

Asian Development Bank Group

Asian Development Bank (AsDB)

FY2002 Appropriation	FY2003 Request
\$0	\$0

The Asian Development Bank (AsDB) through its the hard loan window, lends at market or near-market rates to promote sustainable economic development, poverty reduction, and sub-regional cooperation in the Asia/Pacific region. AsDB provides public sector loans to governments, guarantees, and cofinancing, and makes a limited number of private sector investments. AsDB lending is financed by bond issues on the international financial markets and by repayments and interest earnings on existing loans. In addition to paid-in capital, shareholders provide “callable capital” or obligations against which the institutions can borrow. It is largely the strength of AAA countries such as the U.S. that allows the AsDB to issue bonds at favorable terms. There has never been a “call” on AsDB capital. In FY2000, the U.S. completed its commitment under the Bank’s last general capital increase (GCI-IV).

Key Facts

- The U.S. is a founding member of the AsDB, and is the co-largest shareholder with Japan. Japan and the U.S. each have 15.9% share in the institution and 13.1% of the vote.
- In 2001, AsDB approved \$4 billion in ordinary capital resources (OCR), including \$68 million for loans and equity for the private sector. The Bank mobilized approximately \$1.4 billion in cofinancing from official and commercial sources for 25 projects, representing over 40% of projects approved in 2001.
- The Bank finances its operations from borrowing in the commercial markets. During the current borrowing period (May 2001 - April 2002), the Bank expects to borrow around \$3.4 billion.
- Since its inception, the AsDB has made total commitments, including to the private sector, amounting to over \$65 billion.
- Taiwan, Singapore, Korea, and Hong Kong have graduated from regular AsDB assistance. These four economies, along with Thailand, now contribute to the Asian Development Fund.

Supporting U.S. Objectives

The U.S. plays a major role in shaping the AsDB’s lending and policy direction. Maintaining leadership at the AsDB is critical to ensuring that our priorities are reflected in the institution and that reforms are implemented that will lead to more efficient and equitable use of development resources. As with the other

MDBs, the U.S. leverages considerable lending through its contribution. As the host and chair of the 34th Annual Meeting in Honolulu in May 2001, the U.S. sent a strong message about the importance of market-led private sector development.

Institutional Effectiveness

- In 2001, the Bank put in place a reorganization that is intended to increase accountability, strengthen its country focus, and improve the sharing of knowledge and lessons across the institution. As part of the reorganization, an environment and social safeguards division was created with responsibility for monitoring compliance with the Bank's safeguard policies. The U.S. has pressed hard to ensure that these functions have adequate resources, and will continue to monitor the oversight and accountability mechanisms.
- With a view to promoting collaboration and reducing duplication, the Bank agreed on a Memorandum of Understanding with the World Bank, a pledge the U.S. negotiated in AsDF-8. The MOU commits the two institutions to strengthen their cooperation in country policy dialogue, lending operations, research, and internal policies and procedures. The U.S. plans to press for synchronization in the preparation and timing of country assistance strategies, to reinforce collaboration at the country level.
- The Bank is implementing a resident mission policy that is putting more staff in the field to strengthen dialogue with borrowing country governments, improve coordination with other donors, and heighten oversight of the portfolio.
- AsDB has customized its standard bidding documents and revised its procedures to better harmonize them with those of the World Bank. This has increased transparency and efficiency as a result of standardization under a common framework of guidelines.
- The Bank has adopted an emergency lending instrument that will charge higher fees when providing crisis support. Use of this instrument has not yet been needed.
- The Bank's impact on the ground could be improved further by increasing the percentage of lending toward social sectors and strengthening its focus on private sector development. The U.S. will continue to press for these goals in future AsDF replenishment negotiations and informally with other shareholders
- As with other MDBs, the U.S. is also concerned that the year-end bunching of project approvals can reduce project quality and weaken Board oversight and have raised these concerns with senior Bank management.

Lending in Support of U.S. Foreign Policy Goals

- AsDB will co-administer a trust fund for Afghanistan, in collaboration with UNDP, the World Bank,

and the Islamic Development Bank. AsDB is building up its internal staff capability to position itself to respond to Afghanistan's urgent reconstruction needs.

- In 2001, the Bank increased its assistance to Pakistan to nearly \$1 billion, supporting important policy objectives such as reform of justice. A \$100 million project in the 2002 pipeline will support primary education in Pakistan.
- AsDB has strengthened its regional cooperation work in the Central Asian Republics, aiming to promote trade and cooperation among countries, thus reducing the likelihood of instability. The Bank is also helping the countries of Central Asia transition from centrally planned to market economies, while minimizing social disruption.
- AsDB is also supporting the efforts against terrorist financing. The Bank has joined the other MDBs in emphasizing its commitment to Security Council Resolutions 1267, 1333 and 1373, in order to prevent any AsDB assistance from reaching the hands of identified terrorists.
- The Bank responded quickly to the 1997-98 Asian financial crisis, providing assistance for financial sector reform, governance, and protection of social safety nets. In Indonesia, the Bank supported two sector development programs to reform the effectiveness, quality, and equity of basic education, health and nutrition programs. The projects provided scholarships for lower secondary school, funds to expand midwife programs, and support for feeding programs for pregnant women, infants, and young children. Nearly 2 million students received scholarship, 147,000 primary and junior secondary schools received block grants, nearly 1 million poor pregnant women received supplementary feeding, and over one million infants and young children received supplementary feeding.
- AsDB and the World Bank are continuing to administer grants to East Timor under a Trust Fund established to finance urgently needed rehabilitation and basic social and physical infrastructure. In 2001 AsDB approved six technical assistance grants totaling \$2.4 million, including for microfinance, transport, and the power sector.

Improving performance and measuring impact

- Largely at U.S. urging, the Bank in 2001 established a new Development Effectiveness Committee of the Board. This Committee gives the Board a more regular oversight of operational performance and evaluation reports. The U.S. is a member of the Committee.
- The Bank has also upgraded the Evaluation Office to a Department (OED), with increased staff and budget resources. OED has harmonized its evaluation procedures with the World Bank. In 2001, OED completed 36 major studies including special evaluation studies on key sectors and countries. Evaluation reports are available on the Bank's web page. The U.S. has urged that OED be made an independent unit reporting to directly to the Board.

- We were successful in getting the Bank to revise its project rating system to include a project-at-risk approach, which provides an early warning device for flagging projects that are rated as successful but have the potential for problems in the future.

Boosting productivity

- Investments in agricultural and rural development increase productivity by focusing on production inputs, market access and transfer for technology. Recent examples include the *Fujian Soil and Water Conservation Project (China)*. The Bank also supports research in this area, including through the agricultural research institutions which are members of the Consultative Group on International Agricultural Development (CGIAR).
- Roads and transport sector projects can lead to growth by linking markets, reducing transaction costs, and creating jobs. A roads rehabilitation project in Indonesia is helping the government to finance civil works while also helping to implement policies related to road user charges, cost recovery, road safety, and maintenance fund allocation.
- AsDB's technical and vocation education projects support skills development and increase worker productivity, as shown by an impact evaluation of such projects in four borrowing countries. The study showed that depending on the country, 50-80% of graduates found employment within six months. To promote sustainability of such projects, the study recommended that vocational schools forge closer ties to the local industry.
- The Bank also uses its private sector instruments to promote productivity. For example, an evaluation of a private sector loan and equity investment in the *Shanghai Investment and Trust Corporation* found that the project had several multiplier effects in generating economic activity, including employment for laid off workers, promotion of small and medium enterprises, and transfer of technology to provide better linkages to related enterprises.
- By providing access to credit by small and medium businesses through microfinance and small and medium enterprise projects, the Bank works to expand employment and income opportunities and support entrepreneurship at the lower end of the economic spectrum.
 - In 2001, three loan projects and six technical assistance projects went to support microenterprise, including a technical assistance grant to help provide financial services to poor women entrepreneurs.
 - In addition, in 2001, a partial credit guarantee of up to \$90 million was approved to support commercial cofinancing for small and medium enterprise in Sri Lanka.
 - In Pakistan, the Bank is working to develop the policy framework and institutional mechanisms to make financial resources available to the poor, particularly women. The goal is to finance 1.6

million small income-generating activities and 4500 small-scale, community-based infrastructure projects.

- In 2001, the Bank approved a \$4 million technical assistance grant to develop environmentally sustainable farming systems aimed at increasing agricultural productivity and raising farm incomes.

Fighting Poverty in Asia

- Since adopting a poverty reduction strategy in 1999, AsDB has taken substantial actions. For example:
 - All projects must demonstrate how they reduce poverty. In 2001, 30% of Bank operations were classified as “poverty reduction interventions” or “core poverty interventions”. The remaining projects seek to reduce poverty by promoting growth and enhancing productivity.
 - After first establishing a poverty reduction unit as the focal point for Bank operations, the Bank has reorganized, and poverty reduction is mainstreamed throughout its operations. Twelve new poverty reduction specialists have been hired, and the number of staff have increased in related areas such as social development, social safety nets, health and nutrition, and basic education.
- Poverty assessments have been completed for 14 countries., and will be done for most other borrowing countries this year. In addition, Poverty Reduction Partnership Agreements have been signed with seven countries.
- In 2000, with funding from Japan, the Bank established a Poverty Reduction Trust Fund. Initial projects include grants for victims of sexual abuse in Indonesia and livelihood development in the Southern Philippines.
- The Bank continues to serve on the MDB-IMF working group on poverty reduction. A *Global Poverty Report* was prepared and submitted to the G-8 Summit in Okinawa in July 2000, and in Genoa in 2001. The 2001 report, “A Globalized Market – Opportunities and Risks for the Poor,” is available on the Bank's website.

Promoting private sector development

- The Bank has upgraded the private sector group to the Private Sector Department, and has given it more resources. At U.S. urging, the Bank has adopted a private sector development strategy.
- Staff with private sector and risk management experience have been recruited to support this strengthened emphasis, and private sector strategies are being prepared for all borrowers. The first such strategies were developed in 2001, and more are to follow in 2002.

- Seven private sector operations (loans and equity investments) were approved in 2001 totaling \$68 million
- In addition to direct assistance to the private sector, the Bank provides assistance to build an enabling environment for private sector development.
 - A pilot project in China, for example, is helping to develop the legal and regulatory framework for private participation in the road subsector.
 - AsDB is providing assistance to Indonesia to strengthen its industrial competitiveness through deregulation and policies that promote competition and provide a level playing field for all businesses, including small and medium enterprises. The Bank is helping the government establish an appropriate legal environment for commercial activity; simplify the regulatory framework; remove barriers to domestic competition and trade; strengthen the policy framework governing domestic investment and foreign direct investment (FDI), and improve duty drawback and customs procedures.
- Despite this progress, AsDB's role in private sector development has been limited, and we are pressing them to take a more pro-active approach, including support for micro, small, and medium enterprises, which are the largest source of income and employment in developing Asia.
- We are also encouraging private-led approaches in environment and social sectors. The Bank is working in Kazakhstan, Kyrgyz Republic, and Uzbekistan to decentralize management and bring in private participation into the water sector.
- To increase its catalytic role, the Bank has stepped up efforts to attract cofinancing for its operations. In 2001, the Bank catalyzed \$1.4 billion in cofinancing; over 40% of projects received cofinancing. The Bank is working to increase this to over \$2 billion in 2002, of which at least \$1.5 billion would be commercial cofinancing.

Support for good governance and anti-money laundering

- Governance assessments are being prepared for each borrowing country and will be used in preparing annual country assistance programs. Assessments have been completed for Cambodia, Laos, Vietnam and Tonga. In addition, the Bank is developing governance indicators and scorecards to evaluate countries' performance in governance.
- An anti-corruption unit has been established to investigate claims of fraud and corruption. The unit consists of specially trained forensic auditors who report to the General Auditor. To date, over one hundred cases have been investigated. Where corruption is found, the Bank has sanctioned firms and individuals. The Bank will strengthen this work further by developing a policy on anti-money laundering in 2002.

- Recent examples of direct assistance (loans and technical assistance grants) for good governance and anti-corruption activities are:
 - Philippines: \$75 million to improve corporate governance in the nonbank financial sector, through steps such as strengthening the governance of the Securities and Exchange Commission, improving monitoring and enforcement capacity; and improving reporting.
 - Regional: Anti-money laundering technical assistance to ten Asian countries to help them identify weaknesses and to carry out the recommendations of the Financial Action Task Force (FATF).
 - Regional: Projects in Indonesia, Cambodia, and the Pacific that require countries to enact appropriate legislation on anti-money laundering, consistent with the FATF recommendations.
 - Central Asian Republics: In the Central Asian Republics, where auditing capacity is still weak, the AsDB is supporting technical assistance to strengthen the ability of general auditors to prevent fraud, and to improve detection and investigation skills.
- AsDB managed an AsDB-OECD conference on combating corruption in the Asia and Pacific Region in November 2001, which reviewed a proposed anti-corruption action plan and initiative.
- We are pushing the Bank to do more to strengthen its role in good governance. During the AsDF-8 negotiations, we pressed for a governance action plan, which has since been approved and is under implementation. This plan applies to the full Bank, not just the Fund. We are still working to have the Bank become more pro-active in the area of fiscal transparency; in particular, we would like to see the results of fiduciary assessments (by the World Bank) be reflected in the AsDB's country assistance strategies.
- We have also been pressing for continued strengthening of internal controls. The Office of General Auditor has reviewed business travel, private sector operations, borrowings, investments, capital subscriptions, financial forecasting, country assistance plan and programming, project processing, project implementation and post evaluation.

Emergency and Disaster Assistance

- The AsDB does not provide humanitarian assistance. It does, however, seek to respond to extreme emergencies, in concert with other agencies, which are more geared for short-term assistance. The Bank's assistance is intended to increase the sustainability of basic infrastructure investments so that future disasters can be reduced or averted.
- In 2001, AsDB provided timely support, often using cost savings from on-going projects, to respond to natural disasters and post-conflict situations. Such projects are processed on an expedited timeframe, to ensure that funds are received quickly. Recent examples include:

- India: \$500 million to rehabilitate basic infrastructure and social services following a devastating earthquake, with assistance reaching needy areas within three months.
- Tajikistan: \$3.6 million for emergency restoration of irrigation systems damaged by earthquake.
- Sri Lanka: \$25 million for community restoration in areas damaged by civil war.
- In 2002, the Bank will review its policy on emergency assistance, with an aim to strengthening the effectiveness development assistance in post-conflict situations.

Opportunities for U.S. Businesses

- In 2000, AsDB Group operations produced \$433 million in business benefits to the U.S. including \$110 million in estimated exports, \$60 million in contracts for goods of U.S. origin, and \$36 million for technical assistance consulting contracts.