

Asian Development Bank Group

Asian Development Fund (AsDF)

FY2002 Appropriation	FY2003 Scheduled Request	FY2003 Arrears Request	FY2003 Total Request
\$98.0M	\$103.0M	\$44.4M	\$147.4M

The Asian Development Fund (AsDF) is the concessional lending window of the AsDB Group, providing assistance and policy advice to the poorest countries in the region.

In FY2003, the Administration is requesting a total of \$103 million for scheduled commitments to AsDF and \$44.4 million to clear one-third of U.S. arrears to the institution.

The total value of AsDF-8 is \$5.6 billion and covers the four-year period 2001-04. The total U.S. commitment to AsDF-8 is \$412 million. Under this replenishment, the U.S. share of new contributions to AsDF is 14.4%.

Key Facts

- In 2001, the AsDF provided about \$1.4 billion in new loans to 17 countries.
- Since its inception, the AsDF has made total commitments amounting to \$25.4 billion.
- In 2001, the U.S. contributed \$98 million to the AsDF.
- AsDF funds are primarily used for the Bank's projects in areas of health, environment, education, and social protection, in keeping with the Bank's mandate on poverty reduction.
- Currently, 24 countries are eligible to receive AsDF resources. The U.S. has consistently advocated that only the neediest countries that do not have access to other resources, such as private capital, should have access to AsDF resources. By decision of the AsDF donors, neither China nor India has access to AsDF funds, because of the large size of their economies and their access to other sources of financing, including capital markets.
- Several former AsDF borrowers are now donors to the Fund, including South Korea, Singapore, Taiwan, and Thailand.

Supporting U.S. Objectives

Eighth Replenishment (AsDF-8)

- AsDF-8 put in place, for the first time, a system to allocate AsDF resources based on the performance of borrowing countries. This includes countries' performance on fiscal measures and good governance, as well as performance in managing their portfolio.
- We achieved other key policy goals in the AsDF-8 replenishment negotiation, including:
 - Maximizing our financial and policy leverage;
 - Greater emphasis on promoting good governance and anti-corruption, including a policy on combating money laundering;
 - Commitment to prepare country strategies in consultation with civil society and based on strong analytical inputs such as public expenditure reviews; and
 - Agreement to finance some technical assistance through the allocation of some OCR current income.
- We also reached agreement on internal changes, including the establishment of a Committee of the Board on Development Effectiveness and commitment to strengthen the Bank's internal controls. The U.S. is a member of both the Audit Committee of the Board and the Development Effectiveness Committee, which is charged with overseeing these important areas.
- Most of the commitments negotiated in AsDF are applicable to all Bank operations, thereby maximizing U.S. policy leverage.

Measuring impact and performance

- AsDF has begun to implement a performance-based allocation system (PBAS) for AsDF resources, a commitment we negotiated in AsDF-8. The PBAS is based on a range of performance targets, with greatest weighting given to performance in good governance. Portfolio performance and fiscal transparency are also factored in.
- OED has been evaluating the performance of the AsDF, looking at: the objectives, policies, and strategies governing the use of the AsDF; the allocation of AsDF resources; the performance of projects funded under the AsDF; their development impacts; and the lessons and insights that can be drawn, and the implications for AsDF's current strategic direction and operations. The evaluation of the first five commitment periods (AsDF 1-5, 1973-91) has been completed, and draws lessons for future operations of the Fund. This study is available on the website. The study of AsDF 6 and 7 (1992-2000) is under preparation.

Lending for Basic Health, including the Fight against HIV/AIDS

- AsDB lending for basic health, including the fight against infectious diseases such as HIV/AIDS, totaled \$222 million in 2000-01. It is expected to increase to \$338 million in 2002-03. A discussion paper was prepared to better focus the Bank's work in this area.
- In 2001, AsDB provided an \$8 million grant assistance to Cambodia, Laos, and Vietnam to strengthen and improve coordination of their efforts to address the HIV/AIDS epidemic.
- AsDB projects in Pakistan, Indonesia, Bangladesh, Cambodia, and Vietnam are providing direct investments to strengthen immunization programs and train health workers.

Support for education and social development

- The Bank is preparing an education policy that commits to increase education spending to 8.5% of lending by 2004, up from 6.5% today. Support for basic education will account for the bulk of Bank support and countries with the lowest education rates -- and greatest need -- will receive priority.
- Ongoing education projects are demonstrating results.
 - Basic education projects in Bangladesh and Pakistan are keeping girls in school by providing scholarships.
 - An education project in Laos is targeting 300 ethnic minority villages that have traditionally lacked access to education, by providing classrooms, training minority teachers, and supporting community programs to encourage parents to enroll their children.
 - A nonformal education project in the Philippines has brought literacy to 465,000 learners, primarily rural women. This exceeded the project's target of 458,000
- In 2001, the Bank approved a social protection strategy aimed at reducing poverty in the region by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption or loss of income.
- As a complement to its policies on social protection and health, the Bank will prepare a nutrition policy in 2002.

Environment and Sustainable Development

- Encouraged by persistent U.S. advocacy for more than a decade, the Bank has adopted an array of policies and procedures to incorporate environmental considerations into its operations.

- Lending for sustainable development has increased, and environmental management has become better integrated into operations. In 2001, the Bank supported five projects with environmental protection as a primary objective. Examples include:
 - Lao PDR: \$20 million for an Environmental and Social Program that will help the country develop the needed capacity to develop roads and power production, while taking into account the environmental and social considerations.
 - China: \$150 million to reduce the incidence and extent of flood damage in the lower Yellow River Basin through improved river management and flood protection measures. The Project will improve the environmental conditions in the lower river basin, and upgrade the protection of the poor and near poor against flood hazards
- The AsDB is currently preparing an environment policy to address the principal environmental challenges of the region, in consultation with NGOs and civil society.
- Given the importance of measures to address global environmental concerns, the Bank has finalized an MOU to strengthen its partnership with the GEF and permit the AsDB to administer GEF projects. Three such GEF projects were approved in 2001, for China, Philippines, and Sri Lanka. Three other projects already under implementation also received GEF grant funding in 2001.

Core Labor Standards

- The Board approved a Social Protection Strategy in 2001 that requires all Bank projects comply with internationally recognized core labor standards, and that social impact assessments look at labor issues and vulnerabilities.
- The AsDB has worked with the International Labor Organization (ILO) in a number of loan and technical assistance projects in the region. In Cambodia, for example, the Bank consulted with the ILO on the use of appropriate labor intensive technology for the construction of roads and irrigation systems. In Indonesia, the ILO participated in the formulation of a labor rationalization policy for state-owned enterprise employees.
- Looking ahead, the Bank is preparing a project in Pakistan that focuses on eliminating bonded labor and on improving rural livelihoods.

Increasing Transparency and Information Disclosure

- Largely through U.S. leadership, the AsDB continues to build on its 1995 information disclosure policy that ensures that key documents are available to the public. A public information center and expanded website (www.adb.org) have substantially improved the AsDB's capacity to make key documents, including projects and country assistance strategies, available to a broad segment of Asia's population and beyond. The Bank's poverty reduction strategy, project audit and evaluation

reports, and other key documents are available on-line.

- An NGO Center, with additional staff and budget resources, was established in 2001 to serve as the focal point for interaction with NGOs and civil society. Staff from the NGO Center were in the U.S. for an outreach program in late 2001.
- Public participation is fostered through the AsDB's consultation process, in which Bank staff consult with affected populations to provide an opportunity for local input.
- AsDB's Inspection Panel allows groups that have been affected by AsDB projects to voice their concern. Two inspection requests were received in 2001, and inspections related to them are currently underway. A review of the Bank's inspection procedures will take place in 2002; we have urged that this review be done in an open and consultative way.

Technical Assistance

- The Bank provides technical assistance (TA), usually in the form of grants, for advisory services and capacity building. In 2001, around \$146 million was provided for TA grants. Many of these TA projects help to build capacity, support policy reforms, and strengthen governance. A policy review of the Bank TA operations will take place in 2002.
- Starting in 2001, the Bank has transferred OCR current income to finance technical assistance grants. This was a commitment that was negotiated in AsDF-8.