immediate and pressing development needs of the region

Millennium Development Goals (MDGs): a set of significant, measurable objectives that would indicate an improvement in people's lives; a result of the Millennium Declaration, adopted by 147 heads of state and government during the Millennium Summit in September 2000, reaffirming their commitment toward sustaining development and eliminating poverty; at the Monterrey Conference in March 2002, multilateral development banks, including ADB, reached a consensus to relate their long-term strategic frameworks to the MDGs

Glossary *(continued)*

money laundering: the processing of the proceeds of crime so as to disguise their illegal origin

multilateral development bank: an institution composed of more than two countries that provides aid to less developed countries

ordinary capital resources (OCR): the interest-bearing window for ADB's ordinary lending operations

others: the term "Others" in sector tables on loans and technical assistance grants includes projects outside ADB's economic sector classification system; these projects pertain to, among others, central government administration, operation and regulation, customs operations, public sector reform programs, judicial and legislative operations, public finance management, fiscal reforms, environment projects, gender, governance, and tourism

poverty partnership agreement (PPA): an agreement signed between ADB and governments of its developing member countries that specifies targets and measures for reducing poverty, and ADB's support toward achieving these objectives

program loan: a loan that supports policy and institutional reform in a developing member country to enhance economic efficiency in a sector

project loan: loan provided to finance a specific project

project completion report (PCR): a concise history of a project from identification to completion, evaluates the thoroughness and adequacy of project design, reviews implementation factors affecting project performance, suggests follow-up actions required during operations, and makes recommendations to improve operations, policies, and procedures; usually prepared within 12–24 months of project completion

project/program performance audit report (PPAR): a study that evaluates the effectiveness of the project in achieving its intended objectives; includes an analytical commentary and an audit of the adequacy and integrity of the completion report; focuses on specific issues meriting close attention; and analyzes the causes of deviations from appraisal designs and assesses their significance; generally prepared 3 years after project completion to ensure the availability of adequate data relating to the benefits and costs including operation and maintenance costs

regional mission: an external office of ADB that is responsible for a group of countries in a subregion with functions similar to that of a resident mission—government, civil society, and private sector relations; policy dialogue and support; country reporting; aid coordination; and external relations and information dissemination

representative office: an external office of ADB in a nonborrowing member country that is involved in resource mobilization; liaises with other multilateral and bilateral development agencies and other organizations, both intergovernment and nongovernment

resident mission: an external office of ADB in a developing member country with standard functions—government, civil society, and private sector relations; policy dialogue and support; country reporting; aid coordination; and external relations and information dissemination, and certain specific functions as delegated by ADB headquarters

results-based management: also known as managing for development results, a management strategy that focuses on performance, output, outcomes, and impact

sector development program loan: a combination of an investment (project or sector) and a policy-based (program) loan, as well as, where appropriate, an accompanying technical assistance, to meet sector needs in a comprehensive and integrated manner; not a separate lending modality, but represents the combination, under appropriate circumstances, of policy and investment-based assistance

Social Protection Strategy: a set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacities to protect themselves against hazards and interruption/loss of income

special funds: funds administered by ADB such as the concessional Asian Development Fund, Technical Assistance Special Fund, Japan Special Fund, and the ADB Institute Special Fund

technical assistance: resources given to a developing member country to help them identify, formulate, and implement development projects; enhance institutional capabilities; formulate and undertake development plans and strategies; foster regional cooperation; and promote the consideration of vital development policy issues. Technical assistance operations are funded either by a loan or by a grant, or by a combination of the two. The three types of technical assistance are project preparatory technical assistance (to identify, formulate, and implement projects); advisory and operational technical assistance (to improve institutional capabilities, formulate development strategies, and promote technology transfer); and regional technical assistance (to foster regional cooperation)

trust funds: funds that are managed and administered by ADB but are not part of ADB's own resources

ADB's Contact Addresses

(as of 31 March 2004)

HEADQUARTERS

Asian Development Bank. 6 ADB Avenue, Mandaluyong City, 0401 Metro Manila, Philippines, P.O. Box 789, 0980 Manila, Philippines; Telephone (63-2) 632-4444; Facsimile (63-2) 636-2444; E-mail: information@adb.org; Web site: http://www.adb.org

OTHER OFFICES

Afghanistan Resident Mission. 126, Street 2, Haji Yaqoub Round About, Shahar-e-Now, Kabul, Afghanistan; P.O. Box 3070, Kabul, Afghanistan; Telephone (93-20) 210-3602; E-mail: vgnanathurai@adb.org; Web site: http://www.adb.org/AFRM/

Azerbaijan, Liaison Office. Hyatt Regency Baku, Caspian Room D, 2nd Floor, Bakixanov 1, Baku 370065, Azerbaijan; Telephone (994-12) 907-175; Facsimile (994-12) 907-149; E-mail: faraj_adb@azeurotel.com

Bangladesh Resident Mission. BSL Office Complex, 2nd Floor, Sheraton Hotel Annex, 1 Minto Road, Ramna, Dhaka 1000, Bangladesh; Telephone (880-2) 933-4017; Facsimile (880-2) 933-4012; E-mail: adbbrm@adb.org; Web site: http://www.adb.org/BRM/

Cambodia Resident Mission. 93/95 Preah Norodom Boulevard, Sangkat Boeung Raing, Khan Daun Penh, Phnom Penh, Cambodia; P.O. Box 2436; Telephone (855-23) 215-805/215-806; Facsimile (855-23) 215-807; E-mail: adbcarm@adb.org; Web site: http://www.adb.org/CARM/

People's Republic of China Resident Mission. 7th Floor, Block D, Beijing China Merchants International Financial Center, 156 Fuxingmennei Avenue, Beijing 100031, People's Republic of China; Telephone (86-10) 6642-6601 to 05; Facsimile (86-10) 6642-6606; E-mail: adbprcm@adb.org; Web site: http://www.adb.org/PRCM/

European Representative Office. Rahmhofstrasse 2-4, 60313 Frankfurt am Main, Germany; Telephone (49-69) 2193-6400; Facsimile (49-69) 2193-6444; E-mail: adbero@adb.org; Web site: http://www.adb.org/ERO/

Gujarat, Extended Mission. Suite 502 Megh Malhar Towers Sector, 11 Gandhinagar, 382017 Gujarat, India; Telephone (91-79) 2324-1100/3478/3480; Facsimile (91-79) 2324-1028

India Resident Mission. 4, San Martin Marg, Chanakyapuri, New Delhi 110021, India; P.O. Box 5331, Chanakyapuri H.P.O., New Delhi 110021, India; Telephone (91-11) 2410-7200; Facsimile (91-11) 2687-0955; E-mail: adbinrm@adb.org; Web site: http://www.adb.org/INRM/

Indonesia Resident Mission. Gedung BRI II, 7th Floor, Jl. Jend Sudirman Kav. 44-46, Jakarta 10210, Indonesia; P.O. Box 99 JKPSA, Jakarta 10350A, Indonesia; Telephone (62-21) 5798-0600; Facsimile (62-21) 5798-0700; E-mail: adbirm@adb.org; Web site: http://www.adb.org/IRM/

Japanese Representative Office. Yamato Seimei Building, 1-7 Uchisaiwaicho 1-Chome, Chiyoda-ku, Tokyo 100-0011, Japan; Telephone (81-3) 3504-3160; Facsimile (81-3) 3504-3165; E-mail: adbjro@adb.org; Web site: http://www.adb.org/JRO/

Kazakhstan Resident Mission. 12 Samal, Astana, Business Center, 10th Floor, Astana 473000, Kazakhstan; Telephone (7-3172) 325-053/325-054; Facsimile (7-3272) 611-972; E-mail: adbkarm@adb.org; Web site: http://www.adb.org/KARM/

Kyrgyz Resident Mission. 28 Logvinenko Street, Bishkek, 720001 Kyrgyz Republic; Telephone (996-312) 610-870; (996-612) 900-445/900-447; Facsimile (996-312) 610-993; E-mail: adbkyrm@adb.org; Web site: http://www.adb.org/KYRM/

Lao PDR Resident Mission. Corner of Lane Xang and Samsenthai Road, Vientiane, Lao People's Democratic Republic; P.O. Box 9724; Telephone (856-21) 250-444; Facsimile (856-21) 250-333; E-mail: adblrm@adb.org; Web site: http://www.adb.org/LRM/

ADB's Contact Addresses *(continued)*

Mongolia Resident Mission. MCS Plaza, 2nd Floor, 4 Natsagdorj St., Ulaanbaatar 46, Mongolia; Telephone/Facsimile (976-11) 313-440/323-507; Facsimile (976-11) 311-795; E-mail: adbmnrm@adb.org; Web site: http://www.adb.org/MNRM/

North American Representative Office. 815 Connecticut Avenue, NW, Suite 325, Washington, DC 20006, USA; Telephone (1-202) 728-1500; Facsimile (1-202) 728-1505; E-mail: naro@adb.org; Web site: http://www.adb.org/NARO/

Nepal Resident Mission. Srikunj Kamaladi Ward No. 31, Block 2/597, Kathmandu Metropolis; P.O. Box 5017 K.D.P.O., Kathmandu, Nepal; Telephone (977-1) 4227-779; Facsimile (977-1) 4225-063; E-mail: adbnrm@adb.org; Web site: http://www.adb.org/NRM/

Pakistan Resident Mission. Overseas Pakistanis Foundation Building, Sharah-e-Jamhuriyat, G-5/2, Islamabad, Pakistan; GPO Box 1863, Islamabad, Pakistan; Telephone (92-51) 282-5011 to 16; Facsimile (92-51) 282-3324/227-4718; E-mail: adbprm@adb.org; Web site: http://www.adb.org/PRM/

Papua New Guinea Resident Mission. 13th Floor, Deloitte Tower, Port Moresby, National Capital District, Papua New Guinea; P.O. Box 8196, Boroko, NCD, Papua New Guinea; Telephone (675) 321-0408; Facsimile (675) 321-0407; E-mail: adbpng@daltron.com.pg

Philippines Country Office. 6 ADB Avenue, Mandaluyong City; 0401 Metro Manila, Philippines; Telephone (63-2) 683-1000; Facsimile (63-2) 683-1030; E-mail: phco-mailbox@adb.org; Web site: http://www.adb.org/PHCO/

South Pacific Regional Mission. La Casa d'Andrea, Fr. Dr. W.H. Lini Highway; P.O. Box 127, Port Vila, Vanuatu; Telephone (678-2) 3300; Facsimile (678-2) 3183; E-mail: adbsprm@adb.org; Web site: http://www.adb.org/SPRM/

Sri Lanka Resident Mission. 49/14-15 Galle Road, Colombo 3, Sri Lanka; Telephone (94-11) 238-7055/533-1111; Facsimile (94-11) 238-6527; E-mail: adbslrm@adb.org; Web site: http://www.adb.org/SLRM/

Tajikistan Resident Mission. 107, Nozim Khikmat Str. 734001 Dushanbe, Tajikistan; Telephone (992-372) 235-314/235-315/210-558; Facsimile (992-91) 901-5051; Web site: http://www.adb.org/TJRM/

Thailand, Extended Mission. 25th Floor M. Thai Tower, All Season's Place, 87 Wireless Road, Phatumwan, 10330 Bangkok, Thailand; Telephone (662) 627-9442/3; Facsimile (662) 627-9558; E-mail: jahmed@adb.org

Timor-Leste, Special Office. ADB-World Bank Building, Avenida Dos, Rua Direitos Humanos, Dili, Timor-Leste; Telephone/Facsimile (670-390) 324-801; Facsimile (670-390) 324-132

Turkmenistan, Liaison Office. Karakum Bank Building, 7th Floor, Turkmenbashi Shayoly Street, 126 Ashgabat, 744000, Turkmenistan; Telephone (993-12) 451-903/451-935; Facsimile (993-12) 451-781; E-mail: adb.untuk.org

Uzbekistan Resident Mission. Interbanking Financial Services Centre, 1 Hodjaeva Street, Shaikhantaur District, Tashkent 700027, Uzbekistan; Telephone (998-71) 120-7921 to 25; Facsimile (998-71) 120-7923; E-mail: adburm@adb.org; Web site: http://www.adb.org/URM/

Viet Nam Resident Mission. Units 701-706, Sun Red River Building, 23 Phan Chu Trinh Street, Hoam Kiem District, Hanoi, Viet Nam; Telephone (84-4) 933-1374 to 76; Facsimile (84-4) 933-1373; E-mail: adbvrm@adb.org; Web site: http://www.adb.org/VRM/

ADB Institute. 8th Floor, Kasumigaseki Building, 2-5 Kasumigaseki 3-Chome, Chiyoda-ku, Tokyo 100-6008, Japan; Telephone: (81-3) 3593-5500; Facsimile (81-3) 3593-5571; E-mail: info@adbi.org; Web site: http://www.adbi.org

Acknowledgments

Board Working Group on *Annual Report 2003*
Pascal Gregoire • Jusuf Anwar • Dante Canlas • Nicola Jenns • Shaolin Yang • Masaichiro Yamanishi

Editors
Judy Goldman • Lynette R. Mallery • Marcia R. Samson

Design and Production
Cecil Caparas • Lynette R. Mallery • Lhoie Maestro • Marcia R. Samson • Judy T. Yñiguez

Theme Chapter
Kamal Ahmad • Shiladitya Chatterjee • Arthur Mitchell • Brahm Prakash • Hamid Sharif • Jan P.M. van Heeswijk • Victor You

Photographs
Richie Abrina • Joe Cantrell • Rollie del Rosario • Shireen Lateef • Eric Sales • Marcia R. Samson • Takeshi Takahara • Judy T. Yñiguez

Overall Production
Raveendranath Rajan (Office of Administrative Services) • Robert H. Salamon (Office of External Relations)

ASIAN DEVELOPMENT BANK
6 ADB Avenue, Mandaluyong City
0401 Metro Manila, Philippines

Postal Address	Asian Development Bank P.O. Box 789 0980 Manila, Philippines
Telephone	(63-2) 632-4444
Facsimile	(63-2) 636-2444
E-mail	information@adb.org
Web Site	http://www.adb.org

Treasurer's Department

Facsimile	(63-2) 632-4707 (63-2) 632-4120
SWIFT Address	ASDBPH MM

ISSN 306-8370